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Panel I: The Business Method Patent and the Patent Reform Act of 2007: Can the Law Keep Pace with Technology?

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Panel I: Patent Reform: Can the Law Keep Pace with Technology?

Moderator: John Richards^{*}
Panelists: Jeanne Fromer[†]
Walter Hanchuk[‡]
Scott D. Locke[§]

MS. WATERS: Good morning, everyone. Welcome to the 2007 *Fordham Intellectual Property, Media & Entertainment Law Journal's* Symposium. My name is Tara Waters. I am privileged to serve this year as Editor-in-Chief of the eighteenth volume of the *Journal*. It is also my pleasure to open today's event. I thank everyone for coming.

Before we get started, I wanted to recognize some of the people who have made this event possible. First and foremost is Ryan Hopkins, whom I think most of you have met already this morning, our *Journal* Symposium Editor.

Ryan was fortunate to have the assistance of Darin Neely, Helen Herman, and the Office of Public Programming and Continuing Legal Education in the planning and execution of today's event. They have been really fantastic with helping us put everything together today.

Of course, the *Journal* cannot do without our distinguished intellectual property faculty, particularly Professors Hansen, Katyal, and Richards, who are graciously leading our panels today.

A PDF version of this article is available online at <http://law.fordham.edu/publications/article.ihtml?pubID=200&id=2813>. Visit <http://www.iplj.net> for access to the complete Journal archive.

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Today's Symposium is also attended by the *IPLJ* editorial board and staff members. The *IPLJ* team produces four books of scholarship each year. We have our 2007–2008 lineup posted outside in the Atrium at the table. I encourage everyone to take a look at the articles that are coming out this year and sign up for a subscription if you haven't done so already. This year we have some really fantastic contributors, including Mark Lemley, Dan Burk, and Michael Madison, and we're really excited about the upcoming year.

Today's transcripts are going to be published in our final book, which is due out this summer. We also have copies of last year's Symposium edition outside, which you may help yourself to.

I strongly encourage you to reach out to and meet all of the *Journal* members who are here today. You are also welcome to come downstairs to our office, which is on the garden level, just around the corner from the elevators.

We are extremely proud of our publication. I hope you will consider us when you are looking to publish your next article.

Finally, I would like to recognize the *Journal's* Faculty Moderator, Professor Joel Reidenberg. Professor Reidenberg is the President of Fordham University's Faculty Senate and also the Founding Director of the Center on Law and Information Policy. In addition to being a leading scholar in information and privacy law, he is an invaluable asset to the *Journal*. We have asked him to help us open today's event with a few remarks.

Professor Reidenberg.

PROF. REIDENBERG: Thank you very much, Tara.

Let me just start by saying, on behalf of the Law School and Dean Bill Treanor, who unfortunately could not be here this morning, welcome. It is really a privilege for us to have such an extraordinary day planned.

As I think many of you know, the Law School, under Dean Treanor's leadership, has placed an important emphasis on intellectual property as an area of growth for the School. So it is particularly fitting that we have such a great day scheduled.

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I certainly, as the Faculty Advisor for the *IPLJ*, am very proud of the accomplishments and the things that the *Journal* has done over the years. It is great to see a number of our alumni back in the room here. I hope you enjoy seeing the fruits of your labors from years past.

Let me highlight really the superb panels that we have throughout the day today. As you see in the program, our patent panel is addressing whether continued developments in patent law, like business method patents and the Patent Reform Act of 2007, will be able to keep pace with developing technologies, or whether it is time that we begin to look in another direction. It's terrific, with so much in flux right now, for you to hear from such leading experts in the field.

The second panel, looking at copyright, will be addressing business models and recent rulings that will have an enormous impact on the survival of copyright in the future.

Then, naturally, we will have a trademark panel in the afternoon that will be looking at trademark and free speech on the Internet, in the context particularly of some recent cases and developments.

Before I turn it back over to Tara, I would just like to add to the thanks. Quite a few people are involved in putting together this type of symposium. Tara has recognized her colleagues on the *IPLJ*, Symposium Editor Ryan Hopkins, but also my colleagues on the faculty. As I said, we are very excited. We are looking, as many of you know, to expand our IP faculty. Jeanne Fromer, who is at the end of the table, joined us this year, which we're absolutely delighted about. Brett Frischmann, who is here in the audience, is visiting with us this year. So it is really a very dynamic period at Fordham.

We all are thrilled with the success of the *Journal*. I'll put a commercial in. As you know, the *Journal* is really the leading student-run intellectual property journal in the world, so I hope you will all think about sending us articles.

Without any further ado, I'll turn it back over to Tara. Thank you.

MS. WATERS: Thank you, Professor Reidenberg.

Our Symposium is titled “Where Do We Go from Here?” Today we will be contemplating the ways in which the law, technology, and business are intersecting, creating both new paths and establishing new roadblocks. I think you can expect some interesting discussion, and I encourage everybody to attend all three sessions.

Our first panel deals with patent law. It has been an exciting year, with Congress and the U.S. Supreme Court taking a particular interest in patent issues.

I’m pleased to introduce our Moderator for the patent panel, John Richards, who is a Partner at Ladas & Parry and an Adjunct Professor here at Fordham. Mr. Richards writes and lectures on both domestic and intellectual property issues. He is the General Editor of *Legal Aspects of Introducing Products to the United States* [Kluwer 1988] and co-author of *Intellectual Property and the Internal Market of the European Community* [with Claire Miskin, Graham & Trotman, 1993].

Please join me in welcoming Professor John Richards.

PROF. RICHARDS: Thank you, Tara. Thank you, Joel.

Our remit this morning is “The Business Method Patent and the Patent Reform Act of 2007.” I’m not sure that we are going to say too much about the Patent Reform Act of 2007,¹ because I think it is totally unpredictable what the Patent Reform Act of 2007 is going to do. But the question which they put in that context is: Has the business method patent become an important asset or an uncontrollable menace in the decade since *State Street*?²

We have differing views from our panelists. But just to put the thing in context a little bit, for years one did not expect to be able to get patent protection for business methods. We had a body of law, which people just didn’t think that way—trade secret;³ maybe

¹ Patent Reform Act of 2007, H.R. 1908, 110th Cong. § 10 (2007).

² *State St. Bank & Trust Co. v. Signature Fin. Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998).

³ See, e.g., *Unisource Worldwide, Inc. v. Valenti*, 196 F. Supp. 2d 269, 278 (E.D.N.Y. 2002).

copyright, if it was a computer program.⁴ Then, as patentability of computer programs started to become accepted, we also moved into accepting that maybe business methods were patentable as well.⁵

Going back to 1972 in *Gottschalk v. Benson*,⁶ which is a case which sort of fell out of favor for a long time but is now being cited in every recent decision, we had Justice Douglas, not a fan of the patent system, saying that “phenomena of nature, though just discovered, mental processes, and abstract intellectual concepts are not patentable,” and he based that on some nineteenth-century case law.⁷

Notwithstanding that, patents on business methods were being granted. There is the *Merrill Lynch* cash management case,⁸ which actually was litigated. Then we worked through to the late 1990s, and Judge Rich, in *In re Alappat*, laid out the “useful, concrete, and tangible result” test⁹ as to whether one was entitled to patent protection; and if it met that, then there was patentability.

This led on to *State Street*,¹⁰ another Judge Rich decision, which was regarded as being the seminal case for business methods. In that case, Judge Rich specifically said that there had been no prior prohibition on the grant of business methods, even though the *Manual of Patent Examining Procedure* up until that point indicated that probably there was.¹¹ Judge Rich in that decision looked at some of the earlier case law and said: No, these weren’t being rejected on the ground of being business methods, but rather on other grounds of patentability.¹²

⁴ See, e.g., *Apple Computer, Inc. v. Franklin Computer Corp.*, 714 F.2d 1240 (3d Cir. 1983).

⁵ *State Street*, 149 F.3d at 1375.

⁶ 409 U.S. 63 (1972).

⁷ *Id.* at 67.

⁸ *Paine, Webber, Jackson & Curtis, Inc. v. Merrill Lynch, Pierce, Fenner & Smith, Inc.*, 564 F. Supp. 1358 (D. Del. 1983).

⁹ *In re Alappat*, 33 F.3d 1526, 1544 (Fed. Cir. 1994) (en banc).

¹⁰ *State Street*, 149 F.3d 1368.

¹¹ *Id.* at 1376–77.

¹² *Id.* at 1376.

Unfortunately, at the time that those decisions came down, which was prior to the 1952 Act,¹³ the concept of what was an “invention” sort of subsumed some of these novelty/obviousness-type issues that Judge Rich articulated in *State Street*. So the change in the statute of 1952 maybe has an impact on the understanding of the earlier case law.

Since then, Congress has stepped into the act and basically provided a defense, the prior inventor defense,¹⁴ where one has a business method patent, to say that if there had been prior use more than a year before the filing, then one could continue to use, therefore basically ratifying the idea that we have legitimate bases for business method patents.

Nevertheless, in recent times, the idea that maybe business method patents are unconstitutional has crept in, and people have started asking, “What does ‘promotion of the useful arts,’¹⁵ as set out in the Constitution, really mean? In fact, when the Constitution was written, did the ‘useful arts’ really just mean technical arts?” We’ve got at least one Board of Appeals decision of the Patent Office which adopted that.¹⁶ That was reversed in *Ex Parte Lundgren*,¹⁷ which took the contrary view, but there is a long dissent in *Lundgren* which sort of harks back to the idea that “technological” is something which is necessary for something to be patentable or to be an invention.

And then, most recently, we have a Federal Circuit decision in *Comiskey*¹⁸ in September, which harks back again to *Benson*¹⁹ and starts talking about mental processes and whether mental processes can be patentable.

That is sort of the background. Obviously, there has been a lot of noise in the press about whether these things are good or bad.

¹³ Patent Act of 1952, 35 U.S.C. § 101 (1952).

¹⁴ See First Inventor Defense Act of 1999, Title IV, Subtitle C, Intellectual Property and Communications Omnibus Reform Act of 1999, Pub. L. No.106-113, 113 Stat. 1501, app. I 1501A-521 (1999).

¹⁵ U.S. CONST. art. I § 8, cl. 8.

¹⁶ See, e.g., *In re Musgrave*, 431 F.2d 882, 893 (B.P.A.I. 1970).

¹⁷ 76 U.S.P.Q.2d. 1385 (B.P.A.I. 2005).

¹⁸ *In re Comiskey*, 499 F.3d 1365, 1377 (Fed. Cir. 2007).

¹⁹ 409 U.S. 63 (1972).

I don't know who wants to kick off. Maybe I should introduce the panel at this point before we do that. Down at the far end we have Jeanne Fromer, who, as Joel pointed out, has recently joined the faculty here at Fordham. She has a background in computer science before she came to the law and, therefore, is eminently suited to speak on this topic. Then we have Walter Hanchuk of Chadbourne & Parke and Scott Locke of Kalow & Springut. All have significant experience in this field, and in attempting to deal with the Patent Office's objections in this area, and have strong views on some of the topics.

Jeanne, I think you have a presentation. Basically, this is going to be a free-flowing discussion, we hope, but maybe you could kick us off with what you wanted to say.

PROF. FROMER: Sure, I would love to.

I am going to talk today about business method patents, and also about software patents. In particular, I am going to focus on how it seems that the Patent and Trademark Office ("PTO"), the courts, and commentators are looking at obviousness in this area in the wrong way. That is, the inquiry into obviousness of business method and software patents is, I think, both wrongly and too narrowly focused.

I think there has been a failure of appreciation of at least three different layers of obviousness to analyze in patent law. Under a more appropriate analysis, I suggest, we might end up with fewer obvious—that is, more truly valid—business method and software patents.

But before I can get into that story, I wanted to introduce another story line to complicate matters a bit, which, as John pointed out, has been the treatment of software and business method patents as patentable subject matter.

