
The Effects of the "One-click" Patent and Reversal of the Amazon.com Decision – What Does It Mean for "Business Method" Patents?

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The emergence of a new technology is often accompanied by questions of how that technology should be treated in view of existing laws. Sometimes, debate arises over whether the current laws are sufficient, in need of modification, or whether they are simply inappropriate to deal with the new technology. Recently, one technology that has spawned such debate and controversy relates to the patenting of so-called "business methods."³ The major event that provided the catalyst for this controversy was the 1998 decision by the Court of Appeals for the Federal Circuit of *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*⁴ In that decision, the patentability of subject matter relating to methods of doing business was clearly affirmed and brought squarely into the public consciousness

About a year after the State Street decision, I wrote an article discussing certain events concerning business method patents which were, at least in part, a result of the State Street decision.⁵ These events included the increase in patents and litigation relating to "business method" technology, as well as the introduction of the then-pending (now enacted) legislation concerning prior user's rights for "business methods."⁶ As that article went to press, Amazon.com filed its now-famous law suit against Barnesandnoble.com, alleging patent infringement of its "one-click" patent.

Amazon's patent, its high-profile lawsuit and the 1999 preliminary injunction it won against Barnesandnoble.com as part of that lawsuit,⁷ have in many respects escalated the level of the business method debate. This escalation includes the creation of various "initiatives," such as the introduction of legislation that would uniquely apply certain rules and standards to business method patents and applications, and a U.S. Patent and Trademark Office (PTO) directive effectively increasing the level of review of patent applications assigned to certain technology classes. In some sense, many of the events that the Amazon patent helped to initiate can be characterized as somewhat of a "back-swing" from what some have viewed as the opening of the floodgates of patent filings and litigation in the business method area in the wake of the State Street decision.

In view of the timing of the earlier article and the subsequent events mentioned above, this current article can be viewed as a kind of continuation of the first one, focusing on the question of "what has

transpired in the area of business method patents since the beginning of the Amazon litigation, and what it might mean for the future of business method patents" ⁸ The most recent event weighing in on this question is the recent decision by the Court of Appeals for the Federal Circuit, which removed the preliminary injunction obtained by Amazon. ⁹ In addition, taking mostly into account the current state of the law (but not ignoring other possibilities), a few practice tips are also provided for those drafting patent applications in this technology.

The Amazon Patent and Related Events

The Amazon.com patent (U.S. patent number 5,960,411, hereafter the '411 patent) relates to allowing a customer to order an item over the internet using a single action (e.g., a single click of a mouse). Specifically, the single mouse click sends an order request, as well as customer identification, to a merchant's server system. The server then retrieves additional previously-stored customer information residing on the server (e.g., the customer's shipping information, billing information, etc.), and generates a purchase order using that additional information. According to the patent, this is done "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 that he or she wishes to purchase

With regard to the litigation at the district court level, Amazon.com filed suit against Barnesandnoble.com, alleging that Barnesandnoble.com had willfully infringed Amazon.com's patent and asking for, amongst other things, a preliminary injunction and an award of damages. On December 1, 1999, the district 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 (and, as it turned out, through the 2000 holiday season as well).

Regardless of what ultimately transpires in the course of this litigation, Amazon has already won a victory in making it more difficult for Barnesandnoble.com to transact business during a critical period of time. The more widely-felt effects, however, resulted from the considerable attention that the case, generally, and the preliminary injunction, in particular, received in the press. Some of these effects included a further recognition that this type of patent could be of great value, further contributing to the already tremendous increase in the number of patent applications filed in areas of technology that are similar to the Amazon patent. Specifically, the number of patent applications filed in PTO technology class 705 ¹⁰ (which is generally considered as having much "business method-related" technology associated with it) has tripled from 1999 to 2000. ¹¹ Some effects have also included at least a perceived increase in the assertiveness with which parties have litigated these types of patents. Other effects, however, are (at least in part) a response to those who have expressed strong opinions that these types of patents should not be allowed to exist, or at least that significant limitations should be placed upon their existence. Following a discussion of the Federal Circuit's decision regarding the Amazon preliminary injunction, some of these other effects are discussed further below.

