

Development of Business Method Patents in the United States

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Background**
- 2. Aspects of BMPs**
- 3. Enforcement of BMPs: Amazon.com v.
Barnesandnoble.com**
- 4. BMP and E-Commerce**
- 5. The Future**

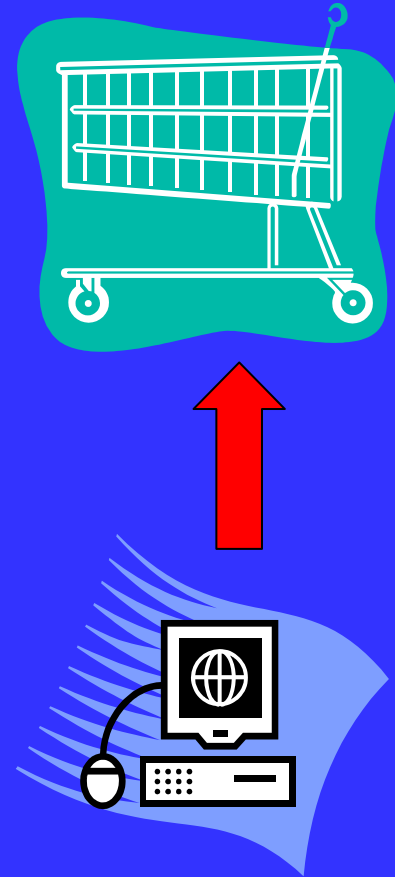
Business Method Patents

- **Class 705 : data processing: financial, business practice, management, or cost/price determination**
- **Regular patent statutory requirements of novelty, non-obviousness, and utility**



Business Method Patents: protecting e-businesses

- Electronic payment processes
- Finance patents
- Electronic shopping patents
- Electronic marketing patents
- Inventory management



Patentable subject matter in the United States:

- **U.S. Constitution: any new and useful arts**
- **U.S. Supreme Court: anything under the sun that is made by man.**
- **Judicially recognized exceptions include: abstract ideas, laws of nature, mathematical algorithms, business methods, etc.**

Non-Technical Patents Relating to Businesses

- **USPN 6,129,346: Method for Forming a Brochure Attached to a Periodical (an advertising or promotional brochure to be mailed in conjunction with a magazine or periodical)**
- **USPN 4,723,794: Guest Check (a restaurant guest check, comprising perforations which divide the check into at least three portions)**

State Street Bank v. Signature Financial Group: a system for managing a mutual fund

- **District Court: patent invalid, the claimed system amounted to a “method of doing business.”**
- **Judge Rich’s landmark ruling: patent valid, transformation of data is patentable if it produces a useful, concrete and tangible result**
- **The business method exception was officially “laid to rest.”**



Floodgate Opened

Class 705 Filing Data from the USPTO

| Class 705 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|--------------------|------|------|------|------|------|------|------|------|------|------|
| Applications Filed | 330 | 584 | 927 | 1340 | 2821 | 7800 | 8700 | 6782 | 6593 | 6200 |
| Patents Issued | 126 | 144 | 206 | 420 | 585 | 899 | 433 | 493 | 495 | 282 |

Controversy

- **Effectiveness of the U.S. Patent Office in handling BMP**
- **Exclusive rights provided by patent protection are not needed to promote e-commerce**
- **Earlier e-commerce players gain unfair advantage by patenting key components of e-commerce or commonly known business methods**

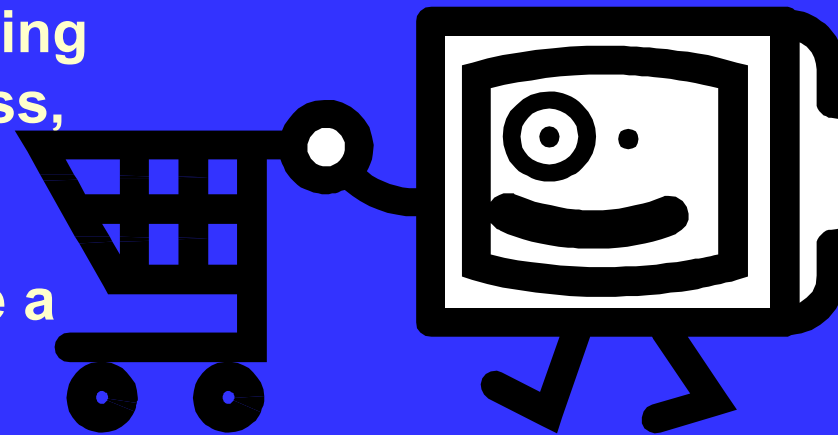
Amazon's One-Click Patent

- **Method and System for Placing a Purchase Order by a Communication Network (United States Patent Number 5,960,411)**
- **Issued on Sep. 28,1999**
- **A method and system for ordering from a client system by a single action, such as clicking a mouse button.**



