



Crypto firm's \$350m patent suit could just be the start

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Sarah Speight



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As the fallout from FTX reverberates, the cryptocurrency market is seeing its first lawsuits over patented trading tech, finds Sarah Speight.

As 2022 came to a close, one of the first litigation cases over cryptocurrency technology was heard in a Texas court.

The dispute sees US-based crypto company [Veritaseum Capital](#) suing cryptocurrency provider [Circle Internet Financial](#) for allegedly infringing its patented digital currency trading technology.

Veritaseum's software enables blockchain-based, peer-to-peer capital market transactions such as crypto payments, trading or "staking" (a method of earning rewards for holding certain cryptocurrencies).



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[Carl Brundidge](#), founding partner of Brundidge & Stanger and Veritaseum's lead counsel, believes the sector is ripe for more legal action.

"There'll be a number of entities asserting their patents in this space. In the US, the filing of patent applications regarding cryptocurrency and distributed ledger technology has increased substantially," says Brundidge.

"You have companies like Citibank, Morgan Stanley, and all kinds of other financial institutions that are patenting what they believe are important innovations."

[Oleg Elkhunovich](#), a partner at Susman Godfrey, agrees that we are at the start of an upward trend in litigation. "As blockchain and crypto technology industry matures, we will see more disputes about IP, including patent rights.

"There is a tremendous amount of innovation in this space right now and astute players should and will seek to protect their patentable inventions."

Circle and Cybavo named in complaint

In its complaint, filed on December 30 in the US District Court for the Eastern District of Texas, Wyoming-based Veritaseum alleges that Circle infringed its US patent No. 11,196,566 ('566).

Veritaseum founder Reggie Middleton co-invented the patented technology, which is described as "enabling parties with little trust or no trust in each other to enter into and enforce value transfer agreements..."

Middleton licences this patent, awarded to him by the US Patent and Trademark Office (USPTO) in December 2021, exclusively to his company (Veritaseum).

Veritaseum is suing Circle, along with its subsidiary [Cybavo](#), a cryptocurrency security firm based in Taiwan.

Veritaseum argues in its complaint that Circle could have been aware of the alleged infringement from at least as early as September 22, 2022 when Veritaseum sued cryptocurrency exchange Coinbase Global in that same month.

Coinbase is Circle's primary revenue-generating USDC-issuance partner, via the issuance of USDC (USD Coin, a 'stablecoin' product tied to the US dollar). product. A stablecoin is a cryptocurrency token intrinsically tied to the value of a fiat currency or commodity or asset value.

Veritaseum is suing Circle for alleged infringement of the patent through its websites at Circle.com and Cybavo.com, "as well as other means".

Middleton also has a patent for his invention filed at the [Japan Patent Office](#), with another granted. While not connected to this current action, Veritaseum pointed out in its complaint that "Circle does a substantial amount of its business through its Japanese yen stable coin and various exchanges operating in Japan".

Brundidge told *WIPR* that initial attempts to negotiate with Circle were unsuccessful.

"We contacted Circle in an attempt to enter into some type of negotiation with them to avoid a lawsuit," he said. "We just were not able to agree on the format of these discussions, and so we pursued the action against them."

Veritaseum is seeking a jury trial and damages of \$350 million. Brundidge says he and his team expect the opposition to file a motion to dismiss.

Circle declined to comment when approached by *WIPR*.

Blockchain patent boom

There are thousands of blockchain-related patent applications being filed in the US, and indeed this technology has been the subject of patent applications in the US for at least a decade, according to research [highlighted by law firm Kramer Levin](#).

But Brundidge believes that this lawsuit is "probably one of the first" in the US alleging infringement of cryptocurrency technology.

That said, [Ravi Mohan](#), a partner in IP at Rutan & Tucker, says he is not surprised to see this type of litigation, especially against publicly traded companies, or prominent entities in the industry.

"Notably, after a brief review of the asserted patent, it's interesting that it requires a tonne of elements to be infringed. This means that claims are likely narrow, but potentially more difficult to invalidate," suggest Mohan.

"Another interesting thing," he points out, "is that the asserted patent dates back to a provisional application filed in 2014—which is fairly early for blockchain technology in the grand scheme of things. For example, Bitcoin achieved more serious public attention in the 2016-2017 era, so this predates a lot of the technology of that more 'well-known' time period."

[Kris Kastens](#), a partner at Kramer Levin, thinks that US courts are not likely to view this case as different from the many computer-related patent cases it handles daily, since Circle is a centralised US-based company.

"Certainly, US courts already handle very complex computer patent cases," he told *WIPR*. "It remains to be seen if any nuances specific to crypto may arise that cause trouble for the court."

He added: "Things could get very interesting if and when a patent holder tries to bring a patent case against a decentralised [finance] (DeFi) protocol, as there may not even be one central entity to sue."

Is IP law ready for crypto?

[Robert Rando](#), a partner at Greenspoon Marder believes the law is well positioned to adapt. "The splendour of IP law, and patent law in particular, is its ability to adapt to and be adopted by technology advancement that proves to be comprehended by the patent laws yet could not have been foreseen by the founders of the US Constitution over 235 years ago," he said.

"The consistency and stability of the US patent system to inspire innovation across centuries of technological advancements further illustrates the genius of the founding fathers' inclusion of Art. I,

Sec. 8, Cl. 8. in the US Constitution.”

Rando says that dispute blockchain and crypto seemingly being “conceptually difficult for folks to comprehend” it is no more complicated than other science and technology areas that patent litigators deal with on a regular basis.

“And as is sometimes the case with patents, the terminology can be novel, unique and/or counterintuitive. Partly [this is] because of an inventor being his/her own lexicographer but equally so due to the language of a specific area of science or technology,” he adds.

Patent eligibility issue ‘very important’

Kastens points out that patent litigations in the crypto space have been uncommon.

“Given the relative newness of this type of case, the litigation by Veritaseum against Coinbase and now against Circle will be watched closely to see how they progress through the normal stages of patent litigation.

“The threshold issue of patent eligibility, whether these crypto patents are even entitled to patents at all, or are instead related to abstract ideas, is likely to be a very important consideration,” he notes.

In the case that Veritaseum brought against Coinbase, the issue has already been raised by Coinbase in a motion to dismiss. Once this is ruled on, says Kastens, “we’ll have another important data point to consider for how courts will handle these types of patents”.

“The court’s handling of patent eligibility for crypto-related patents is likely to be the most influential. There is already an extensive and complicated body of US law related to patent eligibility for software patents, but almost no guidance specific to crypto-related patents,” he points out.

“It is very important, as patent eligibility is often a threshold issue for software patent litigation.”

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