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Patent Litigation Weekly: Surveying the Patent Landscape, Post-*Bilski*

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It's not a stretch to say that many members of the patent bar were relieved when the U.S. Supreme Court finally issued its decision in *Bilski v. Kappos* this week. Considering that plenty of those lawyers—and the clients they represent—feared an opinion that would severely restrict what kind of technology is worthy of patent protection. As it turns out, those fears were misplaced.

Almost as soon as the decision came down Monday, The Prior Art's inbox was filling up with e-mails from lawyers and law firm publicists offering expert commentary on what it all meant. (By the end, the number of pitches had hit nearly 40). One e-mail, from Goodwin Procter's Stephen Schreiner, contained a statement that typified the joyous tone of the patent bar's broader reaction. Schreiner said the Court had "launched the United States Patent System into the Information Age with the *Bilski v. Kappos* decision today. . . . Rejecting the chorus from some demanding the Patent System be limited to Industrial Age technology, the Court answered with a flat 'no,' finding patents are available for software, business methods, medical diagnostic techniques, and other products of the Information Age."

But while Justice Anthony Kennedy's controlling opinion may not do much to change the status quo when it comes to the patent system, the more interesting *Bilski* story is one of an important "almost"—an "almost" that by all indications was hard-fought.

Indeed, for some folks—including those who hoped the Court would use the case to limit what they see as a plague of spurious patent litigation—this has to be a particularly painful "almost."

While the justices were united in denying a patent to the Rand Warsaw and Bernard Bilski's invention, they split 5-4 on the most important issue: whether it is ever appropriate to grant patents to a method of doing business. In a concurring opinion that read a lot like a dissent, outgoing Justice John Paul Stevens led a four-justice minority in arguing that such patents are never appropriate because they have no basis in law or in history. And the nature of Stevens's concurrence, which contained voluminous historical background, suggests that it probably began as a majority opinion, only to end up as a minority view when the justices' votes shifted.

In the end, Kennedy wound up writing the majority opinion—although Justice Antonin Scalia opted not to join in a few sections that seemed particularly effusive about the importance of patents in the Information Age. And on the whole, Kennedy's opinion offers sense of how the debate must have played out.

"Times change," Kennedy wrote. "Technology and other innovations progress in unexpected ways."

Now, on to some of those who weren't cheering the outcome.

One of the *Bilski* filings that directly asked the justices to consider eliminating business method patents was an amicus brief signed on to by several retailers that conduct a significant amount of business online, including L.L. Bean, Newegg, Talbots, and Overstock.com. As with several other briefs, the one filed by the online retailers foresaw the critical point on which the Court's debate would turn. Asking the justices to ban "business methods" as an area inappropriate for patenting, the brief's author, Peter Brann of the Maine law firm Brann & Isaacson, focused on how such patents are affecting the marketplace.

"Business method patents amount to a tax on Internet commerce, transferring hundreds of millions of dollars from Internet retailers, the bright spot in a dim economy, to 'non-practicing entities' also known as 'patent trolls,'" Brann wrote.

In an interview this week, Brann acknowledged that there was a difference in views on patents between "people who make stuff and the people who sell stuff." While manufacturers and researchers want strong patent protection, the easy allowance of patents relating to e-commerce has been a real plague, he says, citing estimates that more than 10,000

patents exist that may affect online commerce. "For people who sell on the Internet, having all these patents out there means you're vulnerable on all sorts of flimsy claims."

Rather than focusing on theory, Brann wrote about the impact such patents have on his clients on a daily basis. He further noted that simply focusing on other areas of patent law—those covering non-obviousness and novelty, for instance—just won't solve the patent-related problems with which online retailers must contend.

"Although they may operate their web sites in the virtual world of the Internet," Brann wrote, "online retailers operate their businesses in the very real world of the twenty-first century economy. It is the often grimy reality of contemporary patent litigation that the Internet Retailers find missing from the debate over the patentability of business methods. Petitioners argue at a high level of abstraction that 'any concerns over potentially vague or trivial patents for business methods should be addressed by other requirements of patentability, such as novelty, nonobviousness, and definite claiming' In fact, the Internet Retailers know—and have paid dearly for that knowledge—that these doctrines were not designed for, and are not up to, the task of weeding out unpatentable business method claims on the Internet. These patents should be nipped in the bud because they are not the proper subject matter of a patent grant, and not just uprooted after they have been allowed to flourish."

