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Treatment of Business Method Patents in Pending Patent Reform Legislation: *Bilski* Backlash?

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INTRODUCTION

Business method patents have often attracted negative attention, and even after the Supreme Court decision in *Bilski v. Kappos*, those concerns persist.

Recently drafted legislation reforming U.S. patent laws attempts to respond by providing a transitional post-grant review program for certain business method patents that allows increased scrutiny using modified post-grant review. Both S. 23, passed by the Senate, and H.R. 1249, passed by the House, treat business methods in the financial services industry differently from patents in other sectors. Thus, there may be additional challenges for those seeking "true" business methods in the financial services industry when patent reform is ultimately enacted.

BUSINESS METHOD PATENTS

Although some commentators raise questions about the true scope of the term "business method," perhaps the clearest guidance in determining what constitutes a business method patent comes from the Patent and Trademark Office. The PTO categorizes the majority of business method applications in Class 705 for purposes of examination. Generally speaking, this class pertains mostly to the areas of financial and management data processing. Historically, Class 705 patents have focused on computerized postage metering and cash register systems, financial transaction systems, electronic shopping, and more recently, advertising management systems.

Not all business method claims are classified in class 705, however. Certain business methods better defined by their technical features are more appropriately examined according to their technology.

Certain well-known business method patents have received heavy criticism for claiming ideas that were already well-known and widely used, such as those owned by Amazon.com that were directed to internet "one click shopping" and a commission-generating hyperlink clicking system. Others have been criticized due to their broad scope, including a method for enticing customers to order additional food at a fast food restaurant and systems for toilet reservations. *See In re Bilski*, 545 F.3d 943, 1004, 88 USPQ2d 1385 (Fed. Cir. 2008) (en banc) (Mayer, J., dissenting) (77 PTCJ 4, 11/7/08).

This criticism is somewhat representative of the criticism facing business method patents in general and why they can be so controversial. The notion that one could obtain a monopoly on practices that have already been used in the industry is extremely unsettling. Furthermore, certain businesses that have been relying on these practices as trade secrets for years may infringe the rights of a subsequent owner of a business method patent.

The growth of these so-called "dubious" patents has been attributed in part to the Federal Circuit's decision in *State Street Bank & Trust Co. v. Signature Financial Group Inc.*, 149 F.3d 1368, 47 USPQ2d 1596 (Fed. Cir. 1998) (56 PTCJ 346, 7/30/98). The disputed patent claimed a data processing system for managing an investment portfolio involving organized pooled mutual funds. At issue was whether the patent was invalid under 35 U.S.C. § 101 for claiming non-statutory subject matter. The Federal Circuit held that while mathematical algorithms could not be patented if they expressed merely abstract ideas, they did constitute patentable subject matter if they produced a useful, concrete, and tangible result, even if that result was expressed in numbers.

The holding in *State Street* has been widely criticized as opening the floodgates for patents of dubious quality to distort the patent landscape. Federal Circuit Judge Haldane Robert Mayer has commented, "*State Street* has launched a legal tsunami, inundating the Patent Office with applications seeking protection for common business practices. Application for Class 705 patents increased from fewer than 1,000 applications in 1997 to more than 11,000 applications in 2007." *Bilski*, 545 F.3d at 1004 (Mayer, J., dissenting).

It was in this "legal tsunami" of dubious patents that many looked to the Federal Circuit, and subsequently, the Supreme Court to clarify the law on business method patents in the seminal line of *Bilski* cases.

BILSKI

Applicants Bernard Bilski and Rand Warsaw sought a patent on a method of hedging the risk of price fluctuations of commodities in the energy market. The method did not require the implementation of any digital computer or other machine. The PTO rejected the application under Section 101 for claiming nonstatutory subject matter.

On appeal, the Federal Circuit affirmed the rejection en banc, strictly applying the new "machine or transformation" test and eschewing the "useful, concrete, and tangible result" test of *State Street.* Under the "machine or transformation" test, a claimed process is patent eligible if it is tied to a particular machine or apparatus or the process transforms a particular article into a different state or thing. Having failed both these prongs, the claimed invention was not patentable subject matter under Section 101.