Recently, at the end of September, the Federal Circuit turned sharply, at least in result, off the path for patentable subject matter that it had followed for decades.²⁰ Section 101 of the Patent Act states that inventions and discoveries that are processes, machines, manufactures, or compositions of matter, and improvements

²⁰ *In re Comiskey*, 499 F.3d 1365.

thereon, are patentable subject matter.²¹ That does seem fairly broad.

In fact, the Supreme Court approvingly stated in 1980 that “anything under the sun that is made by man” is patentable.²² The breadth of the statement has led the Federal Circuit in subsequent years generally to reject claims that there are limits on patentable subject matter beyond the Supreme Court’s boundary line that harkens back to the nineteenth century, which has frequently been reaffirmed, that “the laws of Nature, physical phenomena, and abstract ideas” are not patentable.²³

What has this boundary line meant for business method and software patents? As John suggested, in 1998 the Federal Circuit in the *State Street* case approved transformations of data as patentable subject matter, so long as they produced a “useful, concrete, and tangible result,” and it indicated that business methods are not categorically outside of patentable subject matter and are subject to the patentability requirements just like any other sort of invention.²⁴ Following this decision, we started to see software and business method patents in ever-increasing numbers being applied for and granted.

But there was a swelling chorus of criticism that inventions are not patentable subject matter on the basis that they are either abstract ideas and insufficiently technological, they are typically obvious, or, in an even broader policy sense, they are detrimental to innovation as a whole.

Following up on this train of thought in 2006, three justices dissented from the Supreme Court’s dismissal of its writ of certiorari in a case involving patentable subject matter of medical diagnostic tests.²⁵ They noted that *State Street*’s test of a “useful, concrete, and tangible result” seems too broad, in fact, covering inventions the Court has held to be unpatentable.²⁶

²¹ 35 U.S.C. § 101 (2006).

²² *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980).

²³ *Id.* at 303.

²⁴ *State St. Bank & Trust Co. v. Signature Fin. Group, Inc.*, 149 F.3d 1368, 1373, 1377 (Fed. Cir. 1998).

²⁵ *Lab. Corp. of Am. Holdings, v. Metabolite Lab., Inc. et al.*, 126 S. Ct. 2921 (2006).

²⁶ *Id.* at 2928 (Breyer, J., dissenting).

Perhaps prompted by this criticism of *State Street*'s breadth, the Federal Circuit this past September reigned in patentable subject matter with regard to business method patents in *In re Comiskey*.²⁷

In *Comiskey*, the patent applicant had sought protection for a method and system of mandatory arbitration involving legal documents.²⁸ According to one representative claim, the method enrolls the legal document and its author, incorporates mandatory arbitration language in the legal document, conducts arbitration resolution following the submission of a request for arbitration, and determines a final and binding award or decision.²⁹ The PTO examiner in that case and the patent prosecution had rejected the claims as obvious.³⁰

Then it came up on appeal to the Federal Circuit.³¹ The Federal Circuit affirmed in part the PTO's rejection, holding that regardless whether the claims were obvious, many of the claims covered unpatentable subject matter.³² The Federal Circuit in reaching its conclusion relied on its interpretation of the claims to cover both automated arbitration and manual arbitration, just carried out by people without the use of computers.³³ To the court, this manual execution depends entirely on the use of mental processes, and thus the claims at issue cover an unpatentable abstract idea carried out solely by application of human intelligence.

But the Federal Circuit did not stop there. It continued on to discuss the obviousness of the claims that were left in place, the claims that were written narrowly enough to apply just to automated arbitration systems and methods.³⁴ The court saw some of those claims as "at most merely adding a modern, general-purpose computer to an otherwise unpatentable mental process"

²⁷ *In re Comiskey*, 499 F.3d 1365, 1377 (Fed. Cir. 2007).

²⁸ *Id.*

²⁹ *Id.* at 1368–69.

³⁰ *Id.* at 1368.

³¹ *Id.*

³² *Id.*

³³ *Id.* at 1379.

³⁴ *Id.* at 1380–81.

and some other claims as “merely add[ing] modern communication devices.”³⁵

The Federal Circuit then reasoned more broadly that “the routine addition of modern electronics to an otherwise unpatentable invention typically creates a prima facie case of obviousness.”³⁶ Effectively, the Federal Circuit seems to be saying that the automation of a known mental process will almost always be unpatentable due to obviousness.

I wanted to focus on what I think is the Federal Circuit’s overly simplistic and misguided statement about obviousness. The Federal Circuit gave clear instructions to the PTO to reject as obvious any automation of a mental process, unless the patent applicant does something unspecified, perhaps by demonstrating secondary considerations, such as long-felt need, to overcome this prima facie case of obviousness.³⁷ In making such a statement, I think the Federal Circuit neglected the layeredness of the obviousness inquiry.

Let me turn to obviousness. Section 103 of the Patent Act articulates the requirement of non-obviousness for patentability.³⁸ It states that a patent may not be obtained if “the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which the subject matter pertains.”³⁹

Whatever the contours of the substantive test of obviousness that the Supreme Court recently sought to clarify in the *KSR* case,⁴⁰ the object of the obviousness inquiry must be identified. The statutory language implies strongly—and unsurprisingly—that it is the invention itself that must be obvious.⁴¹

What is an “invention?” Well, in this, as in many other contexts in patent law, the invention is conception plus reduction

³⁵ *Id.* at 1380.

³⁶ *Id.*

³⁷ *Id.* at 1380 n.17.

³⁸ 35 U.S.C. § 103 (2006).

³⁹ *Id.*

⁴⁰ *KSR Int’l Co. v. Teleflex, Inc.*, 127 S. Ct. 1727, 1739–42 (2007).

⁴¹ *Id.* (discussing 35 U.S.C. § 103).

to practice. This understanding of invention suggests that in assessing the obviousness of an invention we must be concerned with both the obviousness of the conception and the obviousness of the reduction to practice. These are two quite different aspects of the invention.

The obviousness of the conception addresses how obvious it would have been to a person having ordinary skill in the art in light of the relevant prior art to have the basic idea of the invention. For example, how obvious was it to come up with the idea of one-click shopping?⁴² Well, most reasonably might think that idea is obvious. What about the idea of software, say, to recall or erase email messages that you have sent that have contained a mistake or regret?⁴³ Well, a reasonable person might find the conception as well in that case, broken down further into the steps of accomplishing that recall, to be somewhat obvious.

Now consider the obviousness of the reduction to practice, which concerns how obvious it would be for a person having ordinary skill in the art in light of the relevant prior art to embody the concept of the invention in some form. For example, how obvious was it to encode one-click shopping in software? I think, again, most reasonable people would find that it was pretty easy, pretty straightforward, to encode that in software.

But now consider the other example I brought up, the encoding in software of the recall of email messages. I suggest that this programming task seems significantly trickier and less straightforward conceptually, rather than in terms of the time it takes to encode it, than programming one-click shopping, even after you have mapped out the concept.

Thinking this through seems to suggest that there can be obviousness at both of these layers of invention, at only one layer, or at neither. I think it is, therefore, important to analyze the obviousness of conception and of reduction to practice separately.

⁴² Method and system for placing a purchase order via a communications, U.S. Patent No. 5,960,411 (filed Sept. 12, 1997).

⁴³ See, e.g., U.S. Patent Publ. No. 10/044,287 (filed Jan. 9, 2002) (describing the "recall" function of Microsoft Outlook).

Now, there is yet another layer to obviousness. I think this is what the Federal Circuit was getting at in its *Comiskey* decision. I think the Federal Circuit's statement about the obviousness of automating mental processes gets at the obviousness of the invention's function. The Federal Circuit in *Comiskey* appears to equate obviousness of business methods, and more generally other software inventions, with the obviousness of thinking up a function that humans can already do for the purpose of automating it.

To be precise, this layer, at least in the context of software, looks at the obviousness of the objective or goal of taking some set of data and acting upon it to produce some other set of data. With the two examples given previously, this layer, this obviousness of function, would concern the obviousness of the function of shopping with one-click, however conceived or carried out, and the obviousness of recalling email messages, however conceived or carried out.

Now, the Federal Circuit is probably right to suggest that it is typically obvious to have the idea of automating known mental processes, that is, obviousness of function for software and business methods.⁴⁴ But as just described, that is just the tip of the obviousness iceberg.

Take, for example, the field of computational linguistics. For decades, thousands upon thousands of computer scientists have sought to encode in software and hardware programs that can comprehend and generate a natural language, such as English.⁴⁵ Neither alone nor collectively has this enterprise come close to succeeding. It is, thus, pretty obvious that both the conception and reduction to practice of an automated English speaker and comprehender is not obvious. But under the Federal Circuit's narrow suggestion of obviousness of function in *Comiskey*, such an invention would indubitably be obvious. According to its test, because people speak and comprehend English flawlessly, automation through software of a natural language processor is

⁴⁴ *In re Comiskey*, 499 F.3d 1365, 1380 (Fed. Cir. 2007).

⁴⁵ See generally RALPH GRISHMAN, COMPUTATIONAL LINGUISTICS: AN INTRODUCTION (Cambridge Univ. Press 1994).

obvious. This result cannot be right, and it should not take analysis of secondary considerations to reach that result.

The same point is true for business methods and software more generally. We should not presume that because people can accomplish some function manually or mentally that implementing it on a computer is obvious.

In the areas of software and business methods, one is highly likely to find obviousness of function and relatively likely to find obviousness of conception, but much less likely to find obviousness of reduction to practice. That is, much of the ingenuity of software and business methods lies in the reduction to practice, if not sometimes in the conception. Other technological areas for which patents are issued, by contrast, might have differing degrees of obviousness in these three layers. And I would guess that in more traditional technological or scientific areas the ingenuity of an invention lies more in its conception than in its reduction to practice, which might be why this layering of obviousness has been traditionally overlooked.

Until now, I have been suggesting an analysis of the layers of obviousness from a doctrinal perspective, but I also think it makes sense from a policy perspective in at least two ways.

First, labor theory suggests that the patent system ought to reward people with patents for their hard intellectual labor in certain cases. In this context, that means stimulating innovation by encouraging technologists to generate non-obvious ideas that they might not otherwise generate absent the patent incentive. This sufficiently hard labor can conceivably take place at the layer of function, at the layer of conception, or at the layer of reduction to practice. There is no reason to ignore any of these layers at the expense of the other. They are all important to the invention.

Right now we are focusing on the software and business method industries. Though my suggested analysis might yield more patents, an issue I will discuss in a moment, I think these would be good—non-obvious patents, at least.

There are worries when there are too many patents in an industry, for instance, that patent thickets develop, harming

innovation.⁴⁶ Even with more patents here, however, I think society should benefit when a software or business method patent issues that was not obvious to reduce to practice or was not obvious to conceive, or even in the rarer case of a non-obvious function. An enabling patent disclosure itself should be useful by virtue of the fact that some layer was not previously obvious to persons having ordinary skill in the art. In addition, society benefits by getting to use the invention, certainly after the patent term expires, and perhaps during the patent term as well, depending on the circumstances.

And I would guess, in fact, that the most horrible of patent trolls in the area of software and business methods are less likely to be rewarded under a layered obviousness analysis because they will often seek to patent inventions that are obvious at the reduction-to-practice stage, if not at the other layers as well, as they have probably only constructively reduced to practice by filing a patent application. If a non-practicing entity's invention is non-obvious to reduce to practice, that might be reason to worry that the disclosure is not sufficiently enabling. So there is a double-edged sword there.

Let me suggest how to come up with an ultimate determination on obviousness within a layered inquiry.

One might suggest that there needs to be non-obviousness at each layer for the invention to be truly non-obvious. I think this test is probably too harsh and a balancing test is preferable, in the sense that one needs a sufficient quantum of overall non-obviousness. Based on the varying degrees of obviousness that sit in the three layers, I would expect that under a balancing test more software and business method inventions would pass the non-obviousness hurdle, and that while they might be relatively obvious in function and conception, they will be relatively more non-obvious in reduction to practice. This should, and I think appropriately, yield some more non-obvious software and business method patents.

