

The Uncertain Future of Business Method Patents

Mortgage Bankers Association
Legal Issues In Technology Conference

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Overview—Changing Times

- “For the Times They Are a Changin’”
 - Bob Dylan, 1963

- Recent Changes in Patent Law Will Effect Business Method Patents
 - New questions exist about whether, and to what extent, business methods can be patented.
 - General patent law is trending against patentees.
 - Congress is considering statutory changes.

What Are Business Method Patents?

- PTO:
 - “‘Business method’ is a generic term that has been used by many to describe various types of process claims. The Federal Circuit has not yet defined what it is that specifically characterizes a business method claim and separates it from other process claims.”
- Wikipedia:
 - “Business method patents are a class of patents which disclose and claim new methods of doing business.”
- Business method patents often involve internet businesses, financial arrangements, or tax strategies.

Are Business Method Patents Valid?

- Recent legal developments suggest that many business method patents may be invalid on one of two grounds:
 - Claiming subject matter that cannot be subject to patent protection
 - Claiming subject matter that would have been obvious to one of ordinary skill in the field

Are Business Method Patents Valid?

- Basis for patent protection:
 - U.S. Constitution Article I, § 8: “[t]o promote the progress of science and useful arts.”
 - 35 U.S.C. § 101: makes “any new and useful process, machine, manufacture, or composition of matter” eligible for a patent
 - Are business methods “useful arts”? Technological innovation? Processes under the statute?

Are Business Method Patents Valid?

- 1908-1998: Business Methods Generally Not Patentable Subject Matter
 - *Hotel Security Checking Co. v. Lorraine Co.* (2nd Cir. 1908)
 - System to prevent fraud by waiters by recording food taken by waiter from kitchen and money given by waiter to cashier
 - “A system of transacting business disconnected from the means for carrying out the system is not...patentable.”

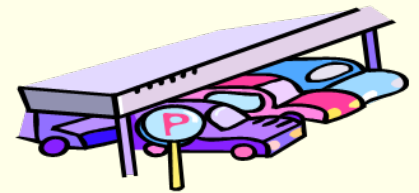


Are Business Method Patents Valid?

- Courts also held unpatentable methods such as:

- Parking cars at drive-in theaters

- *Loew's Drive-In Theatres v. Park-In Theatres*, 174 F.2d 547 (1st Cir. 1949)



- Optimizing organization of salesmen

- *In re Maucorps*, 609 F.2d 481 (CCPA 1979)



- Conducting auctions

- *In re Schrader*, 22 F.3d 290 (Fed. Cir. 1994)



Are Business Method Patents Valid?

- 1998-2007: Business Methods Generally Patentable Subject Matter
 - *State Street Bank v. Signature Financial Group* (Fed. Cir. 1998)
 - Patent essentially claimed a computer program that allowed pooling of mutual funds by quickly calculating each fund's share of gains, losses, expenses, etc. at the close of the market
 - “We take this opportunity to lay this ill-conceived [business method] exception to rest.”
 - Suggested that business methods were patentable if they produced a “useful, concrete, and tangible result”

Are Business Method Patents Valid?

- After *State Street*, PTO found a wide variety of activities to produce “useful, concrete, and tangible results”
 - The Federal Circuit upheld the patentability of a method of determining whether a call was made within or between long-distance carriers.
 - *AT&T Corp. v. Excel Communications*, 172 F.3d 1352 (Fed. Cir. 1999)
 - “In our recent decision in *State Street*, this court discarded the so-called ‘business method’ exception.”



Are Business Method Patents Valid?

- And Amazon.com received a patent on a method of making purchases with one click of the mouse without reentering billing or shipping information
- Amazon.com eventually settled its famous dispute with Barnes & Noble over this patent.



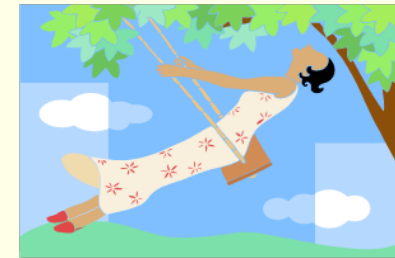
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Are Business Method Patents Valid?

- The PTO also issued patents on a variety of patently absurd methods

- Swinging side-to-side on a swing

- U.S. Patent No. 6,368,227



- “[T]he present inventor has discovered that much greater satisfaction can be obtained by alternately pulling on one chain to move the swing and the user toward that side, and then pulling on the other chain to move the swing and the user toward that side.”
- “Licenses are available from the inventor upon request.”

Are Business Method Patents Valid?

- Making a crustless peanut butter and jelly sandwich
 - U.S. Patent No. 6,004,596
 - “[T]here is a need for a convenient sandwich which does not have an outer crust and which is not prone to waste of the edible outer crust portions.”



Are Business Method Patents Valid?

- Early rumblings of the inevitable backlash—*Lab Corp v. Metabolite* (S. Ct. 2006)
 - Method for identifying certain vitamin deficiencies by measuring the level of an amino acid in body fluid.
 - Supreme Court granted cert but then dismissed the case because the § 101 issue was not raised in the answer.
 - Litigator point: always make sure to raise § 101 in the answer as a possible ground for invalidity.
 - Three justices dissented from dismissal
 - “Patent law seeks to avoid the dangers of overprotection just as surely as it seeks to avoid the diminished incentive to invent that underprotection can threaten.”

Are Business Method Patents Valid?

