



Financial Services Patent Holding Company Update

This is the September 2011 installment of Sutherland's "Financial Services Patent Holding Company Update." These updates are intended to provide our readers general information about the activities of patent holding companies (or non-practicing entities) in the financial services and e-commerce industries. If the articles provided herein are of interest, or if additional information is desired, please contact us.

"There's an App for That"—But You May Have to Pay to Use It

If your business offers an iPhone or smartphone application that can show a user a map of service locations relative to the location of the phone, read on. A recently formed non-practicing entity ("NPE") claims to hold the exclusive licensing rights to a patent that allegedly covers this technology. Even if this doesn't sound exactly like what you do, if you offer iPhone or smartphone apps, you might want to read on—NPEs have a way of interpreting patent claims very broadly.

Cascades Ventures, an NPE formed last year and headed by the original "patent troll" Anthony Brown (formerly of TechSearch),¹ claims it has obtained the rights to U.S. Patent No. 7,768,395 ("the '395 Patent"), entitled "Brand Mapping." The '395 Patent, issued on August 3, 2010, claims priority to a provisional application filed on January 19, 2007. The Abstract of the '395 Patent summarizes the invention as follows:

A user uses a portable electronic device to select an image representative of a brand. In response to the user's selection of the image representative of the brand, the device automatically presents the user with an image of a map that indicates a current location of the device and shows one or more images representative of brand purchase sites where the selected brand may be accessed by the user.

Through a subsidiary,² Cascades filed a patent infringement action in the U.S. District Court for the Northern District of Illinois on April 14, 2011, claiming that Walgreen Co. infringed the '395 Patent.³ On June 28, 2011, Cascades amended its complaint to add defendants Best Buy Co., Exxon Mobil Corporation, Target Corporation, and Limited Brands, Inc. Cascades is represented by Flachsbarth & Greenspoon, LLC—a spin-off of longtime TechSearch counsel Niro, Haller & Niro. On August 16, 2011, Cascades withdrew the complaint with regard to Walgreen Co. All other defendants remain parties to the action. The amended complaint alleges that each of the defendants "provides its customers the [defendant] application . . . [which] operates on consumers' smartphones and like devices (such as the Apple iPhone), and allows such phones and devices to enable users to select a [defendant]-branded icon to locate [defendant]-branded retail locations in their vicinity on a map, without the users having to

¹ Brown is a former attorney whose enforcement activities with his company TechSearch inspired former Intel in-house attorney Peter Detkin to coin the term "patent troll" a decade ago, referring to Brown, his company TechSearch, and its attorney, Raymond Niro of Niro, Haller & Niro. In 2006, IP Law & Business called TechSearch and Niro "the original patent troll."

² Cascades Branding Innovation LLC.

³ Civil Action No. 11-CV-2519.



manually enter a device location.” Cascades claims each defendant knew about the ’395 Patent at least as early as April 2011 when Cascades sent them a “Notice of Infringement.” The remaining defendants have not answered the amended complaint and the judge has not set a schedule.

Several entities, including one in the financial services sector, have gone on the offensive against Cascades and the ’395 Patent. On May 5, 2011, ING Bank, fsb, filed a declaratory judgment action in the U.S. District Court for the District of Delaware seeking declarations that the ’395 Patent is invalid or unenforceable and that ING does not infringe any valid claim of the ’395 Patent.⁴ On August 10, 2011, TA Operating LLC, a subsidiary of TravelCenters of America and owners of the “TrackSmart App” for the iPhone and Android, filed a declaratory judgment action in the U.S. District Court for the District of Massachusetts seeking a declaration that the ’395 Patent is invalid.⁵ Both actions claim declaratory judgment jurisdiction based on strongly worded infringement letters written by Cascades to the plaintiffs in April and July. To date, there has been no reported activity in either case.