The Supreme Court granted certiorari and held that as an abstract idea, the claimed invention was not patentable. The Court also rejected a strict application of the Federal Circuit's "machine or transformation" test.

The Supreme Court's decision did not invalidate the multitude of business method patents already issued or threaten patent applications still pending. Rather, the court invited the Federal Circuit to consider the appropriate way to evaluate business method patents. Due to the lack of guidance from the courts, the time was perhaps ripe for intervention by Congress.

LEGISLATION IN THE WAKE OF BILSKI

Sen. Patrick J. Leahy (D-Vt.), in reference to business method patents, stated, "It is still unclear whether the subject matter of these patents qualifies as patentable subject matter under current law. Patents of low quality and dubious validity . . . are a drag on innovation because they grant a monopoly right for an invention that should not be entitled to one under the patent law." 112 CONG. REC. S1360, 1363 (daily ed. Mar. 8, 2011) (statement of Leahy).

The Supreme Court decision did not go as far as some people had hoped. In a press release, Leahy commented, "In *Bilski v. Kappos*, the Court unanimously affirmed the judgment of the Federal Circuit that the application for a patent on a business method should be rejected. The Court's opinion, joined by only five of the Justices, however, needlessly left the door open for business method patents to issue in the future, and I am concerned that it will lead to more unnecessary litigation." Press Release (June 28, 2011) (available at http://
leahy.senate.gov/press/press_releases/release/? id=9577014f-32d2-41a8-b189-ac07d86cc336).

Leahy also added, "While today's decision will take time to analyze and may not have advanced the law and created the stability and certainty that it could have, it appears to continue this trend, which is consistent with the goal of patent reform legislation pending in Congress. The courts, however, are constrained by the text of our outdated statutes, and it is time for Congress to act." *Id.*

Leahy is a sponsor of the America Invents Act of 2011. S. 23, the U.S. Senate version of patent reform legislation, passed the Senate by an overwhelming majority on March 8 (81 PTCJ 593, 3/11/11). The legislation addresses a number of facets of the patent system. However, the bill's potential impact on the status of business method patents makes it most interesting in light of *Bilski*. The House of Representatives subsequently drafted its version of patent reform legislation, known as H.R. 1249. The bill was approved by the House on June 23 (82 PTCJ 284, 7/1/11), also by a significant margin. Both S. 23 and H.R. 1249 provide several proposed mechanisms for post-grant review of a patent, including a "transitional" post-grant review exclusive to business method patents.

Under the general provisions for post-grant review that would be available to any patent if the legislation was enacted, a petitioner challenging the patent may seek to initiate a post-grant review of the patent with the PTO. The petition must be filed no later than nine months after the grant of a patent. The petitioner can seek to have the disputed patent invalidated under any provision of the patent statute and is not restricted to arguments based solely on anticipation or obviousness.

Furthermore, in order for a post-grant review to be initiated by the PTO, "the information presented in the petition, if not rebutted, would demonstrate that it is more likely than not that at least one of the claims challenged in the petition is unpatentable" and the validity of the patent would be evaluated under the preponderance of the evidence standard. Thus, the preponderance of the evidence standard for review during post-grant review is lower than that of civil litigation, which employs the "clear and convincing" standard. *See Microsoft Corp. v. i4i L.P.*, No. 10-290, 98 USPQ2d 1857, slip. op. at 1 (U.S. June 9, 2011) (82 PTCJ 182, 6/10/11).

S. 23 and H.R. 1249 also provide a transitional postgrant review program specific for business method patents claiming a method or corresponding apparatus for performing data processing operations utilized in the practice, administration, or management of a financial product or service. Patents for "technological inventions" are excluded; however, this term is undefined.

To initiate a post-grant review under these provisions, the petitioner must have been sued for or charged with infringement of a business method patent. There is no restriction tied to the issuance date of the disputed patent, unlike the general post-grant review procedure described above. Thus, the provision extends the time available to challenge in the PTO financial service patents that have been asserted, although it limits the types of prior art that could be used in a challenge.

The transitional program also provides guidance to the courts on whether to enter a stay in related infringement litigation. The bills encourage stay of the litigation if the post-grant review is filed early and courts can consider whether granting the stay would simplify the issues presented, unduly prejudice the non-moving party, or reduce the burden of litigation, and also consider whether discovery has been completed or a trial date established.