⁴⁶ See generally James Bessen, *Patent Thickets: Strategic Patenting of Complex Technologies* 1–29 (Research on Innovation: Boston Univ. Sch. of Law, Working Paper Series, 2003), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=327760.

Let me return for a second to *Comiskey's* revival of the mental steps doctrine in concluding that the business method claims at issue were not patentable subject matter.

If courts are going to start thinking about mental processes as being outside of patentable subject matter and software implementing them as falling within it, so long as the other patentability requirements are met, then it is essential that the courts do not fall into *Comiskey's* trap of seeing obviousness simplistically and misguidedly as the obviousness of automating the mental process—that is, the obviousness of function.

Now, ultimately, as the subject matter of this Symposium suggests, intellectual property law in general, and patent law specifically, must account for new technologies. While there is scholarly debate as to whether the accounting should occur on a case-by-case basis in the PTO or the courts, as Mark Lemley and Dan Burk argue,⁴⁷ or only by congressional initiative in some circumstances, as Polk Wagner suggests,⁴⁸ patent law ought to be built to account for emerging technologies, such as software, business methods, and nanotechnology, as much as traditional ones.

Having patent law keep pace with new technology depends on institutions getting the details about the technology right. They have to understand what is going on. In the context of business method and software patents, a more refined analysis of the layers of obviousness—function, conception, and reduction to practice—in the PTO and the courts I think will allow for a more nuanced and accurate analysis of the patentability of software and business methods to emerge.

Thank you.

PROF. RICHARDS: Thank you, Jeanne.

A couple of quick comments. Firstly, the question of the claims is essential to any of this. We need to look at all of these things in the context of a particular claim. But how do you deal

⁴⁷ See generally Dan L. Burk & Mark A. Lemley, *Policy Levers in Patent Law*, 89 VA. L. REV. 1575 (2003).

⁴⁸ R. Polk Wagner, *Of Patents and Path Dependency: A Comment on Burk and Lemley*, 18 BERKELEY TECH. L.J. 1341 (2003).

with the issue of whether it is unpatentably obvious? If you are the first person to solve a problem which deals with the solution of an obvious desideratum—it is desirable to computerize this—are you entitled to all methods of computerizing this, whatever this is, or are you only entitled to patent protection for your solution? I think that is one of the key questions here: How broadly should these things be written?

PROF. FROMER: Obviously, this is all tied in large part to the claim language. There is always this cost-benefit analysis about how broadly you want to claim. The broader you claim, the more likely you are to get broader protection, but you are more likely to run into obviousness problems, I think, at least as to some aspects of the claimed invention. I think a lot will depend on how broadly the claims are written. That is the conception of the invention.

PROF. RICHARDS: The Supreme Court in *KSR* sort of hinted that problems in reduction to practice can tip something over from being obvious to being non-obvious.⁴⁹ But if you do that, then I think you've got to confine your claims to that which you have invented.

PROF. FROMER: Yes.

PROF. RICHARDS: Scott?

MR. LOCKE: I come actually from a different perspective than the rest of the panelists here. My technology background is biotech and chemical. I kind of back-doored into business method patents through bioinformatics, which put me in a separate world at the Patent Office.

The first thing you notice about business method patents—and I am not as pro them as some of my colleagues up here—is that —

MR. HANCHUK: You're the official anti on the panel.

MR. LOCKE: —they are very broad. I think, as John was saying, you can get enormously broad claims with incredibly small disclosures at the Patent Office, and that is what is upsetting a lot of people, I think. I think you can dominate the industry without ever having worked in it.

⁴⁹ *KSR Int'l Co. v. Teleflex, Inc.*, 127 S. Ct. 1727, 1740 (2007).

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Part of the problem that the courts are having, and Congress and the Patent Office, is that it's a new class of inventors that we have now. Until about the mid-1990s, the computer industry just didn't exist at the level it does today. So most of your inventors were tinkering in their garages or in their labs, and they were working for a really long time, and people felt—not in law, but in equity—“they worked hard, someone came up with that new pharmaceutical, someone made the new device.” Now people are thinking, “You know, there's this twenty-two-year-old kid sitting in his college dorm and he's getting a patent that is going to dominate the world.” I think there's a resentment to that. It may not be justified, but it is setting the tone for what is going on here.

When Professor Fromer was talking about the obviousness of the reduction to practice, I think it echoes a very important point: How broad are we going here? I'm not against a patent for a business method if it is narrowly tailored to something that is truly inventive. The problem is, again, when you dominate the whole industry for something that is arguably obvious or not, it is a problem.

MR. HANCHUK: Let me start a little debate on that issue, if I may. Would you feel the same about a biotech invention? If I'm the first one to cure cancer, for example, with some specific drug but it somehow encompasses an entire category of drugs, can I claim the entire category, even though I may not have invented every single little subcomponent of that?

MR. LOCKE: The Biotech Division is incredibly strict on this, what you're allowed and can't get through.

MR. HANCHUK: You can't get a genus claim?⁵⁰

MR. LOCKE: Biotech is different than chemical. In chemical you can get genus claims easier than you can in biotech. For methods of treating people, it's almost impossible.

MR. HANCHUK: To get the generic?

MR. LOCKE: Yes.

⁵⁰ 35 U.S.C. § 103 (2006).

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MR. HANCHUK: In the chemical areas you can, though, right?

MR. LOCKE: You can in the chemical areas if you can show similarities between groups.

MR. HANCHUK: So if I'm going too far in the Periodic Table column—

PROF. RICHARDS: It's a predictability issue, really.

MR. HANCHUK: But generally, if I were to go back and give you two choices—I'm going to act like a politician—"yes or no," can you get a broader claim than your actual specific embodiment, yes or no?

MR. LOCKE: Yes, you can go broader, but how broad you can go is really narrow.

MR. HANCHUK: I hear you. But still the answer is yes. Okay. Go ahead.

MR. LOCKE: You can go broader—and I'm against going broader—if you can extrapolate. The problem with the business method patents—some of them—is they are extrapolating too far from what a lot of people think, and I don't think that the examiner corps is trained in how to deal with it.

MR. HANCHUK: That's true.

MR. LOCKE: I think that, unlike many of our brother nations around the world, we don't have a permanent examiner corps. The turnover at the PTO is very high. In Europe or other places, my colleagues know it's much lower; there are career PTO people, so your examiners are there for a much longer time.

MR. HANCHUK: I was there for a year and a half, so I agree.

MR. LOCKE: A year and a half won't even pay for law school.

MR. HANCHUK: Exactly.

MR. LOCKE: If they're not there long enough, they don't understand the institutional balance of it. From your point of view, if you are a client and you are trying to get one of these patents, it is incredibly frustrating because you have no idea what the Patent Office is going to do, you don't know what the examiners are going to do. If you appeal, you have no idea what the Board is

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going to do, and it is probably the opposite of what the Federal Circuit would do, which is going to go up to the Supreme Court, maybe, if you're lucky. Again, you have no idea what to do.

The people who are noticeably silent here are in the Congress. If you've read the Patent Reform Act, the one thing they have tried to do is say you can't get a business method patent on tax procedures.⁵¹ That doesn't affect most people's practices very much, or probably most of your business. But you can get it on anything else, according to Congress's silence.

They've had a chance to look at this a number of times since *State Street*. They went as far as to make special exceptions for business method patents in the American Inventor Protection Act of 1999,⁵² making me think that Congress is saying: "It's a free-for-all. Do whatever you want. Do Professor Fromer's plan. You can get as much as you want, because anything is patentable, and we'll sort it out later."

But everybody on the other side of it, the courts and the Patent Office, have been very unhappy with it. So we are having a fight that is not helping anybody. I think everybody would probably agree that for an industry it is terrible to have unpredictability.

The Patent Reform Act is not changing any of that. So as far as business method goes, we're still in the quagmire. What you are going to have to do is you're going to have to play all the cards. You are going to have to try for your straight business methods still, because I wouldn't give up on them yet; you are going to have to tie them to devices still; and you are going to have to try and apply them to industries, so even if they're not in devices you can tie in your chemical component. So if I'm doing a business method, my last step will be synthesizing my DNA to try to twist it, because you just don't know.

MR. HANCHUK: I completely agree.

⁵¹ Patent Reform Act of 2007, H.R. 1908, 110th Cong. § 10 (2007).

⁵² See American Inventors Protection Act of 1999, Pub. L. No. 106-113, § 4712, 113 Stat. 1501 (codified as amended in scattered sections of Title 35 of the U.S. Code); see also U.S. Pat. And Trademark Office, American Inventor's Protection Act of 1999, <http://www.uspto.gov/web/offices/dcom/olia/aipa/index.htm> (last visited Mar. 11, 2008).

MR. LOCKE: I think the endgame here is that you are going to have the computer science industry go underground. You know, for an industry that was very into open source and sharing, they are going to flip the other way, I think. If they cannot get the patent rights, there are going to be a lot of people not sharing what they are doing.

PROF. RICHARDS: That's where they started, but then they had to migrate away from that because that didn't work either.

MR. LOCKE: Yes. I think the pendulums swing back and forth all the time. I think by what's happening now we are going to swing away from the open source world.

MR. HANCHUK: Query whether the patent system actually did its job and actually encouraged people to disclose that which they would have kept confidential.

PROF. FROMER: Yes. A big part of the problem is the disclosure rules. In this context, as you point out, I think, either because the patent examiners are not sufficiently trained to deal with this newer class of inventions, they are letting people get away with very functional disclosures that do not disclose, that are not sufficiently enabling. I think that is part of the problem.

I think ratcheting up disclosure significantly would help the problem because it would be useful for other people to learn from, and it would make sure that people are not getting patents without having actually invented enough. I think that is a big part of the problem.

MR. HANCHUK: That's an excellent point. I was going to say in all the hundreds of software and business method cases that we've prosecuted over the years, I don't think I have ever gotten a rejection that says "your invention is not enabled" or "you haven't provided sufficient written description to enable this." I have never gotten that. We get 101s,⁵³ again, like crazy. But you never really have that issue. That's an excellent point.

⁵³ 35 U.S.C. § 101 (limiting patentable subject matter to "any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof . . .").

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I will say, though, there are a couple of things. To jump ahead perhaps, because I know you have quite a number of other things to chat about, this is a very interesting time to talk about a lot of these issues.

The Patent Office right now, on sort of the granular level, when you talk to examiners, they are perhaps more frustrated than anybody.

MR. LOCKE: Yes, I agree.

MR. HANCHUK: They don't know what the heck to do. They will pull you aside and say, "Between you and I, we've had fifty cases together over the last ten years, this thing is eminently patentable but my boss won't let me allow it." They play the "good cop/bad cop" thing. It passes 103⁵⁴ in my book, it clearly passes 102,⁵⁵ but right now in this crazy regime that we live in today they have to reject just about everything again under 101.⁵⁶ They say, "You're going to have to go to appeal."

But, by the way, good luck with that, because if you look at the last five Board of Appeals decisions in the last thirty days, they're a mess. They're a mess because they now cite dissents of certain cases as being the majority. *Lundgren's* dissent⁵⁷ is now clearly the majority, in a short two-and-a-half-year period thereafter. So they don't exactly know what to do.

In fact, there is the second review process that exists only in the Class 705⁵⁸ business process areas and in some of the biotech areas.

PROF. RICHARDS: It includes some pharma stuff also.

⁵⁴ 35 U.S.C. § 103 (requiring "non-obviousness" as a condition of patentability).

⁵⁵ 35 U.S.C. § 102 (requiring "novelty" as a condition of patentability).

⁵⁶ 35 U.S.C. § 101.

⁵⁷ *Ex parte* Lundgren, 76 U.S.P.Q.2d 1385 (B.P.A.I. 2005) (Jerry Smith, Administrative Patent Judge, dissenting), available at <http://www.uspto.gov/web/offices/dcom/bpai/prec/2003-2088.pdf>.