The reason that such bad patents need to be categorically dismissed, rather than picked off one at a time, argues Brann, is a simple fact that is often overlooked in patent debates among lawyers—it's incredibly expensive to "disprove" the value of even the silliest patent. Brann notes that for patent battles in which more than \$1 million is at stake (the lion's share of such litigation), the average cost to challenge a patent at trial is \$2.5 million. That figure jumps to about \$5 million in higher-stakes cases.

In his brief, Brann cited estimates from the "Patent Failure" study published by that roughly 11,000 patents cover various aspects of the Internet, and says that "many, if not most" of those patents are business method patents. "Literally thousands of people can claim partial invention of the Internet, and thus, can potentially file suit to claim a share of the \$178 billion in annual Internet sales," he wrote.

Had Stevens prevailed, Brann's clients might have felt some real relief. But now? "I don't think that [the decision] is particularly helpful to Internet retailers or other people that are concerned about this issue," says Brann. "You don't have a clear test."

"It's a very unfortunate situation where you have these enormous transfers of wealth from companies that are really driving a lot of the economy," he says. "This becomes a cost of doing business, that we just have to pay patent trolls along the way, who are not contributing anything to the economy."

That this problem is bubbling just beneath the surface of *Bilski* recalls *eBay v. MercExchange*, perhaps the most important patent decision of the last 50 years. Both cases bump up against the business often derided as "patent trolling"—that is, patent lawsuits disconnected from the world of market forces and products. The clear discomfort both liberals and conservatives on the Court feel when it comes to this practice gave hope to those who wanted to see more limits on patents.

In his minority opinion, Stevens mentioned the growing business of patent trolling, noting that the "potential vagueness" of business method patents invites a "particularly pernicious use of patents that we have long criticized... patent laws are not intended to create a class of 'speculative schemers' who make it their business to watch the advancing wave of improvement, and gather its foam in the form of patented monopolies, which enable them to lay a heavy tax upon the industry of the country, without contributing anything to the real advancement of the arts."

Brann wasn't the only lawyer seeking such a ban. In fact, several of the [68 amicus briefs filed in the case](#) asked for just the change that Stevens and the three justices who joined his concurrence were hoping for—a finding that patents on "business methods" were outside the scope of patent law and had no basis in the Constitution or in history. It's not surprising that those briefs tended to be filed by companies that, like Brann's clients, saw themselves facing those business method patents as defendants in court.

While not specifically demanding a subject-matter ban, the brief filed by Google and several large financial companies, for example, spent several pages discussing how such patents create a "drag on innovation." [\[PDF\]](#)

A brief filed by Bloomberg LP—surely the kind of quintessential "Information Age" business that the patent system is meant to help—argued that business method patents should be barred under the "machine-or-transformation" test created by the U.S. Court of Appeals for the Federal Circuit in its *Bilski* decision. [\[PDF\]](#)

The insurance industry also argued that insurance methods have no place in the patent system, and have historically not been eligible for patenting. [\[PDF\]](#)

And what about those who sought an even more far-reaching change—the abolition of all software patents (of which it is estimated there are now more than 200,000)? The *Bilski* decision makes that dream look like one that may never come true. Some of the anti-software-patent activist groups are likely to refocus on educating Congress and the wider public about their cause rather than hoping for near-term court action.

"I'm not optimistic about it," says Peter Brown, director of the Free Software Foundation. "At the end of the day, if this decision allows more abstract ideas to be patented, there's going to be a hell of a lot more litigation." Such pressure could ultimately lead the business community to push for more limits on patents. "Maybe the financial services industry will say, 'Clearly, we're not getting anywhere with the courts,'" Brown adds.

And if Stevens had won?

"It would have been a big step forward," says Brown. "It would have shown that these types of abstract idea patents do harm—that's what he [Stevens] was really pointing to in his opinion, the harm that can be done. It's a similar situation with software patents."

For Brown and those like him who argued that some kind of subject-matter limit be placed on patents, it's hard to see *Bilski* as anything other than a dark day. That's especially true given that Stevens—considered by some to be the Court's most patent-skeptical member—is retiring. While likely incoming justice Elena Kagan's views on patents remain mostly a mystery, it seems unlikely that she, or anyone else on the court, will pick up Stevens's mantle in trying to rein in the power of patents.