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Business Method Patents: Past, Present and Future

The United States Patent and Trademark Office (“Patent Office”) continues to grant business method patents covering a broad range of subject matter. Recently issued patents include claims for methods of investing, selecting lawyers, real estate transactions, credit determinations, and data protection. Specific examples of business methods patents issued in just the last two months are collected in Appendix A.

The broad range in scope of such patents means that business method patents have greater significance for all companies, including financial institutions. Although various federal courts, including the Court of Appeals for the Federal Circuit, have contended that business method patents do not represent an expansion of patentable subject matter, many practitioners perceive an expansion of patentable subject matter resulting from a few key court decisions over the last several years.

The patent statute (35 U.S.C. § 101) is the primary source for determining patentable subject matter. It states that inventors may patent “any new and useful process, machine, manufacture, or composition of matter.” Although the statute plainly identifies four categories of patentable inventions, courts have nevertheless interpreted this statute, and thus patentable subject matter, on a case-by-case basis.

In 1981, the Supreme Court in *Diamond v. Dier* identified three categories of subject matter that are not patentable, namely “laws of nature, natural phenomena, and abstract ideas.” As a consequence of the Supreme Court’s decision, many patent attorneys presumed that business methods were not patentable because they were “abstract ideas.”

In 1998, the Federal Circuit dispelled this presumption in *State Street Bank v. Signature Financial Group*. The Court stated that “[t]he business method exception has never been invoked by this court,” and “[w]e take this opportunity to lay this ill-conceived exception to rest.” In 1999, the *Federal Circuit in AT&T v. Excel Communications* further clarified that methods containing a mathematical algorithm are patentable as long as the “mathematical algorithm is applied in a practical manner to produce a useful result.” These two decisions firmly confirmed that business methods are patentable, and, apparently, always were patentable.

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The perception that the scope of patentable subject matter increased, particularly with respect to business methods, is not without basis, however. For example, in 2001 the Patent Office in *Ex Parte Bowman* set a standard for patentability that required business method inventions to apply, involve, use or advance the technological arts. In 2005, however, the Patent Office in *Ex Parte Lundgren* determined that this limitation was improper because no such requirement existed in the statutes. *Lundgren* thus removed a hurdle to the patentability of business methods.

The debate continues over whether the scope of patentable subject matter is increasing, but it is undeniable that the number of filings of business method patent applications has increased sharply in the years since the *State Street* decision. This increase in patent application filings resulted in an extensive backlog in the Patent Office. Paul Weiss spoke with a supervising examiner who confirmed that in late 2006 the Patent Office was examining business method patent applications filed *in the fall of 2001*. This means that companies using any business methods that could be the subject of a patent – which is almost all companies – must conduct business with some trepidation. Patent applications are only publicly available, if at all, 18 months after filing. Moreover, with the current backlog, the scope of the patent claims when finally issued will not be known for years after the applications are filed. Therefore, companies must be prepared for the possibility of lawsuits involving virtually any type of business method.

There is some protection, however. A new, relatively unused statute (35 U.S.C. § 273) provides a defense to infringement of a patent directed to “a method of doing or conducting business” based on earlier inventorship. Under this statute, it is a defense to infringement if a person reduced an invention to practice at least one year before the business method application was filed, and commercially used the invention before the filing date of the application. Only two courts have ever considered this defense, however, and neither made a substantive ruling about the merits of the defense.

One case that illustrates the power and danger of business method patents is Meridian Enterprises’ lawsuit against Carlson Marketing. Meridian’s U.S. Patent No. 5,025,372 covered a method of administering an incentive award program through use of credit. Carlson originally licensed the patent but terminated the license a year later. After Meridian obtained a favorable ruling construing the patent claims directed toward “credit instruments” to include essentially everything that was not cash, it appeared that Carlson could not avoid a finding of infringement. In fact, a jury handed down a verdict overwhelmingly favorable to Meridian – finding all of Carlson’s accused products infringed. The jury also found Meridian’s patent to be valid and enforceable, and determined that Carlson’s continued use of the patented invention after terminating the license constituted willful infringement.

Despite this somewhat gloomy prospect for litigation of business method patents, potentially good news for accused infringers came in 2006 when the Supreme Court considered a request for a permanent injunction based on a business method patent. In *eBay v. MercExchange*, the Court declared that permanent injunctions do not issue as a matter of course following a finding of infringement. This overturned a longstanding unwritten rule that, absent extreme

circumstances (typically involving public health or safety), a permanent injunction would follow a finding of patent infringement. Indeed, the Court directed that the following four factors be considered when deciding if a permanent injunction should issue: (1) the patentee has suffered an irreparable injury; (2) remedies available at law are inadequate to compensate for that injury; (3) considering the balance of hardships between the patentee and defendant, a remedy in equity is warranted; and (4) the public interest would not be disserved by a permanent injunction.

