

Top Ten Tips for Dealing with Business Method Patents in Canada

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Will Canada Become A Haven For Non-Practicing Entities To Litigate Their Claims?

This list of top ten issues will canvass the law of business method patents in Canada and will consider the impact of the recent Amazon case on your business.

1. Understand that Canada is open to business (method patents).

With its thorough and, at times, bracing decision in Amazon, the Federal Court of Canada affirmed that business methods are patentable subject matter in Canada. In its decision, the Court overturned the Patent Appeal Board's decision to refuse the Amazon application and virtually chastised the Board for entering "into policy-making which stands to fundamentally affect the Canadian patent regime." The Court noted that "the Patent Act is not static; it must be applied in ways that recognize changes in technology such as the move from the industrial age to the electronic one of today."

Accordingly, Canadian businesses must at this time assume that business methods are patentable subject matter and may be asserted in Canada. In considering the threshold for what constitutes patentable subject matter, business owners should consider the Court's finding that business method patents must (1) have a method of practical application; (2) be the new and inventive method of applying skill and knowledge; and (3) have a commercially useful result. At the time of writing of this list, the Amazon decision is under appeal to the Federal Court of Appeal.

2. Understand the impact of business methods on your business.

Since business method patents must be taken seriously in Canada it is prudent to evaluate your company's systems and methods in view of such threats. Business method patents are often, but not always, asserted by non-practicing entities (NPEs). Accordingly, it is prudent, at least in Canada, to be aware of those NPEs that are actively asserting patents in your field of technology. There is an important caveat: in Canada there is no doctrine of wilful infringement giving rise to "treble damages". In the United States, however, treble damages may be awarded against companies that wilfully infringe patents. Findings of wilful infringement may involve companies who had active knowledge of a plaintiff's patent, and yet did nothing to address the situation. Fearing such a determination, some U.S. companies choose not to actively seek out infringement risks.

3. Be aware that Canadian patent law is distinct from that of other jurisdictions.

The above example, with respect to treble damages, is one instance of an important divergence between Canadian patent law and

the law of the United States. There are other differences in Canadian patent law which, in many cases, are favourable to defendants of patent suits. For example, as compared with the United States, a greater scope of prior art may be asserted in Canada because prior use is not restricted to use in Canada. Prior use that discloses the invention to the public may be asserted to invalidate a patent claim regardless of where the use takes place.

Another example is the fact that often the first filing of a patent application is in the United States and the Canadian filing takes place about one year later. This can give rise to a situation where an additional year of prior art may be asserted against the Canadian patent including situations where the patentee may have made an invalidating disclosure between the time of a U.S. provisional filing and the U.S. formal filing. In many cases, one additional year is decisive when considering technologies that evolve in clusters at about the same time.

Accordingly, when considering claims asserted by patentees based in the United States, consider the differences in Canadian law that may render the patentee's position more vulnerable in Canada.

4. Put the plaintiff to task.

At least one author has found the rate of litigation for business method patents to be 27 times greater than that of patents as a whole (Tousi, 2009). As noted above, when business method patents are asserted, they are often asserted by NPEs. NPEs are not concerned with removing credible competitive threats to their business; rather, NPEs are concerned with generating license revenues. A corollary of this that NPEs are known to send out many letters to a broad range of targets in the hope that at least some of those letters will result in a target company willing to take a license. Where a letter from a patentee, particularly from an NPE, is received containing vague allegations and imprecise details of the alleged infringement, consider putting the NPE to task by demanding specifics of the allegation of infringement. Demand a claim chart.

There may also be times when a response is not warranted at all. However, this must be considered carefully and on a case-by-case basis. A difficulty with business method patents is that their very nature often leads to a broad and vaguely-phrased patent description. Where the method is not fixed to any particular device a clear understanding of the claim's scope can be difficult. Nevertheless, such potential imprecision in the patent's specification may also lead to enforcement difficulties for the patentee. In Canada, recent jurisprudence tends to require a heightened level of disclosure to support a valid patent claim.

5. Traditional invalidity attacks continue to apply.

While the Federal Court has made clear that business method patents comprise patentable subject matter, it should be noted that all other allegations of invalidity may be asserted against a business method patent. This includes the typical allegations of anticipation, obviousness, lack of utility, double patenting, ambiguity, insufficiency, and the like. The Federal Court is presently occupied with defining patent utility through an analysis of so-called "promises" made by the patentee in the patent's disclosure. All such "promises" of the usefulness of the business method can therefore be tested. A vague description of the invention may give rise to very credible allegations of invalidity, especially as compared with other jurisdictions.

