
Business Method Patents: What You Don't Know Can Hurt You

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Why You Should Care About Business Method Patents

- Number of business and internet patents issuing:
 - ◆ 1991: 9
 - ◆ 1998: 1,595
 - ◆ 1999 (Jan. - June): about 1400
- State Street Bank v. Signature Financial Group, 149 F.3d 1368 (July 23, 1998)
- Since State Street: A 700% increase in internet/business method filings

Why You Should Care *(cont.)*

- Thousands of business method patents currently pending
- They are secret
- One or more may cover what you are doing
- You probably won't know about them until they issue

Topics of discussion

- How Did State Street Bank Change the Law?
- Current Litigation Examples
- 1999 Patent Reform Act
- Protecting Your Business in the post-State Street World

What is a Patent?

- A legal right to exclude others from:
 - ◆ **Making**
 - ◆ **Using**
 - ◆ **Selling**
 - ◆ **Offering for Sale**
 - ◆ **Importing****your Invention**
- Copying does not matter

What Can Be Patented?

- Useful (35 USC 101)
- Novel (35 USC 102)
- **Non-obvious** (35 USC 103)
 - ◆ (Not retrospectively so)
- Patentable Subject Matter (35 USC 101)

Patentable Subject Matter

- Machine
- Manufacture
- Composition of Matter
- Process

(35 USC 101)

Exceptions to Patentability

- “Phenomena of Nature”
- “Mere Idea”
- “Mental Processes”
- “Abstract Principles”

Open Question Before State Street

- Is a computerized method of doing business a “mere principle” or “abstract idea”?
 - ◆ Does it produce a useful, concrete and tangible result?
 - ◆ Per se exception for business methods?

State Street Bank v. Signature Financial, 149 F.3d 1368 (1998)

- Computer System for Calculating Share Values in a “Hub and Spoke” Mutual Fund was Patentable
- “Fund Share Prices” are “Useful, Concrete and Tangible” Because They are Fixed in the Computer’s Memory and Relied Upon by People
- Business Method Exception Abolished (or Never Existed)

AT&T v. Excel Communications, (April 14, 1999)

- Covers making an electronic telephone billing record that includes a field that indicates whether the receiving party subscribes to a particular long distance carrier.

What is Patentable After State Street?

- Computerized method applied to a practical problem (just not pure math)
- May also cover non-computerized techniques
 - ◆ U.S. Patent No. 5,851,117: Covers training janitors to clean a building using pictures of various cleaning tasks.

After State Street Bank

- “Non-patentable subject matter” eliminated as a viable defense in most business method patent suits
- Existing business method patents more valuable and likely to be enforced
- “Green light” to file for business method patents

What is (Still) Not Patentable?

- Not New
- Obvious
- Indefinite
- Not Enabled
- (But only if the patent examiner notices)

Business Method Patent Suits

- U.S. Patent No. 5,895,454 (SBH, Inc., Juliette Harrington, NZ): Online shopping mall (suit against Yahoo).
- U.S. Patent No. 5,778,367 (Network Engineering Software, Inc.): Password-protected advertising pages that are indexed and then can be searched by other users over the network. (suit against eBay).

Business Method Patent Suits

- U.S. Patent No. 5,794,207 (Priceline.com):
Using a computer to conduct a “reverse auction.” (Suit against Expedia.com)
- U.S. Patent No. 5,960,411 (Amazon.com):
One-click online shopping. (suit against Barnesandnoble.com)

What Amazon.com Claimed

11. A method for ordering an item using a client system, the method comprising:

- displaying information identifying the item and displaying an indication of a single action that is to be performed to order the identified item; and
- in response to only the indicated single action being performed, sending to a server system a request to order the identified item whereby the item is ordered independently of a shopping cart model and the order is fulfilled to complete a purchase of the item.

One-Click Shopping Patent

- 1-Click Shopping implemented by Amazon in September, 1997
- Patent filed (secretly) on September 21, 1997
- Barnesandnoble offers one-click “Express Lane” feature in May, 1998
- Patent issues on September 28, 1999
- Lawsuit filed on October 21, 1999
- Preliminary injunction on December 1, 1999.
- Injunction Vacated on February 14, 2001.

B&N's Asserted Defenses

■ Anticipated by Prior Art

- ◆ “Web Basket” System
- ◆ Netscape Merchant System book
- ◆ “Oliver’s Market” web site
- ◆ OpenMarket Patent
- ◆ Comuserve “Trend” System

■ Obvious

■ Not Infringed

Why B&N Lost at the Trial Court

- All of the prior art required taking at least two steps to purchase after viewing an item
- Amazon's expert: one-click revolutionized online shopping
- B&N's own expert: one-click never occurred to him
- Most "shopping carts" are abandoned before completing sale

Why the Court of Appeals Reversed the Injunction

- The Patent Was Probably Infringed by B&N
- However, B&N Showed a Substantial Likelihood that the Patent Was Invalid
 - ◆ The District Court had improperly distinguished the prior art based on the presence of features that were also in the B&N system
 - ◆ B&N showed that many of the prior art references had key features of the claimed invention, and there was a good chance that the other features were also present or would have been present in the prior art
 - ◆ Fact that invention had never occurred to B&N's expert was irrelevant to obviousness analysis, which is based on an objective standard

1999 Patent Reform Act

- Special “prior user” defense for “methods of doing or conducting business” (35 USC 273)
- Elements of defense
 - ◆ Reduction to practice more than one year prior to effective filing date
 - ◆ Commercial use prior to effective filing date
- Defense is personal, does not invalidate patent
- Applies to existing patents but not existing litigation
- Does not cover computer system claims
- Would not have helped barnesandnoble.com

How to Protect Your Business

- Carefully document your own ideas and developments
- Consider patenting them

Documenting Your Own Work

- Date and witness all important design documents
- May provide you with prior invention defense or invalidate patent
- Won't protect you against earlier filed secret pending patents

Patenting Your Developments

- Stabilizers that lock in your head start
- Tangible representation of technology assets
- Unambiguous proof of your invention date
- A defensive weapon for “mutual assured destruction”

Obtaining a Patent

- Prepare application
 - ◆ No need for a working model
 - ◆ Enabling disclosure
- \$5 - \$30k
- Typically 2-3 years to issue in US

Responding to Allegations of Infringement

- Work Around
- License
- Opinion of Counsel
- Request re-examination
- Litigate

Opinion of Counsel

- May relate to infringement or validity
- May provide some protection against treble damages and attorneys fees

Reexamination

- Administrative proceeding before PTO
- Low cost
- Must be based on prior art
- Third parties may now participate (35 USC §§. 311-318)
- No presumption of validity
- But, may result in PTO “blessing” patent against prior art in a future court challenge

Litigation

- Presumption of validity
- \$1-3 million typical cost
- Possibility of preliminary injunction
- 2-3 years for a result