⁵⁸ U.S. PAT. AND TRADEMARK OFFICE, PATENT QUALITY IMPROVEMENT: EXPANSION OF THE SECOND-PAIR-OF-EYES REVIEW (2002), available at <http://0-www.uspto.gov.mill1.sjlibrary.org/web/offices/com/strat21/action/q3p17a.htm> (noting that "second pair of eyes" review was implemented in 2003 for Class 705 business process patents).

MR. HANCHUK: Right. By the way, as a friend to other technologies, I have been encouraging the Patent Office to do that for years, because frankly the second review process is such a nightmare that if they apply it system-wide I think they'll kill it, because it is such an unpredictable thing. You get a notice of allowance in a case, investment comes flowing into a new company or a new business venture, for example, and champagne bottles are popping, and two years later you still don't have a patent. You ask why, all you hear is there's this mystical second reviewer who hasn't yet blessed the document. You call up the ladder at the Patent Office and they'll say, "Oh, that shouldn't happen because the supervisor now has authority allegedly to grant these things." That's just not true.

You have a significant backlog right now. I can't imagine, if they present this system-wide—the two longest periods of pendency at the U.S. Patent Office, just so you get a sense, are in pharma and in Class 705 business processes. They are four or five years plus to first action, let alone to allowance of patent.

It is very interesting, because seeing the—and maybe stepping back here for a moment—the title of today's presentation is interesting. You would think it is narrowly tailored to the few folks out there who file business method patents. For all the talk of this avalanche, there are 9,000 or 10,000 filed a year out of 300,000.⁵⁹ This isn't exactly half of the Patent Office. It is some percentage of what is going on.

Yet, the tail is wagging the dog, because what is happening here is that the pendency is so long in two particular areas at the Patent Office right now that the Patent Office is inventing new ways of handling these. So they have these new rules, for example, that made all sorts of press, in fact, made *The Wall Street*

⁵⁹ See Jeffrey E. Young, *Growth Amidst Uncertainty Sums Up the Patent and Trademark Office's Business Method Partnership Meeting*, 74 PAT., TRADEMARK & COPYRIGHT J. (BNA) 322, 322 (2007) (noting that filing rates for Class 705 business method patents have surged in 2006 to a level exceeding 9000 per year); U.S. PAT. AND TRADEMARK OFFICE, PERFORMANCE AND ACCOUNTABILITY REPORT 109 (2007), available at <http://www.uspto.gov/web/offices/com/annual/2007/2007annualreport.pdf> (reporting that 467,243 patent applications had been filed in 2007, and 184,377 patents were issued).

*Journal*⁶⁰ and *The New York Times*;⁶¹ even got Senator Schumer to write letters to all sorts of Patent Office officials about continuation rules.⁶² You would think: Who in their right mind puts that on the front page of all sorts of papers? That's a big deal today, because what is happening is they are trying to theoretically shorten pendency.

By shortening pendency, they are coming up with all sorts of different ways of doing that. One of the ways was to limit the number of continuations and the number of claims you could put in a case. And, arguably, it was all because of pharma and business processes. To me it was just a ruse, actually. I'm not necessarily sure those were the problem cases. But nonetheless that was the push.

This all gets tied into so many other issues. It's very interesting. The reason that these new rules were enjoined at the eleventh hour⁶³—November 1 is when they were supposed to

⁶⁰ See, e.g., Greg Hitt, *Patent System's Revamp Hits Wall*, WALL ST. J., Aug. 27, 2007, available at <http://online.wsj.com/article/SB118817303708409352.html>; Posting of Peter Lattman to Law Blog - WSJ.com, *Challenge To New Patent Rules Set For Hearing Today*, <http://blogs.wsj.com/law/2007/10/31/challenge-to-new-patent-rules-set-for-hearing-today> (Oct. 31, 2007, 09:23 EST); Posting of Peter Lattman to Law Blog - WSJ.com, *GlaxoSmithKline Sues the U.S. Patent Office*, <http://blogs.wsj.com/law/2007/10/12/glaxosmithkline-sues-the-us-patent-office> (Oct. 12, 2007, 11:16 EST).

⁶¹ Posting by Miguel Helft to Bits New York Times Blog, <http://bits.blogs.nytimes.com/2007/08/31/san-franciscos-wi-fi-fog> (Aug. 31, 2007, 16:47 EST) (noting that many large technology companies such as Microsoft, Apple, and Google support the Patent Reform Act of 2007, however pharmaceutical companies generally are against the reform because they favor stronger patents).

⁶² See Letter from Charles E. Schumer, Senator (D-NY), U.S. Senate, to Jon W. Dudas, Undersecretary of Commerce for Intellectual Property and Director, United States Patent and Trademark Office (Oct. 25, 2007), available at http://www.ipwatchdog.com/patents/schummer_pto_letter.pdf; see also Posting of Gene Quinn to PLI - GlaxoSmithKline v. USPTO, *Senator Schumer Asks PTO to Delay Implementing New Rules*, <http://www.pli.edu/patentcenter/claims-con-challenge.asp?view=plink&id=145> (Oct. 30, 2007, 12:01 EST).

⁶³ See *Tafas v. Dudas*, 511 F. Supp. 2d 652, 671 (E.D. Va. 2007) (mem.) (granting an injunction blocking PTO continuation and claim rules); Posting of Timothy J. Maier to Post-Grant, http://www.postgrant.com/2007/10/gsk_wins_preliminary_injunctio.htm (Oct. 31, 2007, 13:39 EST) (“GlaxoSmithKline prevailed in the District Court for the Eastern District of Virginia and succeeded at enjoining the USPTO from making the Final Rules on claims and continuations effective. The Rules were intended to go into effect on November 1, 2007.”).

come into place—it was a boondoggle for the patent community, because we filed continuations and all sorts of things like you wouldn't believe. October was the highest billing month I think we've ever had.

MR. LOCKE: I dealt with about 100 of them in October.

MR. HANCHUK: Unbelievable, frankly. Clients are not happy, though. I mean this is the worst time. IP has never been more valued, but never been more in flux, I think, in my twenty years in this practice. I mean you get all sorts of private equity/venture capital money running into new business ventures today, whether they are IT-focused, whether they are not IT-focused, much of which is focused on IP. This uncertainty is not good for the economy. It's not good for very, very many businesses out there.

It's interesting, because this injunction came in at the eleventh hour by Schumer's letter,⁶⁴ for example. Harry Manbeck, the former Commissioner, wrote a very interesting affidavit in the TRO papers that said what the Patent Office is now trying to do is create substantive rule-making issues.⁶⁵ So as everybody who has taken admin law knows, you've got to go through this process of posting rules and getting comments and doing things in a proper way to administer new administrative procedures. They went above and beyond in these new rules.

What's very interesting here—and this ties it all together—is that there is a House version⁶⁶ of the Patent Reform Bill, which has gone to the floor and passed. The Senate version⁶⁷ is still being debated. The House version had substantive rule-making authority granted to the U.S. Patent and Trademark Office. In the Senate

⁶⁴ See Posting of Gene Quinn to PLI - GlaxoSmithKline v. USPTO, Glaxo Wins Injunction - Part 2, <http://www.pli.edu/patentcenter/claims-con-challenge.asp?view=plink&id=151> (Oct. 31, 2007, 12:10 EST) (“Also playing a big role in the hearing was Senator Schumer’s recent letter to Under Secretary of Commerce Jon Dudas regarding his concerns regarding these rules.”).

⁶⁵ See Declaration of Harry F. Manbeck, Jr., SmithKline Beecham Corp. v. Dudas, 511 F. Supp. 2d 652 (E.D. Va. 2007) (No. 1:07 Civ. 1008) (declaring, in Section VII (A) & (E), that the new patent rules will substantively change the practice of patent filing), available at http://www.patentdocs.net/patent_docs/files/manbeck_dec.pdf.

⁶⁶ H.R. 1908, 110th Cong. (2007).

⁶⁷ S. 1145, 110th Cong. (2007).

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version, it does not. It seems very clear, by the way, that Schumer and others, who are obviously very influential, do not like the fact that the Patent Office will be given substantive rule-making authority. That's one of the reasons he wrote this letter. The fact that it is being debated today on Capitol Hill made it very, very clear that the Patent Office does not have that ability today.

The judge was highly influenced, I think, by that and said: "This is affecting the entire industry. The Patent Office has not made it clear that it actually has this authority." So there is a TRO at the moment. It is probably going to turn into some PI of some duration. Who's to say where that goes?

I think it is highly tied into what happens on Capitol Hill. So business methods highly tied into what is going on at the Patent Office and at the courts, highly tied into what is going on on Capitol Hill right now. An incredibly interesting time. Everybody's head is spinning right now. It's a very, very interesting period.

And then on top of that, you have the looming Supreme Court decision of 2008 or 2009,⁶⁸ which is very clearly going to affect at least the business process area, if not everything else. Anyway, I just thought I'd throw some of that into this mix because it is really and truly a very, very interesting time.

One other footnote I'll just point out. I went to the IPO Conference this year, the Intellectual Property Owners Association. A practitioner who was practicing back in the 1960s pulled out a flyer from the New York IPLA meetings in the 1960s. Topic number one was patentability of software and certain technologies. Item number two was first-to-invent/first-to-file. He went down the list. It was hysterical, because, forty-five years later, we still haven't decided what to do on so many of these issues. If anything, I've called it lately "IP reform fatigue." I think people are getting a little tired of hearing about some of this, even though it's incredibly, incredibly important.

On top of that, the predictions are if the Senate doesn't pass this version by year-end, perhaps Q1 of next year, there is not

⁶⁸ *Tafas v. Dudas*, 511 F. Supp. 2d 652, 657 (E.D. Va. 2007)

going to be any reform, because it turns into the “Rudy and Hillary show” full time and Congress really doesn’t finish on the IP side of things. But it’s a little disconcerting, if you think about it, because there could just be even greater and greater uncertainty.

Interestingly, it has actually made its way heavily into presidential politics already. Obama came out with a statement yesterday sort of embracing IP reform.⁶⁹ It’s very interesting. Senator McCain for years has been talking about IP as one of his linchpin issues.⁷⁰ Senator Obama picked up the issue of this sort of “golden patent”⁷¹ idea, which is actually very, very interesting.

There is an interesting initiative by New York Law School, its peer-to-patent program,⁷² which has actually had some moderate success. You have some interesting companies participating, at least. It’s not a wide-scale effort yet. What happens is you submit your patent, and all sorts of people submit prior art and comment on it over some period of time. There is some of the craziness associated with blogs and wikis and that kind of thing that start filtering into the patent system. At the end of the day, the Patent Office is going to take your five- or six-year pendency and knock it down to two years, theoretically.

It’s interesting, because Obama has now grabbed on to that, and others have grabbed on to that, and said that they perhaps will only grant presumptions of validity, or sort of “super-patents,” if they pass through certain sort of certified processes, that perhaps being one of them. I’m not sure that he knows much about IP, but he has grasped onto this issue as being a core issue. It has really become a very, very big issue.

So the title of this, “patent reform,” to me has got such a broader implication across the entire IP system—and presidential politics, for that matter—at this point.

⁶⁹ Iain Thompson, *Obama Plans Patent Shake Up*, ITWEEK, Nov. 16, 2007, <http://www.itweek.co.uk/information-world-review/news/2203618/obama-plans-patent-shake>.

⁷⁰ John McCain 2008: *On the Issues*, <http://www.johnmccain.com/Informing/Issues/4a3ab6fe-b025-42b1-815b-13c696a61908.htm> (last visited Feb. 29, 2008).

⁷¹ See Thompson, *supra* note 69.

⁷² The Peer to Patent Project, <http://dotank.nyls.edu/communitypatent/about.html> (last visited Feb. 29, 2008).

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That was a long diversion from your list.

PROF. RICHARDS: Thank you. Please.

Has anybody got any comments on what anybody else has said so far?

Anybody in the audience have anything they want to raise at this point? Part of the objective here is to have a dialogue between us and the audience. Yes, a question here? Can you say who you are so the *Journal* can make a note of that? Say your name.

