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SPOTLIGHT ON BUSINESS PROCESS PATENTS

On March 9, Jeff Bezos, the founder and CEO of Amazon.com, posted an open letter on the Internet in which he advocated "meaningful (perhaps even radical) patent reform." Bezos's bold declaration was prompted by harsh criticism directed at Amazon and other ecommerce companies over their attempts to patent methods of doing business over the Internet. Critics of business process patents claim that they are dangerous to the new economy. But the protections offered by business process patents create substantial barriers to entry that many start-ups crave.

BACKGROUND. The current controversy over business process patents was ignited by a 1998 decision of the United States Court of Appeals for the Federal Circuit which laid to rest the judicially-created "business method" exception to the statutory definition of patentable subject matter. *See State Street Bank & Trust Co. v. Signature Fin. Group, Inc.*, 149 F.3d 1368, 1375 (Fed. Cir. 1998). Although the patent statute declares that "[w]hoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor," courts could, prior to the State Street decision, invalidate patents that had been issued for processes amounting to no more than methods of doing business.

The lower court in *State Street*, applying the "business method" exception, found that the process for which defendant Signature had received a patent—a data processing system by which various mutual funds could pool their assets in an investment portfolio organized as a partnership—was, in essence, a business method and thus not within the statutory definition of patentable subject matter.

On appeal, the Federal Circuit reinstated the patent, expressly rejecting the "business method" exception and holding that claims for business process patents should be treated like any other patent claims; that is, they should be granted where the process at issue is novel, non-obvious, and produces "a useful, concrete and tangible result."

RELATIONSHIP TO ECOMMERCE. Many ecommerce companies have seized on business process patents for the barriers to competition that they create. As the ecommerce marketplace becomes increasingly crowded, companies are using patents to keep competitors at bay (and to convince venture capitalists that the company has a significant asset). For example, Priceline.com is using its broad patent on its buyer-driven auction service (the heart of its business model) as a basis for an infringement case against Microsoft and its Expedia.com web site. And in December 1999, Amazon.com obtained a preliminary injunction preventing Barnesandnoble.com from imitating Amazon's patented "One Click" checkout service.

Less well-known but similar suits abound: Leading network advertiser DoubleClick has sued L90 claiming that L90 infringed its patented ad-serving technology; Sightsound.com is suing a music retailer and demanding royalties from others over a patent covering the sale of audio and video recordings online; and two MIT professors are suing

AskJeeves.com over their patents covering the handling of natural language searches online.

THE CONTROVERSY. In 1995, the U.S. Patent Office issued 199 business process patents. In 1999 (following *State Street*), 980 were issued. Critics claim that the Patent Office doesn't know what it is doing when it deals with software or technology, and that many of these business process patents are overly broad. Although the patent system was designed to foster innovation by ensuring that inventors would profit from their inventions, critics argue that the ubiquity of business process patents covering broadly-defined methods of doing business on the Internet risks turning that incentive on its head. Reduced competition and monopolization caused by the issuance of such patents may, the argument goes, ultimately reduce innovation in the ecommerce marketplace.

Much of the concern about business process patents stems from the fear that commonly-accepted methods of doing business in cyberspace will suddenly become off-limits. In addition to its "One Click" patent, for example, Amazon.com received a patent last month for its process of rewarding "affiliate" sites that post a link to Amazon with a percentage of any sales made as a result of the use of that link. The award of Amazon's "affiliate" patent set off a firestorm of protest in ecommerce circles because it was viewed as granting a monopoly to Amazon for a commonly used ecommerce business method. Ecommerce companies with their own affiliate programs will now have to consider whether their programs infringe Amazon's patent—and whether they will test Amazon's will to enforce its patent in the courts.

Other recently-issued business process patents are equally broad and create similar concerns:

- Linkshare was granted a patent for an affiliate network marketing model that covers the way visitors can be tracked on a web site;
- Be Free.com recently received a patent for "Determining Behavioral Profiles of a Computer User," a description that appears similar to Linkshare's, and covers a method of tracking a consumer's purchasing preferences;
- Open Market, Inc. holds patents for business processes involving the use of online "shopping carts" and "network-based sales systems"—which appears to cover many aspects of conducting business over the Internet, including on-line marketing, purchasing, and payment;
- CyberGold, Inc. received a patent for a system of providing immediate payment to computer users in exchange for viewing an on-line advertisement;
- Netcentives, Inc. received a patent for an on-line frequent buyer program called a "ClickReward Scheme"; and
- Accompany Inc. has announced that it expects to be awarded a patent on its technology for group buying over the Internet. Accompany has described the patent as "really broad."

Many of these patents cover business methods (as opposed to technology) and most of them cover behavior that is already widely in use.

POSSIBLE REFORMS. Although some commentators have argued that it is too soon to tell whether radical patent reform is necessary, others, such as Amazon.com's Bezos, have proposed significant changes designed to conform the patent system to the realities of the Internet. Specifically, Bezos (among many others) has recommended:

- that business process and software patents have a much shorter lifespan than current 17-year patents—somewhere between 3 and 5 years;
- that there be a short public comment period before patents are issued to allow the Internet community the opportunity to provide examples of prior art; and
- that a prior art database be established for use by the Patent Office (funded in part by Amazon.com).

