

Business Methods Patent Litigation in the United States

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Overview

- Origins of Business Method Patents
- What are Business Method Patents
- Interpreting Business Method Patents
- Business Method Patent Litigation
- Special Issues with Business Method Patent Litigation

Origins of Business Method Patents

- Early patents include:
 - mechanical devices
 - methods for using a machine
- Later, electrical circuits and systems
- Initially, software not considered patentable

The Rise of Software Patents

- In early 1980's, have software patents disguised by using hardware limitations
- In 1980's and 1990's, growing acceptance and scope of software patents
- Methods of doing business generally not considered patentable

The State Street Bank Patent

- U.S. Patent No. 5,193,056, entitled “Data Processing System for Hub and Spoke Financial Services Configuration”
- Claims were for an apparatus, including a computer, storage, and arithmetic logic circuits for providing processing for managing a particular financial services configuration

The *State Street Bank* Court Strongly Endorsed Software Patents

- The patent was not all that different from by-then established software patents
- In *State Street Bank*, the Court of Appeals confirmed the broad extent of software patents:
 - “to be patentable an algorithm must be applied in a ‘useful’ way”
 - a transformation of data produces “a useful, concrete,⁶ and tangible result”

The *State Street Bank* Court Endorsed Business Method Patents

- The Court expressly endorsed business method patents, describing the courts' earlier "business method exception" to patentable subject matter as "ill-conceived"
- Leaves open question of how courts will interpret business method patents

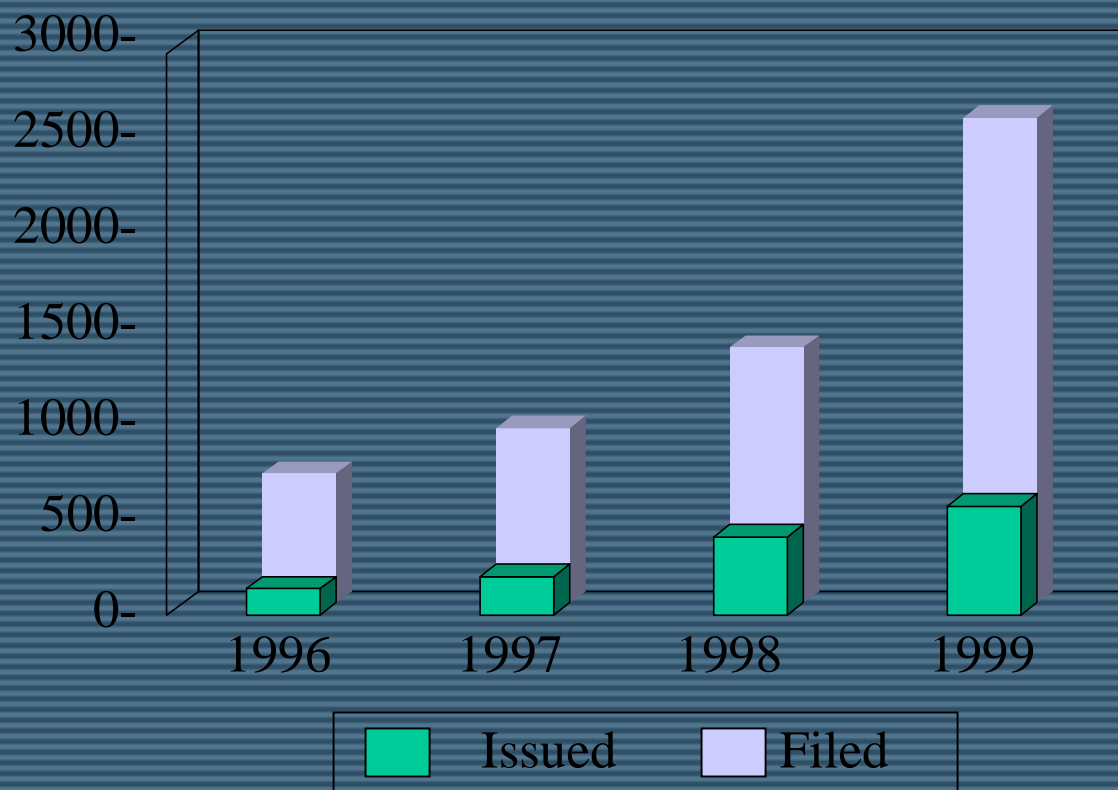
What is a Business Method Patent?

- Not defined in *State Street Bank* case
- Often involve Internet-based business models
- Often similar to old business models, but adjusted for application to the Internet
- Frequently include software or hardware components

Some Descriptions of Business Method Patents

- PTO Class 705: “Data processing: financial, business practice, management, or cost/price determination”
- Patents relate to health care, insurance, electronic shopping, accounting, finance, coupons & advertising, etc.

