
Patenting Electronic Commerce

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Recently, there has been a great deal of activity relating to patents involving electronic commerce and "business method" technologies. A significant catalyst for this activity was the [State Street decision in 1998](#). This decision, which came from the federal appeals court responsible for all patent cases, explicitly held that business methods are patentable. Since then, an increasing number of e-commerce/business method patents have been obtained and litigated. Despite some recent controversy relating to these patents, many companies and individuals have determined that to ignore the current situation would be to place themselves at a serious disadvantage.

At the Patent Office

Patents relating to e-commerce and business method technology are being procured at an increasing rate, as is evident from U.S. Patent and Trademark Office (PTO) statistics. For example, many e-commerce and business method patents are classified by the PTO under "class 705, subclass 26" entitled "electronic shopping (e.g., remote ordering)." The number of patents in this subclass increased about 100% from 1998 to 1999. This is significantly greater than the recent trend for all utility patents issued by the PTO.

Two patents from this subclass that have received considerable attention are owned by Amazon.com. The [first patent](#) allows a customer to order an item over the Internet using a

single action (e.g., a single click of a mouse). The single mouse click sends an order request, as well as customer identification, to a merchant's server system. The merchant's server then generates a purchase order "without the use of a shopping cart ordering model" -- meaning that there is no additional "check-out" procedure (e.g., a second mouse click) once a customer has selected an item to purchase.

The second [Amazon.com patent](#) relates to a web referral methodology, in which a referring web site contains one or more links to specific items available for purchase on a merchant site. If a customer ultimately purchases an item from the merchant site through one of the links on the referring web site, the referring web site receives a commission.

The recent attention and controversy caused by Amazon's and other patents has contributed significantly to a [new PTO policy](#) that patent applications relating to business technology in class 705 will receive additional scrutiny. This scrutiny will include a mandatory search of certain types of U.S. patent documents and non-patent literature, as well as a second level of review for all allowed applications. In general, this new policy is aimed at better ensuring, for example, that the technology to which an issued patent is directed is novel.

As a practical matter, the PTO's new policy is likely to result in a greater number of examiner rejections for applications in class 705. While this will probably increase the review period for these applications and make it more difficult for an applicant to obtain patent protection on technology of "questionable" novelty, it does not affect the general recognition that business methods are patentable subject matter, to be reviewed under the same laws and principles as any other subject matter (albeit now with greater scrutiny).

Some companies have placed a major focus on procuring e-commerce/business method patents. Probably the most well known of these companies is Walker Digital, which created Priceline.com based on a "reverse auction" patent. Walker Digital's success in drawing

attention to its patent portfolio has reportedly prompted other companies to follow in its footsteps.

The Litigation Situation

Since State Street, many owners of electronic commerce/business method patents have taken a more aggressive stance in asserting their patent rights. One highly publicized example involves a dispute between Amazon.com and Barnesandnoble.com concerning Amazon.com's "one click" patent discussed above. Amazon.com filed suit against Barnesandnoble.com, alleging that Barnesandnoble.com had willfully infringed Amazon.com's patent, and sought a preliminary injunction and damages. On December 1, 1999, a court granted [Amazon.com's request for the preliminary injunction](#), thus effectively stopping Barnesandnoble.com from using the one-click methodology during the 1999 holiday season. Regardless of what ultimately transpires in this litigation, it shows that courts are willing to grant preliminary injunctions for e-commerce / business methods, and that such patents can indeed make life more difficult for competitors. This can be expected to lead to an increase in litigation over e-commerce and business method patents.

Enacted Patent Legislation

Under traditional U.S. patent law, if a first party develops an invention but keeps it a secret, and a later party independently and subsequently invents the same invention and obtains a patent on it, the later party is able to sue the first party for patent infringement. For years, legislation was proposed to give that first party a general defense to such patent infringement. However, this general "first inventor defense" met with much resistance. Recently, however, legislation has been enacted (as part of a major [patent reform bill](#)) to allow the first inventor defense to be asserted, but only in particular situations where the patented subject matter relates to "a method of doing or conducting business." This legislation was signed into law by the President on November 29, 1999.

Conclusion

As e-commerce and business method technologies continue to be developed, companies and individuals will continue to recognize the increased significance of patent protection in this area, for both offensive and defensive purposes.

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