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Phone: +1 212 537 6331 | Fax: +1 212 537 6371 | customerservice@portfoliomedia.com

The Closing Bell For Business Method Patents?

Law360, New York (September 09, 2009) -- The economic recession is not the only downturn troubling the financial industry. Another downturn is happening in litigations involving business method patents — a principal form of intellectual property for many financial-services companies — following last year's Federal Circuit In re Bilski decision.

That case holds that a claimed method, or process, is patent-eligible under 35 U.S.C. § 101 if "(1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing." In re Bilski, 545 F.3d 943, 954 (Fed. Cir. 2008) (en banc).

Bilski modifies the Federal Circuit's more liberal, 1998 decision in State Street Bank & Trust Co. v. Signature Financial Group Inc., which had held that business methods are patentable if they elicit a "useful, concrete and tangible result." 149 F.3d 1368, 1375 (Fed. Cir. 1998).

State Street fueled a business method boom as financial services companies and others rushed to file patent applications for their business methods. But Bilski burst the business method bubble.

In just eight months since the Federal Circuit's decision, Bilski's machine-or-transformation test has already doomed several patents in litigation.

Although the Supreme Court's decision to review Bilski offers patentees some hope, the district court decisions that apply Bilski signal that the outlook for business method patents remains gloomy. Four of those cases are discussed below.

Fort Properties Inc. v. American Master Lease LLC

In Fort Properties Inc. v. American Master Lease LLC — one of the first cases applying Bilski — the court found invalid a business method patent directed to creating an investment instrument out of real property and granted summary judgment. No. SACV07-365, 2009 WL

249205 (C.D. Cal. Jan. 22, 2009).

After examining the history of the patent application as it moved through the Patent Office, the court determined that the patent had been issued under State Street's useful-concrete-tangible test, which Bilski overruled. Id. at *3.

Applying Bilski's machine-or-transformation test, the court held the patent invalid because the claimed method did not have to be executed on a computer. Id. at *4.

The court also held that the claims only manipulated legal obligations and relationships, and did not transform an article or thing as required by Bilski. Id.

Cybersource Corp. v. Retail Decisions Inc.

Similarly, in Cybersource Corporation v. Retail Decisions Inc., District Judge Marilyn Patel granted Retail Decisions summary judgment of invalidity under Bilski. No. C 04-03268, 2009 WL 815448, (N.D. Cal. Mar. 27, 2009).

The patent covered a method for detecting fraud in online credit card transactions by creating a map of credit card numbers that have used a particular Internet address.

The court held that the claimed process only manipulated credit card numbers to build the map and did not transform credit card numbers or credit cards. Id. at *3.

Even if the process did transform numbers, the court held that a credit card number is not a physical object or substance capable of being transformed. Id. at *4.

The court further found that use of the Internet did not sufficiently tie the claims to a particular machine because the Internet is not a particular machine, but is instead an abstraction that does not exist in the absence of the computers and cables that are part of it. Id.

Even if the Internet could be considered a machine, its use in the claims merely constituted insignificant extra-solution activity. Id. Reference to the Internet also did not meaningfully limit the scope of the claims. Id.

Thus, the court found that the claims, as written, preempted a large number of fundamental mental processes of fraud detection in the field of online credit card transactions and were unpatentable. Id. at *7.

Cybersource casts an even darker cloud over business methods. Not only did Judge Patel declare the patent invalid, but she also predicted that Bilski may mark the end of business method patents altogether: "[i]n analyzing Bilski, one is led to ponder whether the end has arrived for business method patents ... Although the majority declined to say so explicitly, Bilski's holding suggests a perilous future for most business method patents ... The closing bell may be ringing for business method patents ..." Id. at *9-10.

Every Penny Counts Inc. v. Bank of America Corp. et al.

Indeed, the court in Every Penny Counts Inc. v. Bank of America, et al., rang the bell on another business method patent by granting Bank of America's motion for summary judgment of invalidity. See Mem. and Order, Every Penny Counts Inc. v. Bank of Am. Corp. et al., No. 2:07-cv-042 (M.D. Fla. May 27, 2009).

