

LITIGATORS CORNER:

The Truth About the Business Method Patent Improvement Act of 2000



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Hallelujah! Congress is contemplating passage of H.R. 5364, the Business Method Patent Improvement Act of 2000, or BMPIA, which should be called "The Patent Litigators' Relief Act of 2000." While H.R. 5364 claims to "provide for improvements in the quality of patents on certain inventions," in reality, if passed into law, it will accomplish just the opposite. Its intent is to simplify, but it will complicate. Its intent is to eliminate bogus patents, but it will accomplish no such thing. Its intent is to reduce and avoid disputes over so-called "business method patents," but it will only increase the number, complexity and length of disputes. The truth is, no patent owner or accused infringer should be happy about this legislation. Only those trial lawyers who want litigation to be even more complex so they can spend more hours on it will have reason to rejoice, since H.R. 5364 will give them

more work to do – just like the tax lawyers and accountants who benefit from the public and legislative thirst for certainty and the elimination of loop-holes in our tax laws.

As I pointed out in my column of May, 2000, "The Sky is Falling: Or, Over-Reaction to the Anecdote," the patent system has recently drawn the attention of the media and others who have traditionally taken little notice of it. These critics feel that the patent system (to quote from my previous article) "is having an adverse impact upon 'e-commerce,' because it issues too many 'software patents,' which cover ideas and stifle thought." The "cure," according to the critics cited in that article, would be to modify the patent laws. However, as I pointed out in that article, this solution would only be adding an unnecessary burden to an already overburdened Patent Office.

A similar situation is occurring with the Business Method Patent Improvement Act of 2000. It is an excessive and erroneous reaction to a problem best dealt with in other ways. The Act is overkill, rather like using a sledge hammer to open a walnut. If the sledge hammer is used, the walnut will open. But, both the walnut shell and its tasty contents will be pulverized beyond use, and the only way any walnut fancier will get a bite will be to stand, open-mouthed, in the path of a flying fragment. Even then, you'll get the shell, too.

The BMPIA ignores history, and so misperceives the problem. The truth is, we have always had patents that should not have issued. Just a few choice examples: "Religious Soap" (US 3936384), "Device for Weighing Individuals on a Toilet Seat" (US 4697656), "Diaper for Incontinent Dogs" (US 5234421), and "Combination Condom Warming and Radio Apparatus" (US 5310084). As you can see, Patent Office errors are not limited to business methods using computers, which are the only subject of this Act.

The premise of the BMPIA is wrong. It misconstrues the problem, and therefore designs a worthless remedy. A lot of this activity seems to have started with publicity surrounding the Federal Circuit's deci-

sion in *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998). That decision, which probably hasn't even been read by some of the folks now commenting on it, was not radical. The court reversed a grant of summary judgment because a district court confused an apparatus with a method, and then decided that the invention it misperceived could not be patented because it would foreclose any computer-implemented accounting method.

The Federal Circuit didn't even find the *State Street* invention patentable. It only said that the invention was directed to statutory subject matter and could not be rejected as a method of doing business. The court even pointed out that the seminal "business method" decision 90 years before by the Second Circuit relied on other grounds for its decision. The Federal Circuit's decision reiterates an existing proposition of law: that an algorithm that produces a useful result is not excluded from patent protection. The BMPIA is fueled by the controversy precipitated by the misreading of *State Street*.

Samuel Morse patented a machine that sent useful intelligence of all kinds – stock quotes, news, weather, and probably dirty jokes in slack moments. Yet Morse's telegraph was no less and no more a "machine" than any computer. He was making the transmission of information speedier. Similarly, the Hollerith patents founded IBM, and were intended to speed up the census count.

One might argue that Morse's telegraph itself was being patented, and that the patent in *State Street* was not on the computer, as such, but instead on something else: a business method. But both the telegraph and the programmed computer are apparatuses that serve useful ends in business. From Morse to Hollerith to today, such inventions can and should be judged by traditional standards of patentability. That is how our law develops best: incrementally, with courts addressing real facts, and making decisions only about the live controversy before them. Legislation is an appropriate guide for those decisions, but shouldn't become so detailed that it has more subparagraphs than a zoning ordinance.

Since the BMPIA is a response to a misperception, it therefore cannot possibly solve the problem. The first flaw in the

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BMPIA is its lack of definition. It defines “business method” in a way that can only spur argument and delay: “administering, managing, or otherwise operating an enterprise or organization, including a technique used in doing or conducting business.” Notice the definition is circular: a “business method” is a technique for conducting “business.” Its other definitions of a business method are no more clear: “processing financial data,” and “any technique used in athletics, instruction, or personal skills.” What the heck is a personal skill? The Act’s definitions are meaningless. My grade school teachers would have given me an “F” for defining a word by repeating the same word in the definition.