The Patent Office has responded to such suggestions by denying that the patent system needs changing and affirming its view that "the existing patent law works very well for all technology." Although the Patent Office welcomed Bezos's offer to help fund a central prior art database, it rejected the call for a comment period before patents are issued and rejected the suggestion to limit the lifespan of patents. Congress, too, appears reluctant to reopen the issue of patents after having enacted significant changes in the patent laws as part of the 1999 Omnibus Appropriations Act.

STAY TUNED. It remains to be seen whether the business process patents currently being issued—and aggressively asserted by the likes of Amazon and Priceline—will be upheld by the courts. What is certain, however, is that the outcome of the current disputes will help to define the way ecommerce is conducted well into the future.

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MONTHLY UPDATE

BROADBAND. During the Global Internet Summit in Virginia last week, Rep. Rick Boucher (D-VA), said that broadband legislation (H.R. 1686) that he has offered enjoys a "greater than even" chance of winning passage. Rep. Boucher's proposal would relieve the Regional Bell Operating Companies from 1996 restrictions that prevent them from carrying data outside their regions. Antitrust language in the bill puts it under the jurisdiction of the House Judiciary Committee, whose Chairman has signaled an interest in marking up the legislation.

Rep. Billy Tauzin (R-LA), Chairman of the House Commerce Telecommunications Subcommittee, has proposed a narrower bill (H.R. 2420), which was referred to the Commerce Committee, where it faces the opposition of the full committee Chairman, Rep. Tom Bliley (R-VA). Chairman Bliley believes that the Telecommunications Act of 1996 is working as it was intended and that Congress should not weaken the Bells' incentives to open up their markets.

ELECTRONIC SIGNATURES. Legislation conferring legal validity on electronic signatures has passed both the U.S. House of Representatives (H.R. 1714, Rep. Tom Bliley, R-VA) and the Senate (S 761, Sen. Spence Abraham, R-MI). However, Senate Democrats have blocked efforts to proceed to a conference between the two houses until an agreement on the composition of the conference committee is reached. Meanwhile, the National Governors Association has announced its opposition to House language preempting state laws.

EXPORT CONTROLS. The Senate is considering a bill (S 1712) offered by Sen. Phil Gramm (R-TX) to reauthorize legislation governing export controls on products with both commercial and military uses. The technology industry is particularly interested in reducing the time Congress has to review changes to computer export controls from six months to 30 days.

PRIVACY. Reps. Asa Hutchison (R-AR) and James Moran (D-VA) have offered bipartisan legislation (H.R. 4049) that would create a commission to study and make recommendations to Congress on financial, on-line, and health privacy. The 17-member panel would hold a series of hearings throughout the country regarding Internet privacy, identity theft, and protections for health, medical and financial records. During an election year, and with increasing pressure on Congress to act on the perceived public demand for privacy legislation, a commission may be a very attractive option for congressional leaders. The following is a short summary of other pending privacy proposals:

- *Online Privacy Protection Act*, S 809, Sen Burns (House Companion H.R. 3560, Rep. Frelinghuysen): requires notice, opt-out, consumer access
- *Electronics Rights for the 21st Century (E-Rights Bill)*, S 854, Sen. Leahy: requires notice, opt-out, access for law-enforcement
- *Electronic Privacy Bill of Rights*, H.R. 3321, Rep. Markey: requires notice, opt-in, consumer access
- *Secure Online Communications Enforcement Act*, S 2063, Sen. Torricelli: requires opt-in
- *Internet Growth and Development Act*, H.R. 1685, Rep. Boucher: requires notice (the bill mainly deals with broadband and cable access)
- *Internet Consumer Information Protection Act*, H.R. 2882, Rep. Vento: requires opt-in

SPAM. The House Commerce subcommittee on Telecommunications, Trade and Consumer Protection approved a bill (HR 3113) by Rep. Heather Wilson (R-NM) requiring every unsolicited commercial email

to be identified as unsolicited mail and to include a return address to allow recipients to opt-out. Under the bill, it would be unlawful to continue sending unwanted commercial email to someone who has asked that it stop. The proposal, which provides for FTC enforcement, also allows ISPs to sue spammers who violate the ISPs' policies.

TAX. The Advisory Commission on Electronic Commerce met for the fourth and final time to vote on recommendations to transmit to Congress. A majority of members on the Commission voted to:

- Repeal the federal 3% luxury tax on telephone service;
- Create a new commission to supervise states in their efforts to simplify sales and use taxation systems;
- Prohibit permanently states or localities from taxing Internet access subscription charges;
- Extend by five years the current moratorium on multiple and discriminatory taxation;
- Require businesses to collect sales taxes in states where they have nexus (merely having customers or a subsidiary in a particular state would not constitute nexus).

The Commission did not reach the required supermajority consensus, but congressional leaders have signaled their interest in receiving any plan advanced by a simple majority. The current moratorium will expire October 1, 2001, unless Congress acts before then.

WTO/CHINA PERMANENT NORMAL TRADE RELATIONS. President Clinton released a draft of the bilateral trade deal negotiated with China last year, in which China agreed to make several concessions important to the technology industry, among them:

- permitting foreign investment in China's telecommunications services market;
- agreeing to eventually eliminate tariffs on most information technology products; and
- committing to allow U.S. companies opportunities to sell their products to the Chinese government.

If the measure is not approved and China enters the WTO, the United States may be violating WTO rules ensuring that all member countries offer each other the same trade benefits. China could then retaliate by withholding market access.

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