QUESTION: Ray Beckerman. I'm with Vandenberg and Feliu.

My question is for Jeanne. Is the business method patent a menace?

PROF. FROMER: I see it in a nuanced way. I think there are some good and some bad business method patents. When the bad ones start overwhelming the good ones sufficiently, then we have got a problem. That is the menace.

I do think there is a problem right now, and I do think—and this is what I alluded to before—a lot of this has to do with inventions passing through either that are obvious or that are not sufficiently enabling. By this, I imagine there are people saying, “Oh, I have got this idea of a function. I am going to write up the function and now I am going to go and get my patent on it,” and that patent issues. You see a lot of software patents that look like that. That just paralyzes the industry, because people have to pay to license these patents at extraordinarily high terms, and it just creates this thicket and other consequences.

I worry about disclosure and I worry about obviousness, but I do think a more nuanced inquiry on both of those levels might get things more right.

MR. HANCHUK: Can I ask a follow-on question?

PROF. FROMER: Yes.

MR. HANCHUK: Do you think that the changes to obviousness under *KSR*,⁷³ making it more difficult now to get IP

⁷³ *KSR Int'l Co. v. Teleflex Inc.*, 127 S. Ct. 1727, 1741–44 (2007).

just generally, and *eBay v. MercExchange*,⁷⁴ now making injunctive relief very, very difficult, if not impossible, for a troll, do you think that has addressed some of the menace problem?

PROF. FROMER: I think it does. I think the fact that, if you look at how district courts have behaved post *eBay*,⁷⁵ the way that they have been granting injunctions to patentees who are practicing their invention and are in competition with the infringer and denying them to the non-practicing entities—we can quibble as to whether that gets it exactly right—it does provide some rough approximation in the sense that it resets the leverage that non-practicing entities might have with their patents.

In addition, I think *KSR* really gets patent law much more right. I think in every area you are going to have unwritten knowledge, and it is ridiculous not to take account of that. I think you particularly have that problem in an area where patents are more new and people were less motivated to encode their knowledge in some written form. I think it is useful to take advantage of that unwritten knowledge. That also recalibrates things.

Now, you have still got to track down this unwritten knowledge. That is always a problem.

MR. HANCHUK: True.

PROF. FROMER: There was a story in *The New York Times* some time ago about someone who spent thousands of hours trying to find some prior art to invalidate a business method patent.⁷⁶ He finally found it, after flying around the country. They called him a “patent detective.” I therefore think you have still got that problem, but I do think that the patent system is being recalibrated.

PROF. RICHARDS: Does that answer the question?

Anything else from the audience at this point?

QUESTION: Yes. I’m Dawn Ann Gowdy [phonetic].

I started in the computer area, and within the last year I have taken on a number of business method-type clients and patents. To

⁷⁴ *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

⁷⁵ *Id.*

⁷⁶ Brent Bowers, *Playing Detective in a Patent Case*, N.Y. TIMES, Aug. 30, 2007, available at <http://www.nytimes.com/2007/08/30/business/30sbiz.html>.

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me it has been one of the most eye-opening experiences that I have ever had in my career. When you were discussing, you said that you talked to examiners and they came and they told you in their opinion this is patentable but they have a second review process to go through. I have had examiners where I have sat down with them and we have discussed the claims, we've agreed on everything in the claims, all the formality issues, the obviousness issues, and then the examiner goes back and simply cannot get the authority to issue the patent. Then they start just giving you the most absurd rejections, and the case just goes nowhere. They start with restriction requirements; after you've been prosecuting a case for years, and then suddenly there's a restriction requirement. It just seems to me that at the Patent Office somebody in the administration has decided that they are not going to issue business method patents, despite the law saying that it is patentable subject matter. I've never seen anything like this.

MR. HANCHUK: It's a real problem. Actually, even to compound the problem, what happens now is—you would think you'd just take these to appeal, right, and you just move it up the ladder? Even before the Board, at this point it's potluck, if you get three particular people on the Board. As you walk in the room, you know the answer. It's a complete panel-type issue today. If you get the majority in *Lundgren*, there will be white smoke and there will be a patent emanating at the end of that meeting perhaps. If you get the dissent, it's over.

The other problem, though, is by some estimates of large filers of Class 705 applications, over 50 percent of their appeal briefs are actually not met with an examiner's brief. Rather what they are met with is a new rejection. So you don't even get to appeal. This is another tremendous problem, where a client will spend the time and the money and go through the frustration of an appeal process and still not get their day in court, so to speak, because they continue to churn it internally. It's a real problem.

So you actually have the situation where your hands are tied. You can't even get to the Board in many instances. And, even if you do get there, it's a crapshoot as to whether you get the right panel for the day.

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QUESTIONER: Shouldn't there be some sort of an administrative law principle that you know who the examiner is, that you should also be able to know who is on the 101 panel and who is on the 103 panel who was doing some second review?

MR. HANCHUK: Right, and know who the second reviewer is, you would think.

QUESTIONER: It seems to me it's like there are these hidden fact-finders or hidden people who are making the adjudications.

MR. HANCHUK: Right.

QUESTIONER: You never even get to know who they are or what the basis of their decision is.

MR. HANCHUK: Right. I've been at similar conferences to this one where the same question is raised. You hear a lot of talk about individual companies bringing some sort of *mandamus* action or some form of litigation saying: "This is ridiculous. If you were being audited, you would get your day with the IRS reviewer. You get to sit there and make your case." You really don't get that in Class 705. You don't get that because of this mystery second reviewer.

The Patent Office, about a year ago, heard those complaints and said: "Okay, we're going to make the mystery second reviewer the Supervisory Primary Examiner (SPE)," so that examiner's boss, which seemed to placate quite a number of folks over the last year.⁷⁷ But all of a sudden now, perhaps in the last three or four months, it goes through the SPE as the alleged second reviewer, and then they still get pulled from issue by somebody else.

QUESTIONER: I've had examiners tell me they have a 101 panel and they have a 103 panel. This is what they are calling it. You don't know who these people are sitting on this panel. It's like there's a hidden government or adjudicator.

MR. HANCHUK: Absolutely.

Maybe I could circle this back in with the prior question. I'm not trying to minimize the fact that there are lots of bad patents that

⁷⁷ See generally Enhance Current Quality Assurance Program, <http://www1.uspto.gov/go/com/strat21/action/q1p17.htm> (last visited Feb. 27, 2008).

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issue out of the U.S. Patent and Trademark Office. I mean anytime you have a system that accepts 300,000 documents a year, issues 160,000 of them, even if you had a 99 percent perfection rate—I think we would love it if every government agency was right 99 percent of the time—even if you have that, you still have 1,600 bad patents issuing a year. So 1,600 bad patents a year, even under my ideal scenario, is still a nightmare, right, because you have 1,600 bullets that have just been left on the street, so to speak.

But that having been said, the allowance rate in Class 705, not just this year but for the last five years, has been somewhere between ten and twenty percent. They have been examining these cases more stringently than ever. So this theory that “oh, these are just so easy to get” is just not true for those practicing in this field. It is very, very difficult.

In fact, to that end we’ve made noises about that in court on cases that we have enforced for business methods, because the other side says, “Oh, the Patent Office just grants these willy-nilly; these things are just all invalid.” You cite these statistics and you say, “That’s funny. System-wide it’s fifty to sixty percent allowance in this area. A year ago, 9 percent was the statistic.”

So I don’t think there is this huge volume of really bad patents coming out of Class 705, particularly if you take my numbers of only 9,000 filed in this space. How many of those issue in any particular year? Not a whole heck of a lot.

I will point out that the stats are a little bit skewed because of all the deaths of the dot-coms in 2001 and 2002 and the many cases that went abandoned as a result. It’s a little hard to figure that out. But nonetheless, it’s a very difficult process.

“Menace,” I think is a strong word, frankly. I think Congress and the Supreme Court reacted to the fact that the BlackBerry almost got taken away from them.⁷⁸ They also reacted to the fact that there are some trolls out there who do lots and lots of damage.

I don’t see this dearth of innovation in the United States. I don’t see it. I don’t see the fact that innovation is being crushed by IP. I don’t see that at all. In fact, what you see is a lot.

⁷⁸ See *NTP, Inc. v. Research In Motion, Ltd.*, 418 F.3d 1282, 1287 (Fed. Cir. 2005).

I think *The New York Times* came out with an article the other way about how the dot-com bubble is not only back but it has surpassed 2001.⁷⁹ Arguably, it's not a bubble in many instances, because there are real companies making real money today. Google, amongst others, has millions in revenue.⁸⁰ Search companies you've never even heard of are making \$100 or \$200 million, or bringing that in in revenue now.

It's very interesting that lots of money flows today into the United States on technology investment, clearly. I don't think this has been this "killer of the economy" that some people would lead you to believe. If anything, I think the economy on the tech front is flowing along quite, quite well, perhaps better than 2001, because I think expectations are much more realistic today. When you raise money for a new company today, you don't look to justify a \$20 or \$30 million annual burn rate, which is what you did in 2001. Today you try to justify a \$2 or \$3 million burn rate. It's a much more realistic assessment. I think the VC community is a lot more realistic about some of this. Almost all of it is IP-driven.

MR. LOCKE: I think it is particularly important here in New York because of the industries we have. We don't have chemical plants. We don't have big manufacturing here. We have a lot of the dot-coms. We have a lot of the smaller business. So I think you feel it more here in New York. And a lot of the venture capital is based here. So that's where the people are noticing it. I think it is very important for the New York economy. And I'm not surprised Senator Schumer is getting in on this very large opportunity, because it can make or break New York City as it is. We've been trying to get a biotech business in New York City forever and it's just not happening. I'd love it. I'm not against it.

PROF. RICHARDS: There's a question here.

QUESTION: Lois Matelan.

⁷⁹ See *Today in Business*, N.Y. TIMES, Oct. 17, 2007, <http://query.nytimes.com/gst/fullpage.html?res=9903E7DB133CF934A25753C1A9619C8B63> (last visited Feb. 28, 2008) (describing the trend as "a return to madness [by skeptics] or a reasonable approach to opportunities presented by the Internet [by true believers]").

⁸⁰ See Google Investor Relations, Financial Tables, http://investor.google.com/fin_data.html (last visited Feb. 24, 2008).

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You mentioned the idea of the “golden patent” as providing a presumption of validity. But isn’t that really a misnomer, because the presumption of validity is already supposed to be there for patents? So don’t we need to change that terminology?

MR. HANCHUK: That’s an excellent point. In fact, part of his platform is getting rid of the existing presumption of validity for every other patent. So only these über-patents will get that, so to speak.

What is it going to take to qualify as one of these über-patents? This peer-to-patent process is perhaps one, paying some additional fee kind of thing, as the new rules were really trying to do. By the way, the new rules, which now are enjoined, at least for the moment, really were trying to outsource the search job to everybody in this room. That was really the whole thing associated with those rules. Very, very interesting I’ll say. But it is a little odd for a government agency to say, “We’re the IRS. We no longer determine whether you are going to be audited. That’s now being outsourced to someone else.” A little strange.

MR. LOCKE: Just one point on increasing the validity and the presumptions. In the Patent Reform Act, there is a section to move toward a European-style opposition, post-grant review,⁸¹ which is—if you’re not in the patent world, you probably don’t know this—third parties generally can’t challenge patents at the Patent Office outside of reexamination procedures, which most people do not like to use for various reasons. They want to bring in a European-style opposition proceeding where you can challenge for up to a year, any third party, bringing that here.

My personal perspective is that’s a great idea. We know that American companies want to do that because they run to Europe and do it. Our patents are granted usually much faster than the European patents, outside of this field—they don’t generally do business method patents.

If they can get resolution here, that’s a lot more predictability for the American companies. I think that’s what they want more than anything, is predictability. I think they can live with the

⁸¹ See Patent Reform Act of 2007, H.R. 1908, 110th Cong. § 10, ch. 32 (2007).

changes in the standards one way or the other. It's the fact that nobody knows what the rules are right now that's driving them crazy. And litigation is so expensive, that if we can kick it back to the Patent Office, it would be a coup.

