

Business Method Patents:

Moving Forward in a Hostile Environment

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Lisa K. Norton

Sr. Associate

DLA Piper Rudnick Gray Cary LLP

lisa.norton@dlapiper.com

John W. Cabeca

Supervisory Patent Examiner

U.S. Patent and Trademark Office

john.cabeca@uspto.gov



Raymond Millien

IP Counsel

American Express Co.

raymond.v.millien@aexp.com

The views expressed in this presentation reflect the speakers' personal views and do not necessarily represent the views of their respective employers.

Discussion Agenda

I. Introduction: The Hostile Environment

II. One Industry's Perspective (*i.e.*, the Client's View)

III. The U.S. Patent and Trademark Office's Perspective

IV. The Law Firm Perspective: Practicing and Counseling Clients in the Hostile Environment

Hostile Environment: Sample #1

“In recent years, the scope of patents has broadened to encompass new technologies, as well as software, and in some instances business methods. Meanwhile, the legal power of patents, once awarded, has increased, and they are more zealously sought. This, combined with an alleged decline in the quality of patents - that is, how accurate their claims are and whether they are truly novel or non-obvious - is deeply troubling, especially as, once awarded, a patent is hard to revoke.

...[P]erhaps the patent system not only needs to be repaired, but shrunk?”

--The Cost of Ideas: It Is Becoming Ever More Apparent That The Patent System Isn't Working, The Economist (Nov. 11 2004)



Hostile Environment: Sample #2

“Then there are the "business method" patents -- *essentially, online translations of analog activities*. The most infamous is Amazon.com's "one-click" shopping patent, but there are lots of other egregious examples. *There's plenty of blame to go around on this*. But the chief culprits are the PTO, which by nearly every credible account doesn't sufficiently analyze the applications it gets, and Congress, which allows this to persist.”

--Dan Gillmor, *A Patent Strain on Innovation*,
Computerworld (Oct. 4, 2004)

Hostile Environment: Sample #3

*“In 1998 America introduced so-called ‘business-method’ patents, granting for the first time patent monopolies simply for new ways of doing business, many of which were not so new. **This was a mistake.** It not only ushered in a wave of new applications, but it is probably inhibiting, rather than encouraging commercial innovation, which has never received, or needed, legal protection in the past. **Europe has not, so far, made the same blunder . . .”***

*--Intellectual Property, Monopolies of the Mind,
The Economist (Nov. 11 2004)*

Frustration in the Hostile Environment

“There is a flawed conventional wisdom among many observers of the U.S. patent system . . . concerning the patenting of emerging technologies, including patents on . . . *Internet business methods*. . . .

[A WSJ article] mentions *Amazon.com's "One-Click" computer-shopping patent as an example of uncontrolled patenting in new technologies*. This patent has probably had more public and judicial scrutiny than any patent granted in the past five years, including a highly publicized \$10,000 bounty for anyone who could find evidence to invalidate it. The bounty went uncollected and *the patent has never been found invalid.*”

-- *No Uncontrolled Patenting of Emerging Technologies*, Letters to the Editor, The Wall Street Journal (July 13, 2004) (Nicholas P. Godici, Commissioner for Patents)

What is a "Business Method"?

- 35 U.S.C. § 101 does not specifically address the notion
- 35 U.S.C. § 273(a)(3) is not helpful: “method’ means a method of doing or conducting business”
- Class 705 (and its subclasses) do not wholly contain it!
- *State Street Bank & Trust Co. v. Signature Fin. Group* (Fed. Cir. 1998) refused to define it!

❖ A proposed definition to frame the discussion:

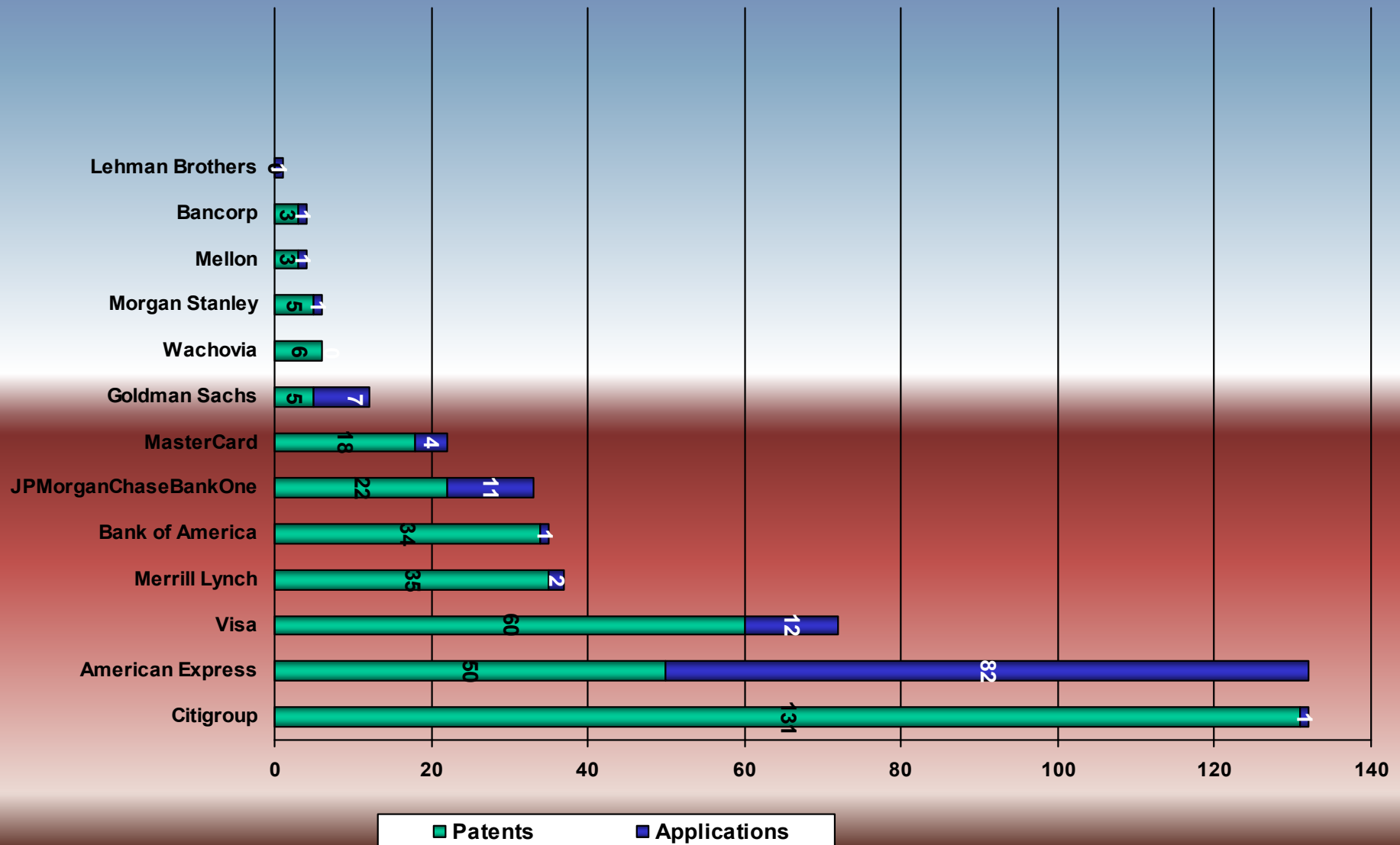
A processes (software or manual) employed in an entity’s business model in order to perform services related to insurance, securities trading, health care management, reservation systems, electronic shopping, auction systems, catalog systems, incentive programs, redemption of coupons, banking, billing, point of sale systems, accounting, inventory management and the like.

Industry Perspective: Moving Forward

- In 2004, \$4.8 Trillion of the \$8.2 Trillion in Personal Consumption Expenditures of the U.S. GDP were for Services, not Goods.
- The 2nd mover in a market will always have an advantage of the 1st mover – they can sit back, wait, and fix what the 1st mover did wrong
- Thus, as a result of the above two observations, **business method patents will continue to proliferate!**
- In financial services industry, back office people look for COTS software to do X and it's not on the market. So, they design and develop it themselves! This is a great source of innovation that results in software/business method patents.
- The number of patents granted to financial institutions has increased ten-fold from 1996 to 2002
 - Will the Dec. 2004 Fee Increases – esp. claim fees – improve quality and/or slow down filings?

The Financial Services Industry

Patents and Published Applications Assigned to Major Financial Institutions (As of Feb. 8, 2005)



Moving Beyond Worry ... to Wealth

A Wealth v. Worry 3-Stage Approach

1. Rush to Build an IP Portfolio

- Defensive patenting is still, by far, the *status quo*
- But, many of the “Patent Trolls” make no products nor offer services

2. Build an IP Portfolio to Protect Advantages

- The few clients “who get it” will start to make the “*cost center to profit center*” transition, and be interested in pursuing strategic patents that have offensive value

3. ROI: Leveraging IP to Positively Impact Deals and Generate Revenue

(i.e., + Wealth) and Deter 3rd-Party Challenges (i.e., - Worry)

Industry Perspective: The ROI Claim Game

Try #1



A method for making a telephone call, comprising the steps of:

- (1) picking up the receiver of a first telephone;
- (2) dialing a number on said first telephone;
- (3) transmitting a signal to a second telephone, said second telephone being identified by said number;
- (4) causing said second telephone to ring;
- (5) picking up the receiver of said second telephone; and
- (6) talking.

Industry Perspective: The ROI Claim Game

Try #2

A method for facilitating a telephone call between a first user and a second user, comprising the steps of:

- (1) **causing** a dial tone to be heard through the receiver of a first telephone used by the first user;
- (2) **receiving** an input from said first telephone, said input indicative of a number for a second telephone;
- (3) **transmitting** a signal to said second telephone causing said second telephone to ring; and
- (4) **facilitating** communications between the second user on said second telephone and the first user on said first telephone.

Industry Perspective: Final Thoughts

Thus, When Drafting “Business Method” Patent Applications:

- **Who is the “Deep Pocket” Infringer?**
- **Think of the Doctrine of Patent Exhaustion
(*i.e.*, Claim Perspective)**
- **What is the *In re Beauregard* Claim for the Business Method (e.g.,
Financial Services Firm) world!?**