The patent involved a system that enables customers to save and/or donate a portion of their credit or debit transactions by rounding change to the nearest dollar.

Every Penny argued that the patent claimed a machine, not a process, and therefore Bilski did not apply. The court disagreed, stating that just because the process requires a machine does not mean that it is a machine. Id. at 4.

Applying Bilski, the court found that the process claimed a mathematical algorithm that uses machines for the input and output of data. Id. at 5.

The machines, however, did not sufficiently limit the claim to render it patentable. Id. Because Every Penny did not argue that the claim satisfied the transformation prong, the court held the claim invalid. Id.

Versata Software Inc. et al. v. Sun Microsystems Inc.

Perhaps the only district court declining to find a business method patent invalid under Bilski, Judge Ward of the Eastern District of Texas in Versata Software Inc. v. Sun Microsystems Inc. denied Sun Microsystem's motion for judgment on the pleadings. No. 2-06-CV-358, 2009 WL 1084412 (E.D. Tex. Mar. 31, 2009).

Two of the patents-in-suit claimed methods for configuring a computer system. Sun argued that the claimed methods were not tied to machines because they could be "performed entirely within the human mind, or using pencil and paper." Id.

Sun also argued that the claimed methods were not transformations because "they [did not] transform any article into a different state or thing." Id.

Judge Ward, however, did not view Bilski's scope as broadly as Sun did, noting that the Federal Circuit "declined to adopt a broad exclusion over software or any such category of subject matter beyond the exclusion of claims drawn to fundamental principles." Id.

Although the Versata patents survived Sun's motion, the jury ultimately found those patents invalid though it did not specify on what grounds. See Verdict Form, Versata Software Inc., et al., v. Sun Microsystems Inc., No. 2-06-CV-358 (E.D. Tex. Apr. 24, 2009).

What Does the Future Hold?

Despite Judge Ward's ruling in Versata, the cases decided post-Bilski reveal that the validity of business method patents is plummeting.

Their only chance for survival may lie in the hands of the Supreme Court, which granted certiorari in Bilski on June 1, 2009. 556 U.S. 08-964 (2009). The Supreme Court, however, may not rescue these patents.

In eBay Inc. v. MercExchange LLC, four justices of the Supreme Court expressed their concerns about the vagueness, suspect validity and potential for abuse of business methods. 126 S.Ct. 1837, 1842 (2006) (Kennedy, J., concurring). They may use Bilski as an opportunity to address these problems.

In addition, in Laboratory Corporation of America Holdings v. Metabolite Laboratories Inc., et al., three of those four justices — the only three justices that said anything in the case because the majority held that the writ of certiorari was improvidently granted — declined to embrace State Street's useful-concrete-tangible test because it would cover inventions that the Supreme Court has held unpatentable. 548 U.S. 124, 136 (2006) (per curiam) (Breyer, J., dissenting).

On the other hand, the Supreme Court will no doubt be urged by a number of parties to broaden Bilski's machine-or-transformation test. Otherwise, Bilski may stymie Congress's apparent intent that patents protect "method[s] of doing or conducting business." 35 U.S.C. § 273.

Until the Supreme Court rules, we can expect defendants to continue to aggressively pursue Bilski defenses. Parties threatened with business method patents may even go on the

offensive by seeking a declaration of invalidity. See, e.g., Compl. For Declaratory J., Merrill Lynch Life Ins. Co. et al. v. Lincoln Nat'l Life Ins. Co., Case No. 2-09-cv-158 (N.D. Ind. Jun. 5, 2009).

On the other hand, patentees in litigation or thinking about litigation may consider filing reissue or continuation applications to correct claims that may run afoul of Bilski.

Patentees may also seek to stay current litigations pending the Supreme Court's ruling. See, e.g., Order, Lincoln Nat'l Life Ins. Co. v. Transamerica Fin. Life Ins. Co., et al., Cause No. 1:04-cv-396 (N.D. Ind. Jun. 8, 2009). Then, we will know whether the closing bell has in fact been rung.

--By Lewis E. Hudnell III and Diana G. Santos, Fish & Richardson PC

Lewis Hudnell III is a principal with Fish & Richardson in the firm's New York office. Diana Santos is a summer associate with the firm.

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