- *In re Comiskey* (Fed. Cir. Sept. 2007)
 - Method of mandatory arbitration
 - Claims to method of arbitration by itself were unpatentable claims to a mental process
 - “It is thus clear that the present statute does not allow patents to be issued on particular business systems—such as a particular type of arbitration—that depend entirely on the use of mental processes.”
 - Claims that included the use of computers, phones, etc. claimed patentable subject matter but were likely obvious
 - “The routine addition of modern electronics to an otherwise unpatentable invention typically creates a prima facie case of obviousness.”

Are Business Method Patents Valid?

- What *Comiskey* could mean:
 - To be valid, business method patents must claim some sort of new technology to carry out the method (e.g., a computer programmed with new and non-obvious software that carries out a business method).
 - Business method patents that just claim the method without any means of carrying it out may be invalid as claiming unstatutory subject matter, and business method patents that merely add well-known technology may be invalid as obvious.
 - "Applying modern electronics to older mechanical devices has been commonplace in recent years." *Leapfrog v. Fisher-Price*, 485 F.3d 1157, 1161 (Fed. Cir. 2007).

Are Business Method Patents Valid?

- While *Comiskey* certainly makes business method patents more vulnerable to attack, its true impact will be determined by 2 cases pending before the Federal Circuit.
- *In re Bilski*, No. 2007-1130 (argued in Oct.): method for commodities dealers to minimize risk from fluctuations in the market by entering into hedging contracts with sellers and consumers
 - Directly presents the question of the patentability of the business method itself since Bilski does not claim a means for carrying out the method.



Are Business Method Patents Valid?

- *In re Ferguson*, No. 2007-1232 (to be argued in Dec.): marketing system where one company markets other companies' products in exchange for a contingent share of the profits
- Like *Bilski*, the patentability of a business method in and of itself is directly presented because there is no claim to a means for carrying out the method.



Changes in General Patent Law

- Three recent changes in patent law have made it a kinder and gentler world for alleged infringers:
 - *KSR v. Teleflex*: easier to invalidate a patent as obvious
 - *MedImmune v. Genentech*: easier to seek declaration that patent is invalid or not infringed
 - *In re Seagate*: easier to avoid enhanced damages for willful infringement

Changes in General Patent Law

- *KSR v. Teleflex* (S. Ct. Apr. 30, 2007)
 - Under the patent statute, patents that would have been obvious to one of ordinary skill in the field are invalid.
 - The Supreme Court rejected the Federal Circuit's rigid approach that required a "teaching, suggestion, or motivation to combine" prior works.
 - Other ways obviousness can be shown after *KSR*: (1) predictable results; (2) market demand; (3) known problem and obvious solution; (4) obvious to try; (5) common sense
 - Common sense may have a big impact on business method patents since generalist judges and juries are more familiar with business methods than technical or scientific patents.

Changes in General Patent Law

- *MedImmune v. Genentech* (S. Ct. Jan. 9, 2007)
 - Rejected Federal Circuit's "reasonable apprehension of suit" requirement before an alleged infringer could seek a declaration of invalidity or non-infringement.
 - Declaratory judgment actions are permissible if there is a (1) definite and concrete dispute that is (2) real and substantial between (3) parties with adverse legal interests (4) that can be resolved by a declaratory judgment.
 - Makes it easier for the alleged infringer to control venue and avoid the pro-patentee Eastern District of Texas
 - Over 15% of recent patent suits were filed there
 - Patentees win 83% of trials

Changes in General Patent Law

- *In re Seagate* (Fed. Cir. Aug. 20, 2007) (en banc)
 - Patentee can get enhanced damages (up to treble damages) for willful infringement.
 - Supreme Court rejected Federal Circuit's willfulness test, which put an affirmative duty of care on the alleged infringer to avoid infringement. Now, the patentee must prove recklessness:
 - Infringer "acted despite an objectively high likelihood that its actions constituted infringement of a valid patent"
 - Infringer knew or should have known of this objective risk

Possible Statutory Changes

- Patent Reform Act of 2007:
 - Introduced in House and Senate in April
 - Passed, with amendment, by House in September
 - Approved, with amendment, by Senate Judiciary Committee in July; no action by full Senate



Possible Statutory Changes

- Most interesting provisions for business method patents:
 - Damages: reasonable royalty based only on patented feature, not whole product
 - Venue: only where the parties reside or defendant committed substantial acts of infringement and has substantial operations
 - Post-Grant Review: allows some challenges in the PTO to validity of patent after issuance without a presumption of validity

Lessons for the Future

- Business method patents are more vulnerable to invalidity challenges today than at any time in the past decade.
- Less business methods are likely to be eligible for patent protection and more are likely to be obvious.
- An alleged infringer has a greater ability to control litigation and avoid the E.D. of Texas by seeking a declaration of non-infringement or invalidity.
- The cost of continuing to act in the face of a patent is lower because of the more difficult willfulness standard.

Lessons for the Future

- **BUT** these are very uncertain times
 - Old doctrines have been abolished without clear new standards to replace them.
 - There is a struggle between those who favor greater patent protection to spur innovation and those who favor limited patent protection to spur competition. The pro-competition side has won the recent battles but that could change.
 - Congress may weigh in.

Lessons for the Future

- At the very least, arguments that business method patents are invalid have a greater likelihood of success in light of the recent changes.
- But, given the uncertainty, the ultimate likelihood of success will depend on the quality of the lawyering and the future decisions of the Supreme Court, Federal Circuit, and Congress.