That said, I agree with my colleague, I don't think the Patent Reform Act is actually passing this year. But if they could cut out that provision and pass it, I think I'd be very happy.

QUESTION: Brett Frischmann.

Just one quick question. I don't want people to be confused about something that you said. The idea of peer-to-patent and other things along those lines is not about outsourcing the evaluative function. The Patent and Trademark Office's examiner still evaluates and makes a judgment about patentability. You're just talking about, if we're going to call it outsourcing, outsourcing the information-gathering function, which, because of the limited resources of the Patent and Trademark Office, makes some sense I think, as I understand it.

MR. HANCHUK: That's absolutely right. That's a good clarification. What actually happens is lots of people submit prior art and the others sort of rate the prior art as to whether it's good, bad, whatever, and then the highest-rated prior art is then what is submitted to the examiner to still do the traditional analysis. That's absolutely right.

I was joking about some of the standard blogging-type commentary that you are going to see from people. It is kind of funny to consider that that now is going to be the law, arguably, in a sense, or at least it's participating in the process.

Although part of Obama's platform—not to pick on him; I just found it very interesting that he came out with this yesterday—is that he wants to open the entire federal government to that type of approach, where he wants all sorts of information—he wants to nominate a CTO of the United States.⁸² His or her job will be to handle technology issues with regard to each and every government agency, open it up to commentary and all sorts of

⁸² Obama '08, Technology, <http://www.barackobama.com/issues/technology/> (last visited Feb. 28, 2008).

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feedback, Freedom of Information Act-type issues, all sorts of things. So you can see why he loves this concept, because it does get the public at large involved in the process.

The big benefit to an applicant today to use it is the Patent Office has really been stepping on the gas to move those cases through. So if you do actually get through that process, I could see if I'm Company X and I just got this thing certified through that process, boy, that's a big P.R. coup. It's going to be difficult for many people.

I mean Amazon still gets grief today, even though—and I don't represent Amazon—even though that thing—there was a site a few years ago called BountyQuest.⁸³ BountyQuest was this thing where people would post tens of thousands of dollars, a bounty. I must say I had a dozen or so patents on there at any given time.

PROF. FROMER: Jeff Bezos⁸⁴ was involved in it.

MR. HANCHUK: Bezos set it up, in fact. Bezos was half of the money. It was very interesting, because his patents were on there, and yet he was kicking in aggressively on it.

PROF. RICHARDS: Does everybody know what BountyQuest was?

PARTICIPANT: No.

MR. HANCHUK: Literally, patents would be listed there. Somebody would post a \$10,000 bounty to find prior art to kill that patent so to speak. Sometimes those bounties went up to \$50,000. There were all sorts of submissions. This company went under, by the way—all great ideas don't necessarily go anywhere. BountyQuest would make the analysis as to whether or not certain prior art invalidated a particular claim and then pay the bounty based on that.

⁸³ To view an archived image of BountyQuest from Nov. 9, 2000, see Internet Archive WaybackMachine, <http://web.archive.org/web/20001109180500/http://bountyquest.com/> (last visited Mar. 2, 2008).

⁸⁴ Jeffrey P. Bezos is President, Chief Executive Officer and Chairman of the Board of Amazon.com. Amazon.com, Investor Relations: Officers & Directors, <http://phx.corporate-ir.net/phoenix.zhtml?c=97664&p=irol-govManage> (last visited Feb. 28, 2008).

Amazon was posted. I do a lot of work for a company called Priceline.com. We had gotten a lot of the early business method patents, arguably, although I think they are really technology patents. I think Amazon's in my book is actually very clearly a technology patent. You know, they talk about cookies on a drive, they talk about actually creating a shopping cart, and talk quite a bit about—I mean you have to put yourself, in the world of 1995–1996—being on the Internet.

Priceline—very interesting to me, everybody today talks about it as still the airline shopping model. But the big issue when it first launched in 1997, and the reason for the big P.R. campaign early on, was that it was not called Priceline.com but 1-800-PRICELINE. It was 1-800-PRICELINE because everybody said, even in the road show, “Nobody in their right mind is going to type in their credit card number on the Internet. It's just not going to happen.”

So in 1995, when Amazon was getting their druthers together to launch, they had all sorts of historic problems, one of which was that everybody said, “You're not going to put in your credit card information on the Internet.” That was one problem.

They also had what they felt was sort of a Dale Carnegie-esque “how to win friends and influence people” problem, and that is lots of people, myself included, put lots of things in their shopping cart and never buy them. I must have fifty pages on my Amazon shopping cart. I throw lots of things in there. So they like to do the Dale Carnegie “just say yes” approach. They are trying to get the impulse buyer to make that sale without worrying about their credit card being thrown out on an insecure network.

So they, Priceline included, designed a system where you could actually even call in with the credit card. You could call in and put your credit card number on file. Once it's on file, so you haven't transmitted it over the open airwaves, there's now a cookie on your drive—they didn't invent cookies, granted—where they had a log-in process where, if you clicked that book, it would get shipped to you if you didn't say “no” within two hours. It was an automated “ship to me” process that had security-enhancing features—I know I sound like an Amazon marketing campaign now.

There are technology issues associated with it. They pieced all of that together. In fact, today when you go buy a song on iTunes, a little part of that gets paid to Amazon.com as a royalty for the One-Click.

That thing has been attacked on BountyQuest and by everybody and their grandmother as being an invalid patent. No court has so held. I know the Barnes & Noble folks will say that they were sued and enjoined in the Christmas season of 1998 or 1999.⁸⁵ They ultimately prevailed in the fact that the case was vacated⁸⁶ and was going to go to trial and then there was a settlement. That patent is not invalid.

So after all this talk about it being a silly patent, it's a silly patent that generates probably a fair amount of revenue for Amazon. And no one else does One-Click other than Amazon ten years after they launched it. So, I don't know, I think it's perhaps not such a silly patent after all. I don't think so, even though it is viewed by "Doonesbury" and other cartoon strips as the poster child of bad business method patents; there are a lot worse out there than that one.

PROF. FROMER: Let me just add two things to that.

Number one, I think that post-*KSR* we might be finding a different standard for evaluating the One-Click patent. Until now, people have had to find that prior art.

MR. HANCHUK: Commercial success.

PROF. FROMER: The other thing I want to add is that the participatory models, like Beth Noveck's peer-to-patent approach,⁸⁷ are also really great in terms of predictability. I think it is much nicer for a company to see the prior art popping up during the patent prosecution than years down the road during litigation.

⁸⁵ See *Amazon.com, Inc. v. Barnesandnoble.com, Inc. (Amazon I)*, 73 F. Supp. 2d 1228 (W.D. Wash, 1999).

⁸⁶ See *Amazon.com, Inc. v. Barnesandnoble.com, Inc. (Amazon II)*, 239 F.3d 1343 (Fed. Cir. 2001).

⁸⁷ See generally Beth Simone Noveck, "Peer to Patent": *Collective Intelligence, Open Review and Patent Reform*, 20 HARV. J.L. & TECH. 123 (2006).

It also gets at why we are sitting here today—keeping pace with technology. The government institutions that we have dealing with decisions on patents often cannot keep pace. Involving the public in information-gathering is a great way to keep the PTO, and then later the courts, up to speed on changes that are happening on the ground.

MR. HANCHUK: I hope they continue that. It is only a pilot today, but I hope they continue the pilot, I really do.

QUESTION: Will Tenant [phonetic].

My question is to the entire panel. In light of what we have discussed this morning with *KSR* and with business method patents, and in light of what the Court has recently done in *Seagate*,⁸⁸ relaxing the standards for finding someone liable for willful infringement, would any of you care to comment on what you think your clients are doing in terms of evaluating or grading patents in terms of: “Is this an über-patent, versus gee, this is an *eBay/MercExchange*-type patent where it’s held by a troll or ticket, and we’re just going to go ahead. We think there’s something here. Let’s just go ahead and do it. Let it ride. No worry about treble damages or enhanced damages or attorney’s fees.” I’m just curious as to what your opinion is.

MR. LOCKE: What they’re doing about other people’s patents? We’re worried about other people’s patents?

QUESTIONER: Just in general, the industry and the marketplace, where people are going to maybe pay less credence to patents, particularly with respect to the fact that the negligence, the “due care” standard of *Seagate* sort of has gone out, more or less.

MR. LOCKE: I think that you see industry and public/private companies doing a lot of different things. I think particularly the public companies are getting checked on so many different levels for all the decisions they’re making, they’re still crossing their T’s and dotting their I’s, between Sarbanes-Oxley and all the disclosure things they have to do. If somebody sends them a letter asking are they aware of another patent, they’re still pretty careful about it. Although they are not so worried about the treble

⁸⁸ *In re Seagate Tech., L.L.C.*, 497 F.3d 1360 (Fed. Cir. 2007).

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damages, they really still want to know whether they are going to infringe or not. I'm not seeing people skate the issue.

In smaller companies, start-ups, nontraditional high-tech areas, people who would be involved more in the business method patents, as they're growing up they just don't have the cash to go down that road. So they are taking their chances, a lot of them.

I don't know if you have a different experience.

MR. HANCHUK: I completely agree. From a practical vantage point, the smaller the company, particularly, the less clearance work they do. You don't really see a lot of clearance work by a young company.

A lot of mature companies too, by the way. They come out with products and they have not necessarily cleared the landscape. Medical device companies, for example, are very good at clearing their new stent or catheter or what have you. They know that IP better than anybody. That little notch on the side of it, that's there for 101 patent reasons, for example. That's not true, I think, in the IT space.

An excellent point, though, being made about if you get a letter today—and I don't care if you're little, big, or what have you—I don't think people are pointing to the recent case law and saying, "I don't need a written opinion, I don't need an opinion. I don't think I infringe. Go away." No. I still think they are doing the same traditional "cross your T, dot your I" thing of doing the analysis, responding accordingly. Blowing that off is a risky thing today, just from a pure IP vantage point, let alone with the Sarbanes issues and all the compliance issues that now come into play. Everybody wants to know what's your IP policy and are you sticking to it and what are you doing in that context. So I don't think that that has changed.

MR. LOCKE: Just on the flip side, in terms of procuring patent rights, I haven't seen a slowdown yet. This is more so for the smaller companies. It's important to have the patent application on file. If you want funding, you've got to have a patent position. You've got to have some type of leverage there. Even if it's just an application on file, you've got to walk in and say, "Look, I've done this, I'm first."

MR. HANCHUK: Agreed again, absolutely. We've had the busiest year of my life in terms of filing. We're overwhelmed. We're hiring Fordham Law students left and right, by the way. It's getting a little crazy with the speed.

And it's not just business methods. Again, to me, we almost should go back and start defining what is a business method. You could read all these 9,000 cases filed a year, by the way. Maybe a handful say, "I claim a new method of doing business comprising . . ." It just doesn't happen. They may claim a financial service, an instrument, and maybe it smells like a business method, but then they've got all sorts of computer language and database language in there.

MR. LOCKE: Marginal.

MR. HANCHUK: Some marginal, some not. It is an interesting issue with regard to what is a tech patent and what's a business method patent today. That's my problem, for example, with the European-style "technological arts" analysis.⁸⁹ My counsel to clients filing in Europe is let's be sure we find the very best European lawyer who can turn this into a technology case before your very eyes. Then, suddenly, the "technological arts" test is not such a problem.

The real mistake in going into Europe is just taking a basic U.S. case and then throwing it into Europe. Don't do that.

MR. LOCKE: Amend the claims.

MR. HANCHUK: Amend the claims. Even before you file it in the United States, I would actually talk to European counsel and say, "How do we make this a tech case?"

One of our lawyers had an article in online *Business Week* yesterday.⁹⁰ It was really interesting. He sets out the extreme: "As soon as you say 'computer hardware,' most people don't have a problem with getting a patent on it. I mean if it's a new chip, a new computer, not a problem."

