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Business Method Patents
Generate Controversy
and Legal Attention



By David Syrowik and John LeRoy

the RIGHT BALANCE

Recent lawsuits involving business method patents issued by the U.S. Patent and Trademark Office have drawn much attention and criticism. For example, the well-known author James Gleick has stated that such patents were “being applied to thoughts and ideas in cyberspace. It’s a ridiculous phenomenon, and it could kill e-commerce.” Professor Lawrence Lessig has stated that “[t]his is a disaster” and “[i]t is the single greatest threat to innovation in cyberspace.”

Many of the arguments used to criticize patents on business methods, including computer- and Internet-implemented business methods, are the same arguments presented in 1992 by the Advisory Commission on Patent Law Reform in Section XI of its report entitled “Protection of Computer-Related Inventions.” This is not surprising since business methods are most frequently patented as software running on a computer.

This article begins with a historical development of software patent law as background for the current controversy. Two highly-publicized lawsuits involving Internet-implemented business method patents will be

discussed, followed by the criticisms such patents have received.

A History of Software Patents

In 1952, Congress exercised its constitutional power of “securing” to “inventors” the “exclusive rights” to “their discoveries”¹ in the Patent Act of 1952, now codified in Title 35 of the U.S. Code. Section 101 of Title 35 reads:

Whoever 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, subject to the conditions and requirements of this title.

Despite the broad, all-inclusive language of Section 101, the President’s Commission on the Patent System issued a report in 1966 opposing the patentability of software. The Patent Office was opposed to software patents at the time the President’s Commission met because of the office’s inability to process patent applications containing software-related technology.

Starting in 1969, the Court of Customs and Patent Appeals (CCPA), a federal appellate tribunal with supervisory jurisdiction over the Patent Office, began to reverse the patent ex-

aminers and the Patent Office’s Board of Patent Appeals, thereby compelling the Patent Office to issue software-related patents.²

However, in 1972, and then in 1978, the United States Supreme Court, at the request of the Patent Office, reversed the CCPA and blocked the issuance of software-related patents, casting considerable doubt over the patentability of software.³

In 1980, the Supreme Court upheld the patentability of manufactured living organisms⁴ with an oft-quoted statement from the legislative history of the 1952 Patent Act that Congress intended that statutory subject matter “include anything under the sun that is made by man.”

In 1981, building upon its 1980 biotechnology decision, the U.S. Supreme Court greatly expanded the availability of patent protection for software.⁵ In the following years, the Patent Office granted an ever-increasing number of patents for software, including business software.⁶ In 1983, a federal district court upheld the validity of one of these business software patents.⁷

In 1992, at least partially in response to criticism of such software patents, the Advisory Commission on Patent Law Reform presented its report. Unlike the report of 1966, this report did not oppose the patentability of software but rather offered a number of recommendations to be implemented by the Patent Office to address the concerns that many had about the patenting of software.

In 1994, the Court of Appeals for the Federal Circuit, then the federal appellate court having exclusive appellate jurisdiction over all patent-related appeals, sitting en banc, stated that a general-purpose computer, programmed according to software, was not an “abstract idea” not entitled to protection, but rather, a new potentially patentable machine that produced “a useful, concrete, and tangible result.”⁸

The Patent Office routinely fought the issuance of software patents. However, after 1994, it appeared that software patent law was well settled. In fact, in 1996, the Patent Office published its guidelines for examining software patent applications and affirmed what its examiners had been doing for a number of years—treating business methods as any other methods.⁹ While the guidelines do not have the legal force of law, they have the practical



Fast Facts

1. Prior to 1980, the Patent Office was opposed to patenting software but was sometimes forced to do so by the courts.
2. After a Supreme Court decision in 1980, the Patent Office issued an ever-increasing number of patents for software, including business software.
3. In 1996, the Patent Office published guidelines for examining software patent applications and affirmed that business patent methods should be treated as any other invention.
4. Business method patents recently generated two controversial lawsuits involving the Internet.

effect of law since patents issued by the Patent Office carry a presumption of validity.

In a pair of decisions in 1998 and 1999, the Federal Circuit heightened public awareness that business method patents were being granted by the Patent Office by confirming their validity.¹⁰

Two Internet-Implemented Business Method Patent Lawsuits

In August 1998, Walker Asset Management Limited Partnership received U.S. Patent No. 5,794,207 (the '207 patent) for the "name your own price" Internet reverse auction service. A little over a year later, Priceline.com, created by Walker and to which the '207 patent is licensed, filed a complaint against the Microsoft Corporation and its subsidiary Expedia Inc. in the U.S. District Court for the District of Connecticut, alleging that Microsoft's "Price Matcher" service offered at Expedia.com infringed on the '207 patent. As stated in the complaint, Priceline's "business processes—both present and future—were based in part" on its portfolio of issued patents and pending patent applications.

In January 2001, Priceline settled its suit with Microsoft and Expedia.¹¹ Although the terms of the settlement are confidential, it has been reported that Microsoft and Expedia will pay an undisclosed royalty to continue offering the "Price Matcher" service.

Less than a month after receiving U.S. Patent No. 5,960,411 (the '411 patent), and within days of when Priceline's complaint was filed against Microsoft and Expedia, Amazon.com, Inc. filed a patent infringement suit against Barnesandnoble.com, Inc. (B&N) in the U.S. District Court for the Western District of Washington and moved for a preliminary injunction. The '411 patent covers a "one-click" method for processing online shopping orders.