NPEs pose a unique challenge to their potential targets because they can operate under numerous identities. Cascades is an example of an NPE that went away (TechSearch sold out to Acacia) and then reemerged. Tracking NPE activity and staying one step ahead can be challenging as they often use aliases to hold acquired patent assets. For example, the ’395 Patent is assigned to N99 LLC with Cascades as the exclusive licensee. N99 also is the assignee of a published U.S. patent application that is a continuation of the application that led to the issuance of the ’395 Patent.⁶

Cascades Also Attacks Mobile Payments

Cascades has emerged somewhat from behind the veil of secrecy by holding assignments of several patents in its own name.⁷ Interestingly, seven of the eight patents Cascades currently holds in its own name relate to financial services and are entitled “Universal Credit Card Apparatus and Method” (“the Credit Card Patents”). Here again, Cascades used an alias—eCharge Licensing, LLC—when filing suit against Starbucks alleging infringement of five of the Credit Card Patents.⁸ eCharge Licensing is an Illinois-based NPE that claims to be the exclusive licensee of the Credit Card Patents. The suit alleges that Starbucks’ Card Mobile application infringes the Credit Card Patents by allowing users to pay for products using their smartphones or other like devices. The Court recently held over a status conference until late October and advised the parties of the availability of court-mediated settlement services, possibly indicating that the parties are engaged in settlement/licensing discussions. Any such agreement likely will result in a flood of new licensing demands and/or lawsuits from Cascades.

⁴ Civil Action No. 11-CV-00398.

⁵ Civil Action No. 11-CV-11432.

⁶ US20100302027A1.

⁷ Cascades also filed three cases recently using the “Cascades Brand”—*Cascades Computer Innovation, LLC v. Hynix Semiconductor, Inc.*, Civil Action No. 11-cv-04356 (NDIL Jun. 27, 2011) (DRAM memory products) and *Cascades Computer Innovation, LLC v. Motorola Mobility Holdings, Inc. and Samsung Electronics Co., Ltd.*, Civil Action No. 11-cv-4574 (NDIL Jul. 6, 2011) and *v. HTC Corporation and LG Electronics, Inc.*, Civil Action No. 11-cv-06235 (NDIL Sep. 7, 2011) (Binary Translated Codes in cell phones). In each case, Cascades is represented by Raymond Niro of Niro, Haller & Niro.

⁸ *eCharge Licensing, LLC v Starbucks Corporation*, Civil Action No. 10-cv-8287, U.S. District Court for the Northern District of Illinois.



NPEs continue to pose a challenge for the financial services industry—and beyond. Those in the financial services industry should take notice of the recent public reemergence of TechSearch/Cascades and its focus on patents relating to financial transactions, particularly those that involve the use of smartphones and similar devices.

What Do Electronically Transmitted Dental Records and Remotely Deposited Bank Checks Have in Common?

The easy answer is—nothing. However, in what has become disturbingly common, another NPE has filed a lawsuit claiming patent infringement by accused products shockingly dissimilar from the technology disclosed by the patent-in-suit. On August 29, NPE Kensington Grace Holdings, LLC (“Kensington”), through local counsel White Field, Inc., sued ten California-based banks in the U.S. District Court for the Central District of California, Los Angeles Division.⁹ The patent-in-suit is U.S. Patent No. 7,694,129 (“the ‘129 Patent”), entitled “Method of Processing Digital Data and Images.”¹⁰ The inventor listed on the ‘129 Patent, and apparently the sole owner of Kensington, is Dr. Andrew DiRienzo.¹¹ The ‘129 Patent is a continuation of twelve applications (ten issued patents and two abandoned applications) and claims prior back to March 25, 1997. The accused products are remote deposit services offered by each of the defendants.

According to the Complaint, “each Defendant uses a computer system on a computer network to perform a method for processing digital data and images that receives data and images into identifiable fields wherein at least some of the data and images identifies the source of the data and images and presents graphical user interface that presents data and images from identifiable fields.” The quoted language from the Complaint somewhat tracks the language of the ‘129 Patent’s only independent claim, Claim 1. Specifically, the Complaint alleges that each defendant offers remote deposit services to its individual, commercial and/or small business customers that infringe one or more claims of the ‘129 Patent. The defendants’ services described in the Complaint generally relate to the growing field of Remote Deposit Capture (“RDC”). RDC has been defined as “a service which allows a user to scan checks and transmit the scanned images and/or ACH-data to a bank for posting and clearing.”¹² The relationship between the technology disclosed in the ‘129 Patent and RDC is at best unclear.