The Federal Circuit's Decision

On February 21, 2001, the Court of Appeals for the Federal Circuit held that Amazon.com was not

entitled to preliminary injunctive relief, and vacated the District Court's order that set the preliminary injunction in place.¹² For the preliminary injunction to have been maintained, the court stated that Amazon would have had to show that, at the trial phase, "(1) Amazon will likely prove that [Barnesandnoble.com] infringes the '411 patent, and (2) Amazon's infringement claim will likely withstand "[Barnesandnoble.com's] challenges to the validity and enforceability of the '411 patent."¹³

With regard to infringement, the Federal Circuit concluded that "Amazon has made the showing that it is likely to succeed at trial on its infringement case."¹⁴ However, after reviewing the prior art and expert testimony, the court also concluded that the evidence in Amazon's favor was not so strong on the issue of validity, and that Barnesandnoble.com "has raised substantial questions as to the validity of the '411 patent."¹⁵ For example, a significant unresolved question was found to exist as to whether the prior art Compuserve Trend system transmits a user identifier along with a request to order an item in a similar or identical way as claimed in the '411 patent. Consequently, the court found that the evidence did not entitle Amazon to a preliminary injunction. Of course, the ultimate fate of the '411 patent has yet to be determined at the trial stage of the litigation.

The Court was quick to emphasize, however, that a successful challenge to a preliminary injunction in which, as here, a substantial question of invalidity is raised, does not necessarily support a finding of invalidity at the trial stage. This is because a finding of invalidity at trial requires clear and convincing evidence, whereas the removal of the preliminary injunction does not require a showing of actual invalidity. Thus, the court stated that "[t]he showing of a substantial question as to invalidity [] requires less proof than the clear and convincing showing necessary to establish invalidity itself."

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Of note is the fact that no issue was raised by the Federal Circuit, regarding whether the subject matter of the '411 patent was of an unpatentable or "special" nature,¹⁷ nor was there any mention of the State Street decision. This would tend to confirm that, at least as far as the Federal Circuit is concerned, the innate patentability of subject matter of this type is a non-issue, and that such subject matter should be treated as any other subject matter would be. Consequently, it would seem (perhaps not surprisingly in view of the State Street decision, itself) that the Federal Circuit, even in the face of a patent such as Amazon's, focused on issues such as whether the patent is valid in view of the prior art, rather than on trying to select certain types of subject matter for special treatment. Though the Federal Circuit may have had this focus, not everyone agrees that it's the correct one.

Reaction to the Amazon Patent Litigation and its Effects on Business Method Patents

As indicated above, Amazon's '411 patent and the district court's preliminary injunction drew much attention and prompted many to voice concerns over these types of patents,¹⁸ even going as far as suggesting boycotts of Amazon.¹⁹ This prompted Amazon's CEO to write a public letter indicating that certain changes should be made to the patent system where "business method" technology was concerned.²⁰ His proposals included a recognition "that business method and software patents are fundamentally different from other kinds of patents," that the lifespan of such patents should be 3 to 5 years, and that there should be a public comment period before the patent is issued to allow for the submission of prior art references.²¹

Two of the more significant initiatives that, at least in large part resulted from concerns such as those mentioned above, warrant discussion herein. The first is from the PTO, which in March of 2000 launched its initiative for additional review for patent applications assigned to Class 705 mentioned above.²² Aspects of this initiative include mandatory search requirements in certain specified areas of patent and non-patent literature, as well as an additional second-level review of all allowed applications in Class 705 to ensure compliance with, amongst other things, those mandatory search requirements.

In general, a major focus of the PTO's initiative is on obtaining prior art and ensuring that issued applications are novel and nonobvious through existing (and uniformly applied) patent laws. It is true that, in some sense, the PTO has singled out a certain type of subject matter by more carefully scrutinizing only those patent applications assigned to Class 705. The rationale is that where "arguably invalid" patents may be issuing in a "new" technology area because prior art has been difficult to come by and/or appreciate by those examining the applications, additional levels of review and mandatory searches in certain areas may alleviate the adverse situation. What is not being done, though, is to apply a different set of legal standards or substantive rules to a given technology.

The PTO initiative is not, of course, without its limitations. For example, there are other classes in the PTO where patents that can be said to relate to "business methods" may reside.²³ Likewise, there may be patents in class 705 that virtually no one would take issue with. Also, with the number of applications flooding into class 705, it will likely be challenging for the PTO to obtain and properly train examiners to examine all these applications. Clearly, some of these shortcomings result from a lack of resources. In any event, it is also clear that the PTO approach applies the same set of legal standards and substantive rules to the particular subject matter at issue (i.e., to the "business method" of class 705 applications) as is done for applications in other areas, albeit with greater scrutiny.