Recent Action in Class 705



Famous Examples of Business Method Patents

- Amazon.com's U.S. Patent No. 5,960,411: Method and System for Placing a Purchase Order via a Communications Network (1-click shopping)
- Priceline's U.S. Patent No. 5,794,207: Method and Apparatus for a Cryptographically Assisted Commercial Network System Designed to Facilitate Buyer-Driven Conditional Purchase Offers

Famous Examples of Business Method Patents

- Open Market's U.S. Patent No. 5,715,314:
Network Sales System (payments, shopping
carts)
- DoubleClick's U.S. Patent No. 5,948,061:
Method of Delivery, Targeting, and
Measuring Advertising Over Networks

Famous Examples of Business Method Patents

- CyberGold's U.S. Patent No. 5,794,210: Attention Brokerage (payments for viewing advertisements)
- Mercata's U.S. Patent No. 6,047,266: Demand Aggregation Through Online Buying Groups (on-line buying cooperatives)

Additional Examples

- U.S. Patent No. 5,811,117: Building Block Training Systems and Training Methods (method for training a cleaning staff)
- U.S. Patent No. 6,049,811: Machine for Drafting a Patent Application and Process for Doing Same

The Range of Business Method Patents

- There is a broad range of what might be considered business method patents
- Patents have varying degrees of hardware and software elements
- Upcoming patents likely to have even fewer “technology” elements
 - With fewer hardware or software elements, assessing validity and infringement becomes more¹⁵ challenging

Interpreting Business Method Patents: Comparison to Biotech

- Biotechnology
 - two decades of growth and maturation
 - patent law landscape becoming well-defined
- Business method patents
 - at the cusp of explosive growth
 - legally uncharted

The Birth of Biotech Patents

- In 1980, Supreme Court declares “living things” patentable subject matter in *Diamond v. Chakrabarty*
- In 1980s, U.S. Patent Office sees explosion in number of biotechnology applications
- In mid 1980s, Patent Office issues first wave of patents with broad claims

Initial Biotech Decision Leaves Many Questions

- *Diamond v. Chakrabarty* laid to rest the question of whether living organisms are patentable
- It did not answer the question of how broad that patent monopoly would be
- After two decades, the boundaries of legally enforceable patent protection are becoming clear

In 1990's, Courts Address Broad Biotech Claims

- In series of biotech cases, broad biotech claims repeatedly invalidated
- Sometimes, claims invalidated for failure to teach how to make and use the invention as broadly claimed (lack of enablement)
- Sometimes, claims invalidated because of inadequate written disclosure

Lessons from Biotech Patents

- Courts uncomfortable with broad patent claims in new patent area
- Difficult to have patents in new areas cover more than what was actually disclosed or described in the patent
 - as demonstrated by *Wang Laboratories v. America Online* case, where Wang tried to apply a patent from the early 1980's to web browsers

How will Business Method Patents be Interpreted and Treated?

- Narrow interpretations likely
- Lack of enablement or inadequate written description arguments may be more difficult than in the biotech context
 - the technology is often relatively simple
- But “obviousness” presents a promising defense
 - particularly with broad claims

Lessons from *Amazon.com v. Barnesandnoble.com*

- In District Court, amazon.com obtained a preliminary injunction against use of “one-click” shopping
- To defeat arguments of obviousness, amazon.com presented classic counter-arguments:
 - popularity and copying of one-click feature
 - initial skepticism about ability to implement one-click shopping

Considerations for the Patent Holder

- Infringement exists when someone makes, uses, sells, offers to sell, or imports into the U.S. a patented invention
- Who is a direct infringer?
 - Some claims directed to overall e-business system
 - Some claims directed to vendor, customer, or third-party provider
- How easy is the claim to design around?

The Prior User Defense

- 35 U.S.C. § 273: Defense to infringement based on earlier inventor
- Applies to a “commercial use” of a “method of doing or conducting business”
- Statements in the legislative history suggest the defense should be interpreted broadly

Application of the Prior User Defense

- Must have, acting in good faith, actually reduced the subject matter to practice at least 1 year before the effective filing date of the patent; and
- Must have commercially used the subject matter before the effective filing date of the patent

Commercial Use

- Use in connection with an internal use or an arm's length sale or other transfer of a useful end result
- The use need not be accessible to or otherwise known to the public
- Can be a use subject to a premarketing regulatory review period

Limitations to the Prior User Defense

- Is personal: applies only to the person or entity that actually used the invention earlier
- Cannot use defense if derived prior use from the patent holder
- Applies only to the specific claims for which the prior use is shown
- Does not invalidate the patent claim

Limitations to the Prior User Defense, continued

- Like invalidity defenses, requires proof by “clear and convincing evidence”
- If defense not asserted with a reasonable basis and defendant found to infringe, the court “shall find the case exceptional for the purpose of awarding attorney fees”

Finding Prior Art

- Often difficult to find prior art patents to business method patents
- May also be difficult to find prior publications in traditional places
 - Business school papers may be more promising than technical publications
- Other commercial systems may be prior art
- Finding prior art will take lots of time

Using the World-Wide Web

- For Internet-based business method patents, consider WWW-based searches
- Consider posting questions or requests
- Help may come from anti-patent forces
 - e.g., BountyQuest, which provides bounties for prior art

Conclusions

- Business method patents will continue to issue and to be asserted
- Even if you do not expect to bring a lawsuit, build a patent portfolio for defensive purposes
- Obtain patents with varying scopes and directed at different types of players
- Maintain records of any use of business methods₁

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