While the House version is quite similar to the Senate version, there are notable differences, however. Under H.R. 1249, an automated teller machine cannot constitute a regular place of business for purposes of establishing venue. S. 23 has no so-called "ATM exemption." Also, under H.R. 1249, the effective period for the transitional post-grant review is eight years, while S. 23 provides for only four years.

COMMENTARY

Although the transitional post-grant review procedure for business method patents was likely a response to perceived shortcomings of the Supreme Court's *Bilski* decision, the AIA still leaves untouched some of the same questions left unanswered by the Supreme Court. For all of Leahy's apparent ire towards business method patents, there is no proposal in either version of the AIA that would make business methods per se unpatentable. More importantly, the AIA provides no guidance on what constitutes patentable business methods and what standards to apply. For example, the AIA exempts patents for "technological inventions" without defining what constitutes technology. Such ambiguities will likely lead to further confusion and litigation. So to this end, things remain status quo, despite Congress seeking to succeed where it perceived the courts had failed.

While the AIA may fail to advance the law on business method patents, it may serve to improve the overall quality of existing patents. Through the transitional post-grant review, the act provides multiple means to knock out the so-called "bad" or "dubious" patents that flooded the patent landscape in the wake of *State Street*. Challengers can use the general post-grant review or inter partes review procedures available to patent challengers in all technology areas. Alternatively, if accused of infringing a covered business method patent, challengers benefit from an extended time period to use a modified-version of post-grant review.

Some of the criticisms directed toward business method patents were that they claimed methods already well-known or widely used in the industry. The transitional post-grant review would allow critics, as petitioners, to identify prior art that establishes that these methods were indeed well-known and present it the PTO, thereby cleaning the landscape.

The AIA also serves as a wake-up call to those seeking patents relevant to the financial services industry. Clearly, financial services industry patents were specifically called out in the transitional post-grant review regulations while patents for technological inventions were carved out. This conforms with PTO guidelines stating that business methods more defined by their technological features may be examined as non-705 applications. Thus, the type of patents that caused so much consternation to the Federal Circuit in the *Bilski* dissent are those specifically targeted by the transitional post-grant review provisions.

On the other hand, the transitional post-grant provisions may raise concerns even for those owning business method patents that clearly do not fall into this "dubious" category. One cause for concern is the lower standard of review employed in a post-grant review. A covered business method patent that may survive the clear and convincing standard of civil litigation may be more vulnerable in a post-grant review proceeding. Before bringing suit, a patentee could strengthen its potential position by conducting a thorough pre-litigation analysis and evaluating any potential grounds a challenger could raise.

Another cause for concern for the patentee is the potential delay of enforcement rights, as a post-grant review proceeding may lead to a stay in the related civil litigation. This could lengthen the time that a potential infringer is on the market and/or potentially delay a finding of infringement and payment of royalties. While it may be difficult for a patentee to address these challenges, patentees wishing to enforce covered business method patents should consider filing their actions as soon as possible because they should anticipate additional potential delays due to a petition for post-grant review by the alleged infringer.

The availability of the transitional post-grant review also raises interesting questions for alleged infringers of covered business method patents. An alleged infringer may generally wish to use post-grant review since this proceeding would subject the patent to more scrutiny due to the lower legal standard, and it would provide the alleged infringer with a delay tactic to slow the civil litigation. The alleged infringer, for example, may also decide to pursue post-grant review in an attempt to avoid the costs of litigation, such as very high discovery costs.

But should the alleged infringer not prevail during post-grant review, the effort would only add to the cost of the now inevitable litigation. And, if the alleged infringer raises an invalidity ground in a post-grant review proceeding that resulted in a final decision, it would be stopped from raising the same ground in civil litigation. Thus, the decision may lie in the significance of the prior art that the alleged infringer has potentially identified, how confident the alleged infringer feels about the validity attack, and which venue it prefers.

In conclusion, once the Senate and House bills are ultimately reconciled, the AIA is still unlikely to revolutionize the law pertaining to business method patents. The act does reflect, however, an earnest attempt at the congressional level to rein in those patents still left unchecked after the Supreme Court's *Bilski* decision.