The troubles don’t stop there. The BMPIA would impose new duties on our

Patent Office, which most knowledgeable commentators describe with adjectives usually only applied to rusty twenty-five year old cars, leaky plumbing, and the recently-deceased Mir space station. The PTO is busted! But the BMPIA doesn’t address this critical point. Like most proposed legislation, the Act does not provide the money needed to implement it. § 321 of

the BMPIA would require the PTO to make a “business method” determination in 12 months. § 322 says the PTO must implement an opposition procedure. I have one reexamination, which, by statute, is supposed to be conducted with special dispatch. I routinely responded to office actions setting thirty-day deadlines. But for its own work, the PTO ignored the requirement of special dispatch, and routinely took six to nine months to issue an action. There is no special dispatch, only a growth of cynicism about the PTO.

The BMPIA tinkers with the presumption of validity, reducing the burden of proof to a preponderance of the evidence. It does so, not only in proceedings in the PTO, but also in civil actions brought in federal district courts under 28 U.S.C. § 1338. Why should we do this, and only with respect to “business method” patents that employ computers? It is the entire body of issued patents where the presumption of validity may have gotten shaky because the body charged with carrying out a statutory duty and having special expertise has come under attack.

The standard of non-obviousness is changed, too. § 103 would, if amended as the BMPIA proposes, require a presumption of obviousness if a computer is used with respect to a business method shown in the prior art. That problem has been dealt with; one needn’t alter a statute to cite the Second Circuit’s decision that bookkeeping methods are old, or to say that computers are known. The law is already there to prevent meritless patents from issuing and from being enforced. We don’t need new tools to do the job; we do need the fuel. The fuel isn’t more taxes; it is the fees that the PTO collected, but cannot use because they have been diverted.

Ironically, this new standard of non-obviousness would not cover the patent at issue in *State Street*. The invention there used a computer to calculate assets, and therefore share prices, with great speed, on a daily basis, so that prospective buyers could figure out what they would have to pay and sellers would know what they would receive. That “business method” would have been impossible without the use of a computer. There would be no way to gather the information and make the

daily calculations fast enough in these days of Internet stock trading. § 103, as revised, would not apply because the “business method” would not exist in the prior art.

I would feel more comfortable with the criticism of *State Street*, if I thought that many of the commentators criticizing the decision had read it — or the patent. I do know that it has one independent claim and five dependent claims. The one independent claim is for a system that includes a requirement for “daily” calculations, hence the speed that cannot be achieved without a computer. I would certainly like to see the prior business method that was doing this.

Of course, the State Street patent might not survive on remand. If so, the critics will have been wrong, because the system they say should not allow this patent to survive will not have allowed it to survive. In other words, we have little patience these days; we seem unwilling to let the contest end, and we rush to judgment about who should have won. There was a media riot when the lady in New Mexico got millions for spilling McDonald’s coffee on herself, but virtually no attention when the jury verdict was drastically reduced.

In a final shot at traditional patent law, the BMPIA requires that the applicant state the extent of his or her search for prior art. Any failure to comply is supposed to carry penalties. Now we can fight over what constitutes a search, and whether the applicant committed inequitable conduct in failing to properly describe his or her search. Is it a search if an inventor reads a magazine in the doctor’s office and get an idea for a new catheter from a description of some prior art catheter? If the inventor decides it is not, does he tell the PTO nothing? If he does disclose it, will the inventor get grilled about yet another topic in his

deposition? And why should a search requirement apply to business method

patents, but not to patents for religious soap or parakeet diapers or using a baby’s bottom to paint a picture?

We’ve lost focus. When I was about ten years old, my pals and I were playing baseball one summer afternoon in front of the Kellys’ house on Lowe Avenue in our Chicago neighborhood. Instead of the usual sixteen-inch softball unique to Chicago, we were playing with a rock-hard little league ball. Someone threw a fly ball to me, and I maneuvered to catch it, putting my gloved hand up in the air. I goofed. The ball clob-

bered me square in the middle of my forehead. I had taken my eye off the ball.

We, too, are taking our eye off the ball. At the same time that the House contemplates this legislation, an earlier bill to remedy the PTO’s monetary problems is still awaiting enactment. H.R. 4034 still is pending, and has not been passed. A car goes nowhere without gasoline, and the PTO’s gas tank is being siphoned. No legislation requiring the PTO to do anything new can possibly succeed without the tools to do the job. We will be far better off if we improve our Patent Office, and allow our courts to develop the law.

We must stop expecting our legislature to be a statute factory. We do ourselves no real service when we pass ill-conceived laws that have no chance of being enforced. All we are accomplishing is giving the litigators more issues to fight about. **IPT**