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Recent ruling calls certain business patents into question

BY WILLIAM-ARTHUR HAYNES

At a time when the patent market is heating up, a federal appeals court has changed the rules on a certain class of patent — which could cause trouble for Silicon Valley businesses.

U.S. law has long allowed people to patent certain types of business methods that have no connection to a machine or device.

But in October, the U.S. Court of Appeals for the Federal Circuit invalidated the common test applied to business methods in favor of another test with narrower parameters.

Some lawyers are now projecting that the court's decision could have wide-ranging effects on the validity and value of hundreds, maybe thousands, of business-method patents. In fact, a dissenting judge in the October decision predicted as much.

Bill Galliani of Cooley Godward Kronish LLP said the decision should signal patent holders and purchasers to take care. Before, a broad description of a business method might have received a patent, but this decision changes that approach.

Take Bernard Bilski, chief executive of WeatherWise USA Inc., whose case triggered the change in law. Bilski tried to patent a way of doing business — a method — to hedge risk against the change of a commodity's wholesale price. The Federal Circuit in an October 2008 ruling stated that this was not patentable because it was not tied to a particular machine or apparatus, or it did not transform a particular "article" into a different state or thing.

The previous test for such a business method required only that it produce a "useful, concrete and tangible result."

Bilski's method did not measure up to the court's new reasoning.

"That's going to hurt patent holders," said Galliani, who is Cooley Godward's supervising patent counseling and prosecution partner for electronic and software technologies and co-chair of the firm's patent counseling and prosecution group.

The decision also opens the door for arguments that some patents companies are paying royalties on are invalid.

"It's another tool for patent defenders to use. No doubt about it," Galliani said. "And it might be a basis for licensees to file a re-examination request" with the U.S. Patent and Trademark Office.

Amazon.com Inc.'s one-click checkout is the poster child for business-method patents. The Seattle e-commerce giant patented the process that allows repeat customers to make purchases with one click of the mouse without having to enter personal and billing information each time they make a buy.

Amazon asserted its patent against rival bookseller Barnes & Noble Inc., securing preliminary injunction in federal court.

Andrew Piatnicia, a patent litigator in Howrey LLP's East Palo Alto office, said the court took the opportunity to outline the principle that practitioners in this field need to follow to determine whether a claim is covering patentable subject matter.

Ron Epstein, chief executive of San Mateo-based patent broker IPotential LLP, said he agrees with the ruling and sees the Bilski decision as positive.

He said the decision will cause members of the patent bar to gnash their teeth and



Bill Galliani

improve ways of drafting patent claims to withstand a Bilski challenge.

"And that's a good thing," said Epstein, a former patent lawyer at Wilson, Sonsini, Goodrich & Rosati PC, Brocade Communication Systems Inc. and Intel Corp.

Piatnicia agreed, saying that while some patents will certainly face issues, patent practitioners are a "fairly savvy" lot.

"They're going to continue drafting claims to make sure they're within this evolving area of law," he said. "You still want to be claiming claims in a variety of ways, and that's going to safeguard the value of your patents."

Epstein said he doesn't expect any sweeping effects on patent portfolios.

He said the recent past has proven that high-quality patent portfolios have gone up in value and low-quality portfolios have declined. IPotential alone has brokered the sale of more than 130 patent portfolios valued at more than \$250 million in five years. IPotential has 14 portfolios on the market today.

The Bilski issues could potentially affect a small fraction of those portfolios, but "by far the majority of patents that are being transacted are not affected," he said. "Obviously there will be a continuing focus on the quality of patent portfolios."



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