In a matter of weeks, the court found that Amazon had presented a case showing a likelihood of infringement by B&N and that B&N's challenges to the validity of the '411 patent lacked sufficient merit to avoid awarding preliminary injunctive relief to Amazon. Therefore, the court preliminarily enjoined B&N's use of a feature of its website called "Express Lane."¹²

However, two days later, the Federal Circuit issued a temporary stay of the injunction and on February 14, 2001, the Federal Circuit con-

cluded that B&N had mounted a substantial challenge to the validity of the '411 patent in view of the prior work of others.¹³ Amazon was not entitled to preliminary injunctive relief under those circumstances and, consequently, the court vacated the order of the district court that set the preliminary injunction in place and remanded the case for further proceedings.

On November 29, 1999, President Clinton signed legislation¹⁴ allowing a "first inventor defense" to be asserted, but only where the patented subject matter relates to "a method of doing or conducting business." Supporters of the legislation argued that before the 1998 and 1999 Federal Circuit decisions it was generally believed that methods of doing business were not patentable, and thus many businesses had developed and used such methods in secrecy.

Interestingly, numerous business method patents were issued in the 1980s and 1990s. Furthermore, the same argument could also have been made even more forcefully regarding other new technologies in years past.

In response to being criticized for granting business method patents, last year the Patent Office overhauled its approach to examining patent applications falling within Class 705, which is entitled "Data Processing: Financial, Business Practice, Management, or Cost/Price Determination." Most business method patents are classified in Class 705. These new policies are outlined in a Patent Office White Paper entitled "Automated Financial Management Data Processing Methods."¹⁵ First, patent examiners working on such patent applications will have to undergo more advanced novelty search training before examining such applications. In addition, the examiners will be required to perform broader

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novelty searches that include several "non-patent" prior art databases.

The broader search requirement helps the examiners to make a more accurate determination as to whether the invention for which a patent is being applied for is truly new. "If you make these decisions without adequate data, you run the very real risk of issuing patents on things that were already invented, or patents that are far broader than they should be," said Roland J. Cole, executive director of the Software Patent Institute, an industry-funded group that is building a database of older computer science information.

While the jury is still out, an article in the March 21, 2001 issue of the *Wall Street Journal* pointed out that the Patent Office issued a substantially lower percentage of business method patent applications in the quarter ending December 31, 2000, than the quarter ending March 31, 2000, when its new policies were instituted.

On November 27, 2000, the American Intellectual Property Law Association adopted its own White Paper entitled "Patenting Business Methods" in which it recommended that business methods resulting in useful, concrete, or tangible results, including Internet and software-implemented business methods, should receive the same treatment under the patent laws as other technologies.¹⁶ Addition-

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ally, the paper recommended developing a comprehensive prior art archive of non-patent business methods (including business methods not implemented on a computer), increasing examiner training, and hiring examiners with business backgrounds.

Conclusion

These two high profile business method patent lawsuits have provoked an outcry against business software patents. However, the Priceline.com lawsuit has been settled and the patent that is the subject of the Amazon.com lawsuit appears to have validity problems. While this is not to say that other potentially "disastrous" lawsuits based on business software patents will not surface, the initial outcry seems to have subsided.

The caselaw appears to say that business methods are patentable, as long as they are not "laws of nature, natural phenomena, or abstract ideas." However, the caselaw appears to apply only to computerized business methods. Also, Class 705 of the Patent Office is not entitled "Business Methods," but rather has the heading "Data Processing." Consequently, it remains to be seen whether manually operated business methods will be found to be patentable under Section 101 of the Patent Act.¹⁷ ◆

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Footnotes

1. US Const, art 1, § 8, Cl 8.
2. *In re Prater*, 415 F2d 1378 (CCPA 1969); *In re Musgrave*, 431 F2d 882 (CCPA 1970); and *In re McLroy*, 442 F2d 1397 (CCPA 1971).
3. *Gottschalk v Benson*, 409 US 63 (1972) and *Parker v Flook*, 437 US 584 (1978), respectively.
4. *Diamond v Chakrabarty*, 447 US 303 (1980).
5. *Diamond v Diehr*, 450 US 175 (1981).
6. Proprietary Rights Committee: Computer Law Section of the State Bar of Michigan, "Survey of U.S. Business Software Patents: Post-Diehr Through December 1990."
7. *Paine, Webber, Jackson & Curtis, Inc v Merrill, Lynch, Pierce, Fenner & Smith, Inc*, 564 F Supp 1358 (D Del 1983) (U.S. Patent No. 4,346,442, relating to a data processing methodology for a cash management account (CMA), upheld).
8. *In re Alappat*, 33 F3d 1526 (Fed Cir 1994).
9. Examination Guidelines for Computer-Related Inventions, 61 Fed Reg 7478, 7479 (1996).
10. *State Street Bank v Signature Financial Group*, 149 F3d 1368 (Fed Cir 1998) (The electronic representation of a share price, momentarily fixed, in a data processing system is "a useful, concrete and tangible result;" also, the business method exception was officially put "to rest"), and *AT&T v Excel Communications*, 172 F3d 1352 (Fed Cir 1999) (A method of generating electronic messages in a telecommunication system constituted eligible subject matter), respectively.
11. Andrews Computer and Online Industry Litigation Reporter, *Priceline, Microsoft Settle Suit over Online Sales Patents*, January 30, 2001.
12. *Amazon.com, Inc v Barnesandnoble.com, Inc*, 73 F Supp 2d 1228 (WD Wash 1999).
13. *Amazon.com, Inc v Barnesandnoble.com, Inc*, 239 F3d 1343 (Fed Cir 2001).
14. "First Inventor Defense Act of 1999" which added new Section 273 to Title 35.
15. <http://www.uspto.gov/web/menu/busmethp/index.html>.
16. BNA World E-Commerce and IP Report, *American Intellectual Property Law Association's White Paper on Patenting Business Methods*, January 2001.
17. 35 USC 101.