The second initiative is legislation introduced into Congress last year entitled the "Business Method Patent Improvement Act of 2000."²⁴ This legislation, which was introduced with the intent to "stimulate dialogue,"²⁵ proposes treating patents and patent applications directed to "business methods"²⁶ in a substantively different way from those relating to other areas of technology. This differing treatment would affect business method patents from the procurement process at the PTO all the way through litigation. Some of these proposed changes include mandatory disclosure in the application of the extent to which a prior art search was made, an opposition proceeding after issuance,²⁷ reducing the burden of showing invalidity of a patent in court²⁸ to only a "preponderance of the evidence," and presuming invalid those claims directed to "business methods" that differ from the prior art only by use of a computer.

Clearly, the proposed legislation singles out a given area of technology for special treatment under a different set of substantive rules and laws from other areas of technology. Any effort to do this, however, should carefully consider possible repercussions of attempting to defining the term "business method." This term may be difficult to define in a meaningful manner that would be agreed to by those parties likely to become involved, and could even take on "unintended" interpretations. For example, an interpretation of "business method" in the legislative history of the

recent laws on Prior User's Rights arguably encompasses a wider (and different) variety of technology than in the patent at issue in *State Street*,³⁰ even though at least some in Congress had desired to limit the Prior User's defense to that technology.³¹ For those who, in the context of the current new legislation, are not concerned with an overly broad definition, it may be that their focus should more appropriately be on changing the patent laws to apply the proposals of this new legislation to all technologies (and thus it may be that their real objection is actually one against aspects of the current patent system in general).

Some Reflections

As indicated at the outset of this article, new technologies are often seen as not fitting in with existing intellectual property laws. This occurred when, for example, people were first obtaining patents in both the software and biotech areas. In both cases, many argued (and some still argue) that these types of technologies were inappropriate for protection by the patent laws, or at least deserving of some type of special treatment. For the most part, the patentability of these technologies through conventional patent doctrines has today become relatively well accepted. It is thus quite possible that the back-swing occurring with regard to business method patents might move back in the other direction without the need to single out the technology for special legal/substantive treatment, especially if the prior art and examiner resource situations continues to improve (though, as is the case with all technologies, it will never be perfect).

And so what does the reversal of the Amazon decision mean for "business method" patents? In one sense, it may dampen some of the opposition that these types of patents have attracted. Also, as mentioned above, it indicates that, consistent with *State Street*, the Federal Circuit is not concerning itself with differentiating the subject matter in this type of situation, but has moved on to addressing the prior art aspect, which is consistent with how it would handle cases dealing with more "conventional" technologies.

A Few Practice Tips

In the meantime, given the current state of the law, what types of questions should one be thinking about when drafting "business method" (however one might interpret them) applications? Here are a few thoughts:

1. Consider the effects of your patent application being assigned to class 705 (as discussed above), and whether that is a desirable result. If not, consider drafting the claims (and perhaps the abstract) accordingly.
2. For those inventions in this technology area that are easily enabled (as many of them are) and may be the subject of offers for sale, one should be cognizant of filing applications early. This is because the U.S. Supreme Court's *Pfaff* decision³² dictates that an offer for sale of an enabled invention will start the one year statutory bar clock.
3. For those inventions that are spatially related (i.e., where different components may reside in different locations, or even different countries), draft at least some independent claims that are each from the perspective a different one of the locations (as novelty permits).

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² The opinions expressed herein are solely those of the author, and do not represent those of Hale and Dorr LLP.

³ Though definitions of "business method" can vary widely and are typically nebulous, many agree that patented methods that arguably relate to such concepts pre-date the internet and even computers. Examples often touted for this proposition include patents 395,781, 395,782 and 395,783 granted to Herman Hollerith in 1889. However, much of the technology that has been more recently criticized concerns electronic commerce-related business models.

⁴ 149 F.3d 1368 (Fed. Cir. 1998). This decision clearly stated that business methods were patentable subject matter.