The impact of *eBay* may be significant on business methods patentees, many of whom do not practice the patented invention themselves. After *eBay*, such patentees may not be entitled to an injunction even if successful on the merits at trial, because an award of monetary damages may be adequate compensation for the infringement.

Lawsuits for infringement of business method patents are not limited to the United States. Although other countries still have somewhat higher hurdles for obtaining patents based on business methods, the difference between business method patent rights in foreign countries and the United States is narrowing. Foreign countries generally require business methods to include some sort of technological advancement if a patent is to be obtained. The Japanese Patent Office, for example, requires a “technical aspect” for patentability.

Similarly, the European Patent Office requires inventions to solve a technical, rather than a purely administrative, problem since European Patent Convention Article 52(2)(C) specifically prohibits patents on “schemes, rules and methods for performing mental acts, playing games or doing business, and programs for computers.” Notwithstanding this statutory definition, in 1994 the European Patent Office Board of Appeals found that a patent titled “System for determining the queue sequence for serving customers at a plurality of service points” was patentable. This decision has since been cited extensively in Europe as justification for the patentability of business methods.

Countries outside of the United States, Japan, and Europe also grapple with the patentability of business methods. In 2005, in *Re Peter Szabo and Associates Pty. Ltd.*, the Australian Patent Office considered a patent for a type of reverse mortgage. The Patent Office interpreted previous Australian court decisions to require business methods to include “the application of science or technology in some material manner.” The Australian Patent Office’s website explains the requirement somewhat differently, stating that “a patent may be granted for a business method where there is something artificially created to implement the method.”

About one year after the *Szabo* decision, a similar issue was reviewed by the Federal Court of Australia – similar to a United States District Court – when it considered a patent application for a trust arrangement designed to protect an asset. This decision, *Grant v. Commissioner of Patents*, was in turn reviewed by the Full Court – a three judge panel similar to an appellate court in the United States – which indicated disapproval of the reasoning in *Szabo*. The Full Court clarified what constitutes patentable subject matter for business methods by stating that a “physical effect in the sense of a concrete effect or phenomenon or manifestation or transformation is required.” The Full Court also suggested that Australian law and United States

law may be converging by stating that a court must look “to the application of the claimed method. That is similar to the approach of courts in the United States.”

More broadly, international recognition of business method patents by the examining authority of the Patent Cooperation Treaty (“PCT”), a treaty that established a unified filing procedure and initial framework for examination for international patent applications, is becoming increasingly widespread. On January 1, 2006 a new category was introduced to the International Patent Classification system, which is used to classify PCT applications. The new category (category G06Q) includes applications directed to “Data Processing Systems Or Methods, Specially Adapted For Administrative, Commercial, Financial, Managerial, Supervisory Or Forecasting Purposes.” As of the end of 2006, the PCT had 135 signatory countries, thus making business method patents likely to become increasingly widespread throughout the world.

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This advisory is not intended to provide legal advice with respect to any particular situation and no legal or business decision should be based solely on its content. Questions concerning issues addressed in this advisory should be directed to any member of the Paul, Weiss Patent Litigation Group, including:

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APPENDIX A**RECENT BUSINESS METHOD PATENTS**

- Systems, methods and devices for trusted transactions (U.S. Patent No. 7,159,116; issued January 2, 2007)
- Network method system and apparatus for recording and maintaining records (U.S. Patent No. 7,158,978; issued January 2, 2007)
- Process for creating a financial plan for funding of college education (U.S. Patent No. 7,158,950; issued January 2, 2007)
- Method and apparatus for facilitating the selection of legal and legal-related service providers (U.S. Patent No. 7,158,944; issued January 2, 2007)
- Bidder system using multiple computers communicating data to carry out selling fixed income instruments (U.S. Patent No. 7,152,044; issued December 19, 2006)
- System, method and computer program product for facilitating real estate transactions (U.S. Patent No. 7,152,037; issued December 19, 2006)
- Securitization of sales participation certificates (U.S. Patent No. 7,149,719; issued December 12, 2006)
- System and method for originating loans (U.S. Patent No. 7,146,337; issued December 5, 2006)
- Method and apparatus for a verifiable on line rejection of an applicant for credit (U.S. Patent No. 7,143,063; issued November 28, 2006)
- Preferred credit information data collection method (U.S. Patent No. 7,139,734; issued November 21, 2006)