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## TECHNOLOGY: DATA SECURITY

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# Patent a key victory for Catuity, but smart-card wait continues

*Business slow to adopt program*

BY ANDREW DIETDERICH  
CRAIN'S DETROIT BUSINESS

Detroit-based **Catuity Inc.** took another step last week toward being the little company that could when the **U.S. Patent Office** said it would award the company a key patent.

It was good news for Catuity, which for the first nine months of its fiscal year saw revenue triple but continues to post losses in a market that seemingly always is on the verge of exploding: smart cards.

Catuity (Nasdaq: CTTY), which has 15 of its 44 employees in Detroit, makes loyalty software used by banks, processors of bank cards and retailers. It works with magnetic-stripped cards and "smart" cards — credit or debit cards that have a computer chip loaded with information customized to each user.

The cards also have added security features such as requiring the use of a personal identification number, which limits use of the card if stolen.

The patent, which Catuity said would be awarded by the end of the first quarter, covers some of the technology in Catuity's smart-card memory system, including how memory is stored on the cards and how card readers communicate with other devices.

"We are not applying for patents in order to use them for an offensive manner to go after competitors," said Catuity CFO Jack Lowry. "We just feel that it's important to protect our intellectual property that we feel is unique and further establish the fact that we are a technologically advanced company."

Catuity will release fourth-quarter and year-end results in mid-March, Lowry said.

According to its most recent filing with the **U.S. Securities and Exchange Commission**, Catuity posted a net loss of about \$751,000 or 9 cents a share on revenue of about \$550,000 for the third quarter, which ended Sept. 30. That compares with a loss of about \$832,000 or 11 cents on revenue of about \$490,000 a year earlier.

For the first nine months of the year, Catuity lost about \$2.1 million or 26 cents a share on revenue of about \$2.4 million. That compares with a loss of about \$3.5 million or 44 cents on revenue of about \$812,000 a year earlier.

Lowry said the increased revenue came from services, but software development and licensing have been slow.

**Target Corp.** and **Visa USA Corp.**, which both were supposed to

launch smart-card services last year, delayed their programs. Both are now progressing on plans.

Lowry said many retailers are looking to others to see how their programs work before committing to them.

The process could take longer than Lowry would like.

Robert Leathern, senior analyst in the San Francisco office of New York City-based **Jupiter Research**, said companies such as Catuity face an uphill battle to thrive.

The reason, he said, is that there simply aren't enough incentives for consumers to use the cards or for businesses to spend the money on the systems that must be installed to read them.

"There's just no real clear benefit to a smart-card program that makes a compelling enough story for consumers or businesses to adopt," Leathern said.

Still, Daniel Tardif, president and CEO of Montreal-based **Cyberpro Inc.**, said his company and Catuity, both in loyalty marketing, are poised for growth.

"There's no benchmark in this industry, so everything we do is something that is quite exciting," he said.

Cyberpro and Catuity work together on the Visa program and compete in other deals.

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