⁵ See, S. Alter, ' *State Street* ' Sets Stage for New Patents, Battles, National Law Journal, October 25, 1999, p.C8

⁶ See, 35 U.S.C. Section 273

⁷ See, *Amazon.com, Inc. v. Barnesandnoble.com, Inc.*, 53 U.S.P.Q.2d 1115 (W.D. Wa 1999)

⁸ This is not to say that Amazon's one-click patent is single-handedly responsible for all of the recent debate and initiatives relating to business method patents. Numerous other patents are also complained of, as well. Amazon's patent does, however, provide a focal point to conveniently tie together what are largely the most significant recent events in this area.

⁹ See, *Amazon.com, Inc. v. Barnesandnoble.com, Inc.* No. 00-1109, 2001 U.S. App. LEXIS 2163 (Fed. Cir. February 14, 2001)

¹⁰ The PTO classifies each patent into one or more technology classes or subclasses. In particular, class 705 is entitled "Data Processing: Financial, Business Practice, Management, or Cost/Price Determination."

¹¹ The increase in numbers for the PTO, as a whole, has not been nearly as large. Also, the

numbers of applications actually issuing from this class has not increased as much as would be expected, which is believed to at least in part be a result of the PTO business method initiative described below.

¹² 2001 U.S. App. LEXIS 2163

¹³ 2001 U.S. App. LEXIS 2163 at 13

¹⁴ 2001 U.S. App. LEXIS 2163 at 35

¹⁵ 2001 U.S. App. LEXIS 2163 at 60

¹⁶ 2001 U.S. App. LEXIS 2163 at 39

¹⁷ I.e., there was no mention that the subject matter was not statutory under 35 U.S.C. §101.

¹⁸ See, e.g., a published letter from Tim O'Reilly dated February 28, 2000, patent that contributed the negative attention received by business methods, generally, and by Amazon.com in particular, is U.S. patent 6,029,141 . This patent relates to a web referral methodology, in which a referring web site contains one or more links to a merchant web site, and where the referring web site has a description or graphical representation of an item available for purchase on the merchant site via those links. Should a customer ultimately purchase an item from the merchant site through one of the links on the referring web site, the referring web site receives a commission.

¹⁹ See page from GNU web site currently by clicking [here](#)

²⁰ This letter, from Amazon.com CEO Jeff Bezos, can currently be found by clicking [here](#)

²¹ Of course, this statement was released after Amazon had already won its preliminary injunction, and did not appear to deter Amazon from pursuing the litigation.

²² For a discussion on this initiative and other related matters, see the USPTO White Paper entitled "Automated Financial Or Management Data Processing Methods (Business Methods)" currently by clicking [here](#)

²³ E.g., "Business-related" inventions having a cryptographic aspects to them may be placed into class 380 for examination.

²⁴ H.R. 5364, 106th Congress, 2nd Session. According to the Bill's sponsors, this legislation is likely to be reintroduced in the 107th Congress.

²⁵ See, Statement of the Introduction of the Business Method Improvement Act of 2000 by Representative Howard Berman, October 3, 2000.

²⁶ The legislation proposes amending 35 U.S.C. Section 100 by adding at the end the following:

"(f) The term 'business method' means –

"(1) a method of –

"(A) administering, managing, or otherwise operating an enterprise or organization,

including a technique used in doing or conducting business; or

"(B) processing financial data;

"(2) any technique used in athletics, instruction, or personal skills; and

"(3) any computer-assisted implementation of a method described in paragraph (1) or a technique described in paragraph (2).

²⁷ The Bill proposes a new Section 322 of 35 U.S.C., which would allow anyone to file a request to oppose a patent "to a business method invention on the basis of section 101, 102, 103 or 112 of [35 U.S.C.]."

²⁸ This includes civil actions brought in whole or in part under Section 1338 of 28 U.S.C., where the current standard is "clear and convincing." The "preponderance of the evidence" standard, according to the Bill, shall also apply to reexamination, interference and opposition procedures.

²⁹ See, 35 U.S.C. Section 273

³⁰ The "Section-by-Section Analysis" of the Bill's legislative history states that a business method can include "a preliminary or intermediate manufacturing procedure, which contributes to the effectiveness of the business by producing a useful end result for the internal operation of the business or for external sale."

³¹ Representative Coble had made the statement that the definition was "Limited . . . to the State Street bank case" (145 Cong. Rec. H6942 (Aug. 3, 1999)(Rep. Coble))

³² See, *Pfaff v. Wells Electronics, Inc.*, 525 U.S. 55 (1998)

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