The ‘129 Patent discloses “a coherent system that allows for the electronic filing, transmission, and processing of ‘insurance claims with attachments,’ and to thereby overcome the many deficiencies of the hybrid system claims processing methodology described above.” Throughout the specification of the ‘129 Patent, the inventor enumerates and then purports to solve the problems associated with filing medical claims that require manual entry of data and attachment of records in order to receive prior approval of the claim. While the specification closes with the standard “other modifications to and

⁹ *Kensington Grace Holdings, LLC v. Citizens Business Bank, Cathay Bank, Bridge Bank N.A., Santa Barbara Bank & Trust, N.A., Center Bank, Community Bank, Montecito Bank & Trust, Nara Bank, Torrey Pines Bank, and Wilshire State Bank*, Civil Action No. 11-07134.

¹⁰ [LINK TO PATENT]

¹¹ Dr. DiRienzo is also CEO of Integrated Claims Systems, LLC, a single owner LLC, and assignee of the ‘129 Patent. (Source: LinkedIn and USPTO.gov.)

¹² “What is Remote Deposit Capture?” <http://remotedepositcapture.com/overview/rdc.overview.aspx>



variations of the invention will be apparent,” without reference to RDC in the specification, one can question whether either the inventor or those skilled in the art would extend the reach of the invention to cover RDC.

Most likely, the Plaintiff carefully selected the defendants in this case (each has little patent litigation experience and is not likely to engage in an expensive drawn-out defense) in an effort to score a few quick licenses to: (1) fund future litigation; (2) increase pressure on others to take a license; and/or (3) generate interest from more well-known NPEs to purchase this family of patents. The Central District of California does not have patent rules so Plaintiff may also want an early Markman in hopes of a broad, overreaching claims construction. At some point, Plaintiff should expect a strong non-infringement fight as well as a challenge to the '129 Patent's validity.

Despite Setbacks, SmartMetric, Inc., Still Pursuing Card Processing

Not deterred by losing two previous cases on a stipulated judgment immediately following claims construction, SmartMetric, Inc., sued MasterCard International and Visa on August 29, 2011, in the U.S. District Court for the Central District of California.¹³ The patent-in-suit is U.S. Patent No. 6,792, 464 (“the '464 Patent”), entitled “System for Automatic Connection to a Network.” SmartMetric alleges that MasterCard and Visa infringe at least Claims 1 and 14 of the '464 Patent by selling, offering to sell and using “contact and contact/contactless credit card systems that use datacards that, when inserted into a datacard reader, help to establish connection to a network.”¹⁴ The case is assigned to District Judge Wu, who did not handle either of the two prior SmartMetric cases discussed below.

SmartMetric previously sued both defendants on March 15, 2010, in the same Court.¹⁵ In that case, SmartMetric initially alleged that MasterCard's PayPass and Visa's PayWave infringed the '464 Patent.¹⁶ In March 2011, the Court construed four terms of the '464 Patent, agreeing with defendants' construction for two terms and Plaintiff's construction for two terms.¹⁷ Based on the constructions for which the Court agreed with defendants, the parties jointly moved for, and the Court ordered, a final judgment of non-infringement in favor of MasterCard and Visa. SmartMetric immediately appealed the decision to the Federal Circuit. The Federal Circuit has consolidated this appeal with one filed by SmartMetric in the American Express case discussed below.¹⁸

On December 7, 2010, SmartMetric sued American Express in the U.S. District Court for the Central District of California alleging that American Express's ExpressPay infringed at least Claims 1 and 14 of the '464 Patent.¹⁹ Based on the Court's claim construction order in the above-discussed *SmartMetric v.*

¹³ Civil Action No. 2-11-cv-07126.

¹⁴ Complaint.

¹⁵ Civil Action No. 2-10-cv-01864.

¹⁶ Complaint; First Amended Complaint; Second Amended Complaint.

¹⁷ Memorandum and Order on Claims Construction.

¹⁸ U.S. Court of Appeals for the Federal Circuit, Case No. 11-1497.

¹⁹ Civil Action No. 2-10-cv-09371.