6. Be comforted that Canada will not be the next Eastern District of Texas.

Notwithstanding the Federal Court's decision in Amazon, it is highly unlikely that Canada will become the next hotbed for business method patent litigation. First, it should be noted that there has never been a patent infringement trial concerning a software patent or business method patent in Canada. In addition to this notable statistic, there are underlying reasons that make Canada an unfavourable jurisdiction for NPEs. The first is based in economics: the market in Canada is much smaller than that in the United States rendering Canada less important in terms of potential damages that can be collected.

Secondly, the data indicates that Canadians patent much less than their U.S. counterparts with respect to business method patents. There are simply fewer business method patents to contend with in Canada as compared with the United States.

Third, the Canadian judicial system is less favourable to NPEs. In particular, Canada follows the British system where the loser in a proceeding must pay a portion of the successful party's costs. Accordingly, greater care must be taken to ensure that the claim or

defence is sound. Furthermore, the likelihood of obtaining an interlocutory injunction in a patent case is extremely small in Canada. The last interlocutory injunction upheld by the Federal Court of Appeal in the Canadian Federal Court was in 2003. Therefore, the immediate threat of an injunction, which is every defendant's worst case scenario, is greatly reduced in Canada.

This is not to say that defendants should ignore business method patents, or ignore the companies that make allegations of infringement with respect to such patents. However, the allegations should be taken in their proper Canadian context.

7. Look to other jurisdictions for insight as to who is patenting business methods in your technology.

The breadth and depth of a company's patent portfolio can be an indicator of its intended business direction(s). Business method patents offer insight into what business methods a company considers key to its existence or alternatively what may operate as roadblocks for its competitors. What is happening in one jurisdiction can be an indicator of what is to come in another jurisdiction.

For example, U.S. companies have had the ability to patent business method patents in the United States ever since the 1998 United States Court of Appeals for the Federal Circuit decision in *State Street Bank & Trust v. Signature Financial Group*. Further, U.S. companies have traditionally taken advantage of the U.S. patent system due to the strength of U.S. patent enforcement and the potential damages that can be collected through the U.S. courts.

U.S. companies tend to be international in their approach and their expansion into Canada may just be a matter of time. Companies need to educate themselves in what business methods are being filed in other jurisdictions to gain insight into the potential future of their business.

8. What you don't see might hurt you.

The Canadian Patent Office's recent practice of rejecting business method patent applications does not mean that companies have not yet filed in Canada. Patent systems can be slow to change. However changes, when they occur, will affect the disposition of currently pending patent applications.

There currently exists a buildup of business method type Canadian patent applications that have yet to be substantively examined. Many applications appear to have been held in abeyance pending the Amazon dispute. Further, due to the general ability to delay prosecution of Canadian patent applications for up to five years, applicants may strategically allow a Canadian patent application sit unexamined while awaiting a more favourable patent climate. In particular, the financial services sector has a number of pending Canadian patent applications.

9. Innovation is key to a company's survival.

Patents by their very nature provide an exclusionary right to the invention by the patent owner. Acceptance of business method patents may affect the adoption and dissemination rates of business method technology in Canada. It is a natural course of company evolution to put research and development resources towards those technologies that can be retained as exclusive for the company and that can give the company a competitive edge over their competition.

One consideration is that business methods, and their protection by patent, may become part of the innovation mantra for Canadian companies and for foreign companies doing business in Canada.

Accordingly, companies need to actively consider how business methods may fit into their systems and products to take advantage of this change. Familiarity with patents within a company is needed to put business method patents into place and into their proper perspective.

10. What does professional skill have to do with it?

Professional skills (i.e. those personal skills reflecting learned behaviours that can be improved with practice and are prone to

refinement through personal experience) are treated differently in Canada as compared with the U.S. Professional skills such as methods of medical treatment and accounting, are patentable under U.S. patent law.

On the other hand, a Canadian patent application seeking protection for a deemed professional skill, business method or not, will be denied by the Canadian Intellectual Property Office. The professional skill distinction can have important ramifications for the patentability of a company's Canadian business method, including third-party patent applications. If a company is seeking patent protection for a business method in Canada, careful attention must be paid to the form the patent application takes in order to avoid this prohibition. Further, where a company is investigating the relevancy of a competitor's patent application, consideration can be given to professional skill as part of a valid defence strategy.

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