



## The Rise and Fall of Business Method Patents

By Courtland Merrill

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**A** reversal of fortune has occurred concerning business method patents. Historically, patents were awarded in connection with tangible things, not ways of doing business or marketing concepts. Until the second half of the 20th century, it does not appear that anyone seriously believed that one could patent a method of organizing human activity. Things changed.

In the 1990s, the United States Court of Appeals for the Federal Circuit – the federal appellate court with exclusive jurisdiction over patent cases – upheld the validity of a patent on software involving methods of conducting business. Thereafter, the patent office allowed patents on thousands of inventions covering methods of doing business, in particular inventions relating to computer software and methods of conducting business over the Internet.

The rise of business method patents continued until reined in by a series of U.S. Supreme Court decisions beginning in 2010, and including the court's 2014 decision in *Alice Corp. v. CLS Banks*. 134 S.Ct. 2347 (2014). In *Alice*, the court struck down a patent covering a method of exchanging financial obligations between two parties using a third-party intermediary to mitigate settlement risk. The Supreme Court's decision in *Alice* is the latest in an about-face concerning the patentability of methods of doing business that is occurring, ironically, at a time when software and doing business via the Internet dominate modern commerce.

### The Era of Business Method Patents

From 1790, when Congress passed the first patent act, until revised in 1952, courts consistently rejected patents on methods of doing business. *Bilski v. Kappos*, 561 U.S. 593, 637 (2008) (Stevens, J., concurring). Then, in 1981 the Supreme Court declared “anything under the sun that is made by man” was patentable. *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1981). Re-

sistance to business method patents, however, continued. A judicially created business method exception persisted.

In 1998, in *State Street Bank & Trust Co. v. Signature Financial Group, Inc.* the Federal Circuit upheld the validity of a patent on software involving mutual funds' pooled assets in an investment portfolio with a hub and spoke structure. 149 F.3d 1368, 1375 (Fed Cir. 1998). In its reasoning, the Federal Circuit reviewed its past test for patentability and struck down the so-called business method exception. The court established that business methods were patentable, like any other patentable process, as long as they yielded a “useful, concrete, tangible result,” and met the other requirements of patentability, namely novelty, nonobviousness and enablement.

By 2006, over 40,000 applications in the examination classification associated with business methods had been filed since *State Street Bank* had been decided, and over 15,000 such patents had issued. In *re Bilski*, 545 F.3d 943, 992 (Fed. Cir. 2008) (Newman, J., dissenting). The PTO famously issued Amazon.com a patent for its “one click shopping.” U.S. Patent No. 5,960,411. Priceline.com obtained a patent on a method for auctioning airline tickets without revealing the identity of the air carrier or time of departure until after the auction is completed. U.S. Patent No. 5,897,620.

### Storm Clouds on the Horizon: *Bilski v. Kappos*

Not everyone was pleased with the rise of business method patents. Congress quickly passed the First Inventor Defense Act in 1999, which provides a limited defense to claims of patent infringement regarding certain “method[s] of doing or conducting business.” 35 U.S.C. § 273. Some members of Federal Circuit described the grant of business method patents following the *State Street Bank* decision as “rang[ing] from somewhat ridiculous to the truly absurd.” *Bilski*, 561 U.S. at 659-660 (Breyer, J., concurring). Examples include a method of training janitors to dust and vacuum using video displays, a system for toilet reservations and a method of using color-coded bracelets to designate dating status in order to limit the embarrassment of rejection.

The Supreme Court took notice. In 2010, for the first time in three decades, the Supreme Court addressed the eligibility of business methods in *Bilski v. Kappos*. Petitioner Bernard Bilski sought to patent the concept of hedging risk and the application of that concept to energy markets. Examining the plain text of § 101 of the

Patent Act, the majority of the court found no *per se* prohibition of business methods as patentable processes. The court nonetheless noted long-standing precedent that abstract ideas, laws of nature and mathematical formulas are not patentable subject matter. Rather than adopting categorical rules with wide-ranging and unforeseen impacts, the court resolved the case narrowly by concluding Mr. Bilski's hedging invention was ineligible for patent protection because it claimed nothing more than an abstract idea. *Id.* at 609. In a concurring opinion, four justices – Justices Stevens, Ginsburg, Breyer and Sotomayor – indicated that they would have abolished business method patents altogether.

*“Not everyone was pleased with the rise of business method patents.”*

#### **The Current State of Affairs: *Alice Corp. v. CLS Banks***

In June 2014, the Supreme Court once again addressed patent eligibility of a computer-implemented, method of facilitating financial transactions. The court set out a two-part test for distinguishing ineligible laws of nature, natural phenomena and abstract ideas from patent eligible subject under § 101. *Alice*, 134 S.Ct. at 2355 (citing *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 132 S.Ct. 1289, 1296-97 (2012)). First, a court must determine whether claims concern one of the ineligible concepts. Second, if the claims do concern an ineligible concept, then a court must determine whether the elements of the claims transform the invention into something patent eligible – i.e., whether the patent in practice amounts to something more than a patent on the ineligible concept. The court in *Alice* concluded the claimed invention was nothing more than an abstract idea ineligible for patent protection because the claims were drawn to an abstract idea of intermediate settlement – i.e., use of a third party to mitigate settlement risk. Implementing those claims on a computer was not enough to transform that idea to a patentable invention. In a concurring opinion, three justices – Justices Sotomayor, Breyer and Ginsburg – as in *Bilski* would have abolished all business method patents.

*Alice* did not end business method patents, but inventions that do no more than take pre-existing general business processes and apply a computer have been dismissed on the pleadings in the wake of the Supreme Court's decision. See, e.g., *Open Text S.A. v. Alfresco Software Ltd.*, No. 13-cv-04843-JD, 2014 WL 4684429 at \*4-5 (N.D. Cal. Sept. 19, 2014). Complex software and/or hardware solutions that analyze or somehow manipulate a tangible system remain patent eligible; in particular, inventions that address problems unique to the Internet have been found patent eligible post-*Alice*. *DDR Holdings v. Hotels.com*, 773 F.3d 1245, 1259 (Fed. Cir. 2014).

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