MC and Visa “I”, the parties jointly requested the entry of judgment in favor of American Express for non-infringement of the '464 Patent by the ExpressPay system. SmartMetric immediately appealed this judgment to the Federal Circuit which, as noted above, consolidated the two appeals.²⁰ SmartMetric’s opening brief to the Court is due on September 21, 2011.²¹

DataTreasury Undeterred by Patent Reform Act Crosshairs

Within hours of the Senate’s passage of the Leahy-Smith America Invents Act (“the Act”), DataTreasury filed a new infringement suit in the U.S. District Court for the Eastern District of Texas against dozens of defendants in the financial services industries. DataTreasury has asserted its “Ballard Patents,” U.S. Patent Nos. 5,910,988 (“the '988 Patent”) and 6,032,137 (“the '137 Patent”), in 17 cases since 2002 alleging infringement by more than 150 providers of image-based check processing. According to the Complaint, the Ballard Patents are among the most valuable U.S. Patents as evidence by the fact that the leading twenty-five banks in the country have “collectively paid more than \$350 million to license the Ballard patents.”

The timing of the new lawsuit’s filing by DataTreasury is not likely coincidental. The Act contains a specific provision requiring the Director of the USPTO to within one year establish a transitional post-grant review proceeding to review the validity of issued business method patents used in the financial services industry.²² Congress envisions that this proceeding will be similar to the new Chapter 32 proceedings set forth in the Act; however, the nine-month post-grant period limitation will not apply to business method patent reviews when requested by a party who has been sued for, or charged with, infringement of the patent. The regulations establishing the transitional review will remain in effect for eight years after implementation. Parties to civil actions may request a litigation stay during the pendency of a transitional review, with the courts having wide discretion to grant the stay based on the status of the case. While the Act does not specifically mention DataTreasury, it is widely believed that Congress added the business method review at the bequest of banks sued by DataTreasury.²³ Importantly, the Act clearly points out that nothing in the Act establishing the transitional review limits the categories of patent-eligible subject matter in 35 U.S.C. § 101.

Rewards Come With Risks

In a continued attack on debit and credit card rewards programs, TuitionFund LLC filed an infringement action in the U.S. District Court for the Middle District of Tennessee naming thirteen financial services

²⁰ U.S. Court of Appeals for the Federal Circuit, Case No. 11-1473.

²¹ *Id.*

²² Sec. 18. Transitional Program for Covered Business Method Patents, *Leahy-Smith America Invents Act*, H.R. 1249, Sep. 8, 2011. The term “covered business patent” is defined (d)(1) as “a patent that claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service, except that the term does not include patents for technological inventions.”

²³ Wyatt, Edward. “Banks Turn to Schumer on Patents.” *New York Times*, Jun. 14, 2011.



industry defendants.²⁴ This is the second such suit filed by TuitionFund. The first, filed in the same court in January 2011, accused rewards programs offered by SunTrust and Regions banks, along with implementation partners, of infringing three patents held by TuitionFund.²⁵ The asserted patents in both lawsuits include U.S. Patent No. 7,499,872, entitled “Methods and Systems for Applying Rebates to Higher Education”; U.S. Patent No. 7,653,572, entitled “Methods and Systems for Providing a Rebate Program”; and U.S. Patent No. 7,899,704, entitled “Methods and Systems for Providing a Merchant Funded Rebate Program” (collectively, the “Patents-in-Suit”). In April 2011, the court issued a Temporary Restraining Order (“TRO”) preventing defendants from challenging the validity of the Patents-in-Suit, to include by filing a request for reexamination. At a hearing two days later, the court dissolved the TRO and denied TuitionFund’s request for a Preliminary Injunction. Motions to Sever, Transfer and Dismiss are pending in the January action.

TuitionFund appears to exist for a purpose other than licensing these patents, including providing higher education funding assistance to American families without regard to background or financial status.²⁶ The TuitionFund program deposits “rewards” into a cardholder’s account when a registered debit or credit card is used at a participating merchant. The “rewards” are deposited into a savings account, applied directly against a student loan account, or donated to a charitable organization associated with a college or university.

If you have any questions about any of these developments, please contact any of the following Sutherland attorneys or the Sutherland attorney with whom you regularly work.

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²⁴ Civil Action No. 3:11-cv-00852.

²⁵ Civil Action No. 3:11-cv-00069.

²⁶ www.tuitionfund.com