Patent Quality Initiative

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New Study Finds Low Quality Financial Services Patents Are Subject to More Litigation

Study Reinforces Need to Improve Patent Examiners' Access to Pertinent Prior Art

NEW YORK, NY– A new study led by Josh Lerner, Head of the Entrepreneurial Management Unit at Harvard Business School and a leading patent expert, finds that financial services patents as a whole lag their peers with respect to key indicators of patent quality. Specifically, the study found that financial services patents are especially questionable in regard to their references to academic prior art, that patents awarded to individuals and associated with non-practicing entities (NPEs) also cite less academic prior art, and that financial services patents with fewer such citations are more likely to be asserted in litigation.

The study, "Financial Patent Quality: Finance Patents After State Street," found that financial services patents cite less non-patent prior art, and especially less academic prior art. Because prior art is used by patent examiners to determine whether a patent application covers a new and useful idea, prior art citations are an important indicator of patent quality. With fewer citations, the likelihood rises that uncited prior art exists and could render a patent invalid. Patents assigned to individuals and NPEs were particularly problematic with respect to academic citations. The study also found that having fewer academic prior art citations directly correlates to the likelihood of a financial services patent being the subject of litigation.

"Our sample comes from the period after the US PTO implemented additional protocols for improving prior art citations," said Lerner. "Although we found that examiners do add more non-patent prior art to finance patents than to the patents in our two comparison groups, finance patents still lagged in non-patent prior art citations and particularly in academic citations. The differences grew as we moved into more prestigious journals and for individual/NPE-assigned patents."

The study comes amidst a sharp rise in the number of patents issued by the United States Patent and Trademark Office. Furthermore, over the past three years, the number of patent lawsuits involving non-practicing entities (NPEs) has increased five-fold.

"It is critically important to address the shortcomings of patent quality in order to improve the understanding, reliability and innovation of patents in financial services," said Sean Reilly, Askeladden General Counsel and head of the Patent Quality Initiative. "Askeladden commissioned this research to better understand the patent quality challenges in the financial services industry. This study reinforces the need for patent examiners to have access to the most pertinent prior art."

In the study, Prof. Lerner and his co-authors examine the quality of patents related to financial services in the years (2001-2010) following the decision in *State Street Bank v. Signature Financial Group*. The State Street decision by the U.S. Court of Appeals introduced the concept that business methods could be patentable subject matter.

The paper focuses primarily on prior art citations in terms of their number and type. In addition, the paper explores how these citations vary based on assignee type (corporations versus individuals and NPEs). Finally, the paper examines whether the quality of financial services patents has any bearing on the likelihood that they will be asserted in litigation.

Prof. Lerner and his co-authors found that:

- Financial services patents cite fewer non-patent prior art publications than the comparison groups. This is especially the case with respect to academic prior art publications.
- Patents awarded to corporations generally cite more prior art, particularly academic research than do those awarded to individuals or associated with NPEs.
- Citations of academic prior art are strongly related to whether a finance patent is litigated. In particular, financial services patents with more academic citations, one indicator of higher quality, were subject to less litigation.

The data set examined consisted of 2,799 patents related to financial services (from patent subclasses 705/35, 705/36R, 705/37, 705/38, and some patents from 705/4 that deal with finance) in comparison with two matched sets of 2,799 patents each —one comprising patents from the five most popular classes and the other comprising patents from the most popular classes among universities that invest heavily in research and development activities.

Askeladden L.L.C. sponsored the research as part of its Patent Quality Initiative. The initiative is an education, information and advocacy effort with the goal of improving the understanding, use and reliability of patents in financial services and elsewhere.

Lerner, the Jacob H. Schiff Professor of Investment Banking at Harvard Business School, and head of the Entrepreneurial Management unit, has authored a number of academic studies on patents and, with Adam Jaffe, the book, *Innovation and its Discontents: How Our Broken Patent System is Endangering Innovation and Progress*.

The full working paper can be found here.

About Patent Quality Initiative

Askeladden L.L.C. is a wholly-owned subsidiary of The Clearing House. Established in 1853, The Clearing House is the oldest banking association and payments company in the United States and is owned by the world's largest commercial banks, which hold half of all U.S. deposits. Askeladden is an education, information and advocacy organization with the goal of improving the understanding, use and reliability of patents in financial services and other industries. As part of its Patent Quality Initiative, Askeladden strives to promote better patents and patent holder behaviors by regularly filing amicus briefs, Inter Partes Reviews (IPRs) and engaging in educational activities. Please visit www.patentqualityinitiative.com.

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