⁸⁹ See Andre J. Porter, *Should Business Method Patents Continue To Be Patentable?*, 29 S.U. L. REV. 225, 249–50 (2002).

⁹⁰ John Kheit, *Give Software Patents a Break*, BUS. WK., Nov. 14, 2007, available at http://www.businessweek.com/technology/content/nov2007/tc20071114_591305.htm.

If you say “business method”—maybe I’m dating myself here—he says most people fall into this Fred Flintstone-like “bet, bet, bet, bet” sort of analysis, where you get all excited and the gambling phenomenon sort of kicks in. Everybody hates it. All nine members of the Supreme Court—they’re not quite sure what it is, but they don’t like it; it just doesn’t sound very good.

So great, you could talk about those two extremes.

Let’s talk about software. Software is right smack in the middle of all that. Unless you’re Intel or AMD and you make new chips, just about everything in hardware can be done by software. That’s the point of the article, that this whole debate is a little disingenuous really, because not very many people out there are building new chips. That’s pretty rare. Most things are process flow IT’ish-type things.

Can you say that Microsoft, with their billions of dollars a year of R&D, is not inventing things? They don’t make chips, so they’re clearly not in the hardware space. So are they not inventing because all they do is software? I think that’s an easy question to answer.

But anyway, it raises an interesting point. Where are we today? I think a lot of it is definitional. A lot of it is gut reaction, Fred Flintstone-like analysis. People don’t like the term. They don’t like the Amazon patent. I think ninety-nine people out of a hundred don’t even know what the Amazon patent is, whatever. But they will all opine on it, politicians included. Everybody’s got an opinion on this, and most people don’t like it. But that’s not saying a whole heck of a lot, I think.

PROF. RICHARDS: Just to clarify on the European situation a little bit, we’ve got the European Patent Convention 2000⁹¹ coming into effect on December 13, I think. That does in a way beef up the technical requirement in the definition of “invention” in Europe.

⁹¹ Act Revising the Convention on the Grant of European Patents, 2001 O.J. E.P.O. SPEC. ED. 3, *available at* <http://www.epo.org/patents/law/legal-texts/epc.html> (last visited Mar. 2, 2008).

The current position in Europe basically is if it involves a computer, then it meets the subject-matter test.⁹² But in order to meet the “inventive step” test, you’ve got to have some sort of technical problem which you can say is being solved,⁹³ which means that you’ve got to write the thing that way from the beginning. To try to take a U.S. business method case and then at the last minute try to massage it into European form is not the best way to get protection in Europe.

MR. HANCHUK: That’s absolutely right. What they are doing, as I understand it, is literally you need the computer architecture language in there to sort of pass through the gate, if you will, but at the end of the day they are going to peel away that computer architecture language, if it is just generic language, and then look at what is left. If what is left is just process flow—a/k/a/ “mental step” as they’ll define it—they are not even going to let you use that necessarily on the “inventive step” analysis. So if you have a generic-purpose computer with all sorts of very unique things in the claim but nonetheless they look like mental step to them, it’s a real problem.

Let me also just lay out one other thing. We’re talking a lot about business processes as if it’s sort of an individual. You know, start-ups certainly have led this field. Wall Street sure as heck didn’t lead this field, but Wall Street is in it heavily today. They’re some of the largest filers—well, not largest, but many companies on the Street now have several hundred applications.

If you look at these applications, they are pretty dense. They are typically not particularly high level. We have written cases with twenty pages of differential equations analyzing all sorts of trading platforms and systems. We have a much tougher time finding the technical ability to understand those than our biotech group does in understanding the biotech stuff. It’s actually

⁹² See, e.g., Nick Gardner & Paul England, *Patents: High Court Applies Court of Appeal’s New Test on Patentability of Computer-Related Inventions*, 29(8) EUR. INTELL. PROP. REV. N101, N102–03, 2007.

⁹³ See generally Porter, *supra* note 89, at 246–47 (explaining that a technology satisfies the inventive step of the European Patent Convention (“EPC”) if “an entity is created, altered or controlled”).

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incredibly dense stuff. I would say, in fact, that's the majority of what gets filed in 705 today.

Citibank has all these great patents on cryptography and securing money transfers.⁹⁴ These are like 200-page cases. They're enormous. They have all sorts of cryptographic algorithms in them to secure money transfers. That's a business method patent, according to the U.S. Patent Office. I think that's pretty inventive, in my mind.

Anyway, I just throw that out there, that there is often this again Fred Flintstone brush sort of painted to it all, that it's all this high-level nonsense. That hasn't been our experience. We've had a much tougher time hiring the double MBA/financial service-type people to do these cases because it's dense. It's very dense.

Sorry. I sound like I'm the dissenter here.

MR. LOCKE: That's fine.

I think Professor Fromer's point, the point that when they're dense, if the subject matter is equally narrow to what they have invented, as opposed to the broad cryptography in general, I don't think many people have a problem with it. It's when they try to extrapolate that, put in the dense disclosure just as a foundation for the omnibus claim, is where the controversy arises.

MR. HANCHUK: It does raise some interesting problems, though. As a lawyer, you are there to represent your client and their best interest and to give them as much protection as possible. So it's hard to sit there and say that, "I don't see that the prior art stops me from taking my one cryptographic protocol and taking the whole field, but I don't feel right about it because it doesn't help the patent policy." Well, that's great, but tell that to your malpractice carrier when you don't get all the IP that your client is deserving. It's a problem. I see the point, and I'm agreeing with it in a way, but at a practical level it's a very —

MR. LOCKE: I'm not telling you to stop trying for it. I think you should try for it.

⁹⁴ See, e.g., USPTO Patent Full-Text and Image Database, <http://patft.uspto.gov/netahtml/PTO/search-bool.html> (search "Citibank" and "cryptography") (last visited Mar. 2, 2008).

PROF. RICHARDS: That problem is not unique to business method.

MR. HANCHUK: I agree.

PROF. RICHARDS: Where you've got the first person to achieve a particular desired objective, should you be entitled to claim more methods of achieving that objective or just the method you've done or somewhere in between? That's a broad policy question which we've never answered, really.

MR. LOCKE: Right.

MR. HANCHUK: That's an excellent point. I think also Professor Fromer really laid this out very, very well on the obviousness side. The way I look at it is our system—or at least the average person's mental process about this—is really focused on sort of “an invention is 1 percent inspiration and 99 percent perspiration.” That's what I think most people think invention has to be, that it's got to be a lot of work for it to be inventive.

MR. LOCKE: Section 103.

MR. HANCHUK: I don't know that that's really the case. If you sit there and think about certain things that are creative, that are brilliant, a lot of little widgets and things, for example, it doesn't take 99 percent perspiration. I mean if somebody had a neat idea that their kid needed a particular type of toy and wouldn't it be great if they had X, that's more 99 percent—whatever, you get the idea. It doesn't fit that model particularly well.

That is, I think, perhaps a way of explaining the sort of Fred Flintstone-type analysis. People say, “God, it's so easy, this One-Click thing.” It's 2007. They weren't there in 1995, when everybody was walking around saying, “I'm not putting my credit card number in on the Internet. Not going to happen.” It's one of those tubes, right, the Google, whatever, all the other great politician words that we could pull out.

Even a lot of people today don't really get it. It's one of the things Professor Fromer and I were talking about before. It troubles me a lot. If you want to read a very scary transcript, pull up the *AT&T-Microsoft* oral hearing transcript at the Supreme

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Court.⁹⁵ It's a little scary. It reminds me of the first President Bush when he was running for reelection and he discovered the bar code scanner.⁹⁶ I don't know if you remember that scene where he discovered bar code scanning in a supermarket. The guy was the head of the CIA for a bunch of years and the Vice President for eight years and President for four. He hadn't gone to the supermarket in twenty years. He seemed a little shocked that the world now worked that way. You get that feeling when you read the transcript of the *AT&T-Microsoft* case.

PROF. RICHARDS: You get that feeling when you just read the decision in that case.

MR. HANCHUK: Absolutely. It's frightening. They get in this debate about: is it software, is it like a blueprint, is it just like some high-level instruction? They don't get it. It's frightening.

One of the jokes we throw out a lot is: The Patent Office needs to be sort of beaten up and improved in many, many ways. The fact that twenty-to-twenty-five hours of analysis is all that a typical patent gets before it matures out of this process is problematic, clearly, and we need to do everything we can to address that problem.

I'm not sure the Supreme Court took any more time to decide the *AT&T-Microsoft* case. That's the thing. They're making law in areas. I think it was decided correctly, by the way, but I worry about the analysis and how they are looking at software, for example. To me, the debate is interesting on business methods.

I'm more worried about software, frankly. I'm a lot more worried about software, because if you take software patents off the table, that's a large chunk of U.S. innovation today. We don't export very much today. Other than airplanes, some cars, we don't make a whole heck of a lot anymore. IT and pharma are clearly the drivers of this economy. To knock away on the IP rights on those fronts I don't think is necessarily a good thing.

⁹⁵ Transcript of Oral Argument, *Microsoft Corp. v. AT&T Corp.*, 127 S. Ct. 1746 (2007) (No. 05-1056), 2007 WL 541886.

⁹⁶ See Joel Brinkley, *On Tape, a President Intrigued by a Scanner*, N.Y. TIMES, Feb. 13, 1992, at A23, available at <http://query.nytimes.com/gst/fullpage.html?res=9E0CE5D61731F930A25751C0A964958260>.

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Anyway, I just sort of throw that out there.

PROF. RICHARDS: So what do you think will happen when this does get to the Supreme Court?

MR. HANCHUK: I think they will say “no” to business methods, and I fear that they will say “no” to software as well.

MR. LOCKE: I think they are going to narrow it significantly. I think they are going to bring back the obviousness issue to redefine what’s obvious and what’s not in software, and I think they are going to categorically say the subject matter doesn’t fit. I think you’re going to have an industry in shock.

PROF. FROMER: I do not necessarily agree with that.

MR. LOCKE: Glad to hear that.

PROF. FROMER: I think the Supreme Court might narrow things. I am not sure they would keep things as broad as, say, the *State Street* conception. Clearly, you have three Justices criticizing it⁹⁷ and we do not know what the other six Justices think.

But if you look at their recent docket, they have clearly shown a huge interest in patent law. They have been proceeding with baby steps in the area. I surmise they recognize that they are not experts in this area, and I wonder if they are afraid to upset business expectations too much in an area that they feel they cannot fully comprehend.

If you look at *eBay* and if you look at *KSR*, there are perhaps undercurrents of strong disagreement with what the Federal Circuit has done. But at the same time, they are proceeding very cautiously. I am not sure they would want to upset what has been going on for so long and in a huge way. I think they may just articulate certain principles and say, “Evaluate this in a different way,” but I am not sure they would completely strike down “business method” and “software” patents.

MR. HANCHUK: That’s great. I’m glad to hear that. And it is consistent, certainly, with what they have done.

⁹⁷ Lab. Corp. of Am. Holdings, v. Metabolite Lab., Inc., 126 S. Ct. 2921 (2006) (dismissing certiorari although Justice Breyer, Justice Stevens, and Justice Souter dissented).

If you look at *KSR*, they didn't say, "Prior law is awful"; they just said, "Prior law is one way of looking at this," the whole TSM analysis, but they created sort of a bigger umbrella, saying, "You can't be as rigid as the prior case law."

MR. LOCKE: I think on *KSR*, and specifically with obviousness, they had touched that in the 1960s and before, so they had their leg to stand on. It gets a little ticklish, what's obvious and what's not. Patentable subject matter is a gut thing. I don't think that it's the legislative history, it's not the long issues, that are going on. I think it's a different rubric. I think this is their chance to go big.

I really think that they are annoyed beyond belief about the Federal Circuit, as many practitioners are, about what goes on there. I think they want a change. I really think they are unhappy with this and they want to reign it in.

PROF. RICHARDS: Do you think they are going to go back to *Benson*?⁹⁸ When I started teaching here, I used to talk about *Benson*. I started teaching here about ten, twelve years ago. I used to talk about *Benson* a bit. Then they said, "Well, *Benson* has sort of been merged into abstract ideas and we don't really need to worry about it very much." Now I'm back teaching *Benson* again.

MR. HANCHUK: It's an interesting issue, especially when you read some of their cases. I almost wish the Supreme Court—and I guess it's not just true of IP—wouldn't go to such great pains to try to justify decisions that they made a hundred years ago and how "they're all consistent over the last hundred years, and you really just didn't understand us when we said in 1898 this, in 1904 we said that." They spend all this time trying to justify all this. Just what do you feel today? Let's clarify the law, because I'm not sure it gets more clear after some of these decisions.

So I see Professor Fromer's point. They may not necessarily just say—they may say, "*State Street* is bad," and smack *State Street* down, but they may come up with language that leaves some *Diamond v. Diehr*⁹⁹ language in the whole *Benson* analysis

⁹⁸ *Gottschalk v. Benson*, 409 U.S. 63 (1972).

⁹⁹ *Diamond v. Diehr*, 450 U.S. 175 (1981).

somehow, and they are going to go through some pained analysis about how all the cases are really consistent.

PROF. FROMER: I think that is right. There are things that I am sure would trouble them. These claims to software on disk—that looks very different than a claim of a machine running software. Whatever you want to say about the philosophical distinction between the software and the general-purpose computer running it and the inventive step that is going on there, it starts to look very different.

*eBay*¹⁰⁰ was a case that dealt with software, and *Microsoft*¹⁰¹ was a case that dealt with software. One way to read what was really going on there—and I think this would be consistent with what you are suggesting—is that they came out with very low protectionist rules, perhaps because they are troubled by software patents. But another way to read it is that while they may have talked about it at oral argument, the opinions do not discuss whether software is protectable. I know it was not the question to be addressed, but that has not stopped the Supreme Court in other contexts from planting a little bomb that explodes later in the proper case. I therefore see these opinions more as the Court accepting that there is at least a germ of material that is protectable.

MR. LOCKE: I'm taking the inference from the *LabCorp* decision,¹⁰² where you have three Justices who are angry. They are just angry about patentable subject matter. They get out on procedural reasons. But they are going to get two more I think, easily. I'm not sure who, but I can't imagine they're not going to get a couple more Justices to tear into this.

PROF. RICHARDS: I think we had a question here.

QUESTION: Wilfred Holness [phonetic].

I'm kind of a traditionalist in terms of patent. I come from the biotech area and I think tangible is very important. Even in the method patents in biotech, you generally have a tangible subject

¹⁰⁰ *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

¹⁰¹ *Microsoft Corp. v. AT&T Corp.*, 127 S. Ct. 1746 (2007).

¹⁰² *Lab. Corp. of Am. Holdings*, 126 S. Ct. at 2921.

matter, like a cell and how you use the cell, or you have some type of molecule and how you'd use that molecule to some benefit.

What I want to get to is what I see here is that there is a dichotomy in terms of patent attorneys. There seem to be a high-tech patent that these guys want to move forward and rush through the door, and then the others, the traditionalists. Does this play a big role in what's going on down at the USPTO? Would you think there's a dichotomy between the two people arguing patent within the patent industry?

MR. LOCKE: I don't think there's so much the dichotomy as what we have to argue against. I think in the more traditional fields, chemical and now biotech fields, there is so much else that is out there already, and it's kind of more formalistic what you have to do to get through. So we've had the rules on written description and enablement in biotech for a few years now. People know the rules of the game a little bit more.

I think in these areas, like in Class 705, there's a lot more unpredictability just because they haven't had the repeated practice with it. And I think you don't have the consistent examiners there, which I believe we have a little more in biotech, people staying a little longer, so you understand what they are going to do. But I don't think it changes the way we, as attorneys, practice there, just what we have to do to get through.

MR. HANCHUK: I think that's right. I will say, though, that as a general matter—and maybe not even talking about this subject today—within IP, in and of itself, there are various silos that I think are very, very different. Clearly, the trademark/copyright world is different in many respects. I think pharma and chemical versus electromechanical and software are different in many respects in how they are handled at the Patent Office, how maybe you need to handle them at the Patent Office.

There have also clearly been different lobbying efforts with Congress this year. You've got the Coalition for Patent Fairness¹⁰³ on the one side. They call themselves the technology sector, but

¹⁰³ Coalition for Patent Fairness, <http://www.patentfairness.org> (last visited Feb. 27, 2008).

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it's really the IT-type folks. I forget the name of the bio and pharma one.

MR. LOCKE: I don't remember.

MR. HANCHUK: Basically, they have been at odds on many, many things on Capitol Hill, about opposition procedures, first to file/first to invent.

If you want to go read some very interesting amicus briefs, go read the amicus briefs in *eBay v. MercExchange*.¹⁰⁴ It was ultimately a slam-dunk decision for the Supreme Court. Again, Professor Fromer's comments I think are very well taken, that there were some comments about software and things like that, but really they viewed that not so much as a "we are going to hurt patentable subject matter" thing, but rather "should patent law be treated any differently than any other area in terms of how we treat the equities for injunctive relief?"

Generally, this Supreme Court is very predictable there: anytime you put any area of law in front of them and say, "Should we treat this any differently than the rest of the world?" nine times out of ten, the answer is, "No." So injunctive relief is injunctive relief. I think that was the right decision.

Pharma hated that decision. Pharma could not stand that decision, and you can understand why. It is not that they are trying to be terribly difficult, but the reality is lots of pharmaceutical companies do not have a product at the end of the day. They are R&D enterprises. They may turn around and license somebody much larger to go produce the ultimate product, but they are not entities that necessarily create a product. On paper that looks problematic now for them if they are trying to get injunctive relief if they don't have a product, because *eBay-MercExchange*¹⁰⁵ says, "If you don't have a product, the equities kind of lean against you."

So there has been significant debate, is all I am getting at, which is huge. I think the amicus briefs in that case particularly

¹⁰⁴ Dennis Crouch, *Review: eBay v. MercExchange Amici Briefs*, PATENTLY-O: PATENT LAW BLOG, Jan. 30, 2006, http://www.patentlyo.com/patent/2006/01/ebay_v_mercexch.html.

¹⁰⁵ *eBay*, 547 U.S. 388.

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bear that out. It is really interesting reading. It is easily found on Google, by the way.

PROF. RICHARDS: In *eBay*,¹⁰⁶ and also *Merck v. Integra*,¹⁰⁷ the Supreme Court is basically saying to the Federal Circuit, “Read the statute.” I think that really got them riled in those two cases. They said, “In certain cases yes, but we are going to ignore it, basically.”

Anything else from the audience?

QUESTION: Thank you. Hi. Susan Scafidi.

I would like to come back to the question of popular intuition and rhetoric that has been raised a couple of times, particularly by Walter Hanchuk. The question is this: You seem particularly concerned that the Court will be influenced by the sense that you’ve got the twenty-two-year-old creating this in a dormitory and there’s not a lot of effort involved, and therefore it’s not particularly obvious, maybe doesn’t deserve protection. Of course we know it doesn’t work that way, but you seem to see this as a present danger.

But I sort of wonder. In the area of copyright, the Court, despite similar intuitions that copyright is about work and effort and Lockean labor theory and so forth, in *Feist*, the Court had no problem saying, “Yeah, that’s a nice intuition and that’s a nice equitable argument, but it doesn’t really work that way.”¹⁰⁸ So I wonder why the concern that that popular intuition might be more influential in patent than it was in copyright.

MR. HANCHUK: That’s an excellent question. That does give me some solace. In fact, we talked about this before the meeting again today. They, despite some of their personal public questions, even outside of an oral hearing, have expressed certain individual reservations, but they have been pretty careful about really upsetting the applecart on the copyright side, and hopefully they show the same level of restraint on the patent side.

¹⁰⁶ *Id.*

¹⁰⁷ *Merck KGaA v. Integra Lifesciences I, Ltd.*, 545 U.S. 193 (2005).

¹⁰⁸ *See Feist Publ’ns, Inc., v. Rural Tel. Servs. Co.*, 499 U.S. 340, 349–50 (1991).

But it's hard to tell, because when you read some of the questions, you do have *Metabolite*,¹⁰⁹ to your point, with three Justices pretty strongly in dissent. Roberts wasn't part of that; Roberts recused himself from that case, for whatever reason. Roberts has made some comments that lead one to believe that he is anti as well. So there you have four. It doesn't take a whole lot, right, because the other five I'm not sure feel that strongly about it. I haven't seen anything from them that says, "Oh no, we can't disrupt this." So it's troubling.

I will say also, just on paper, I find it very interesting that typically, if you were to look at a conservative Court and, say, you have a situation where Congress has repeatedly been given an opportunity to legislate on the issue—in fact, yesterday Senate Finance came out with again this thing about "tax patents are bad; we should not have tax patents." There were sixty issued in the last two years. This isn't a huge deal, frankly. It's just, again, a Fred Flintstone-like thing, where everybody is all upset about tax patents. There have only been sixty issued out of millions of patents.

They very well may come out. Congress, if this legislation passes, may have a specific exclusion. It's funny. The subject matter legislation I generally hate. I don't think we should go down the road of saying, "That's a subject matter we should and that we shouldn't." But it's funny. If this one passes, I don't know if I feel that badly about it, because if it passes, clearly then it's ever so clear that they didn't touch anything else. If they clearly said, "This particular type of patent claiming a tax shelter: not patentable in the United States," and didn't say anything else about business processes or software or anything else, I would normally say a conservative Court would look at that and say, "You know what? This is up to Congress. Congress has spoken. They passed things in the AIPA¹¹⁰ that said, 'We're going to give you prior user rights.' Hands off."

¹⁰⁹ *Lab. Corp. of Am. Holdings*, 126 S. Ct. 2921.

¹¹⁰ See American Inventors Protection Act of 1999, Pub. L. No. 106-113, § 4712, 113 Stat. 1501 (codified as amended in scattered sections of Title 35 of the U.S. Code).

I still have my doubts, I have my doubts, because when you see individual questions from individual Justices, it does make you worry. Some of it—and to the Professor’s point also—is really directed to anger at the Federal Circuit. Really, in *eBay-MercExchange*,¹¹¹ the Federal Circuit clearly looked at the law and said, “Eh, we feel differently.” So now it’s very interesting.

There is a story within a story here, I think. You look at all the cases post-*KSR* and see what kind of lip service, if not actual service, the Federal Circuit will give to the Supreme Court decisions now. You kind of wonder, when you see them following or not following *KSR*,¹¹² what is the undertone in all of that. Are they crazy, or are they crazy like a fox? Are they deciding things to appease the Supreme Court to a certain extent, because clearly if they annoy them again on a particular issue, it seems to me—we’re in agreement on this—it’s just a matter of time before an annoyed Supreme Court picks this up again? So there is going to be this undercurrent. I think every decision that now comes out of the Federal Circuit, there is what the decision says, there is what the dissent says, and there is what the perception is going to be of it, and what will that perception do to an annoyed Supreme Court?

MR. LOCKE: I just want to add one point. You talked about *LabCorp*.¹¹³ I think the Justices were Souter, Stevens, and Breyer. Those aren’t the strict constructionist Justices. Scalia wasn’t in there. Thomas wasn’t in there. The chance to go back and look at what it meant, “the arts” in the Constitution, that’s what they focused on. So I think there’s a big chance to look back and see what the Constitution really gave Congress the authority to regulate. Congress’s silence—I agree with you—is a big point, but they can jump right over it. The Justices who were silent are more important.

PROF. RICHARDS: On that point of a possible leapfrog to the Constitution, I think we have to end. It’s coffee time and the next session needs to start later.

Thank you all very much.

¹¹¹ *eBay*, 547 U.S. 388.

¹¹² *KSR Int’l Co. v. Teleflex Inc.*, 127 S. Ct. 1727, 1741–44 (2007).

¹¹³ *Lab. Corp. of Am. Holdings*, 126 S. Ct. 2921.