Amazon's One-Click Patent: traditional e-shopping cart model

- Select items
- Move to a check-out counter
- Enter purchaser identify, billing information, shipping address, payment method
- Issue a command to execute a purchase order



Amazon's One-Click Patent: the one-click model

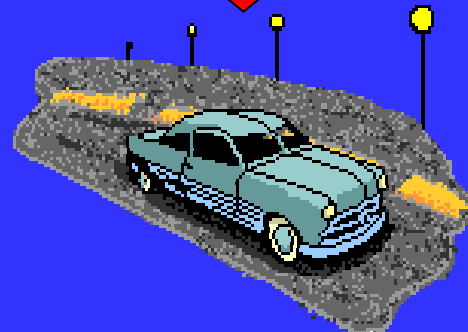
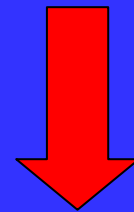
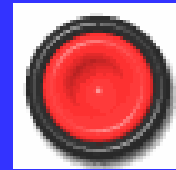
- All purchase-related data stored at the seller's web site
- Buyer's terminal identifiable by the Seller's server
- Only a single action is necessary to place an order once the item is located

Amazon's One-Click Patent: enforcement

- Filed suit against barnesandnoble.com (“BN”) on Oct. 21, 1999
- Obtained preliminary injunction on Dec. 1, 1999 (effective Dec. 4)
- Preliminary injunction vacated on February 14, 2001

BN's "Express Lane"

- Express Lane purchase option
- Previously registered customers may purchase by clicking on the "Express Lane" button
- Text beneath the button "Buy it now with just one click"



Preliminary Injunction

Issued by the U.S. District Court Western
District of Washington

- Likelihood of success on the merits
- Irreparable harm
- Balance of hardship
- Public interest

Appeal to the Federal Circuit

BN contended:

- **Non-infringement of the '411 patent**
- **The '411 patent is invalid**



Outcome of the Appeal

- **Amazon.com has made a showing that it is likely to succeed at trial on the infringement issue, but**
- **BN has raised substantial questions of invalidity, and therefore**
- **Preliminary injunction vacated**

Amazon.com v. Barnesandnoble.com: enforcement lessons

- Both sides eventually settled, but one-click patent shocked the world
- Proved that BMP can indeed be used as a sword against competitors
- Watch out for complicated jurisdictional issues surrounding internet patents; draft claims on individual components in addition to system claims

Impact of Modern-Day BMPs

- **New type of Inventions: from the boardroom**
- **Present New threats and opportunities**

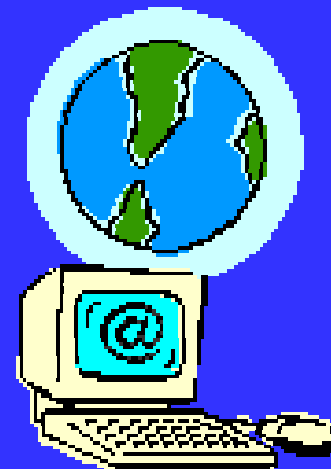
Traditional Commerce

- **Physical**
- **Low rate of change**
- **Major players
dominate**
- **Heavy capital
investment**



New E-Commerce

- **Virtual**
- **Quick pace**
- **Small players**
- **Lower capital requirements**



Success in the New Economy

- Intellectual property may be the chief indicator of strength
- Patent aggressively
- Put the patents to use: protect and license issued patents



Other Options

- **Copyright**
- **Trade Secrets**

The Threats



- **Copycat products and services**
- **Trade secrets, copyright protection for business method may no longer be enough**
- **Additional costs for IP procurement, litigation or licensing**

Sample Litigation Settlements

| PARTIES | SETTLEMENT | DATE |
|---------------------------------------|------------|--------|
| Sun Microsystems v. Microsoft* | \$1.25B | Feb-04 |
| Texas Instruments v. Hyundai | \$1B | May-99 |
| Texas Instruments v. Samsung | \$1B | Nov-96 |
| RIM v. NTP | \$612M | Mar-06 |
| Intertrust Technologies v. Microsoft | \$440M | Dec-01 |
| Pitney Bowes v. Hewlett-Packard | \$400M | Jun-01 |
| Yahoo v. Google | \$328M | Aug-04 |
| Intergraph v. Intel | \$300M | Apr-02 |
| University of Minnesota v. Glaxo | \$300M | Oct-99 |
| Medtronic v. Siemens | \$300M | Sep-92 |
| Gemstar v. General Instruments | \$200M | Nov-00 |
| University of California v. Genentech | \$200M | Nov-99 |
| Gemstar v. EchoStar Communications | \$190M | Mar-04 |

■ **Source: ThinkFire Services USA**

Consider Licensing

- **Licensee**

- **Avoid litigation**
- **Lower required initial investment**

- **Licensor**

- **Increase market share**
- **Generate income**
- **Add credibility to IP portfolio**

Licensing

- **Exclusive-Nonexclusive**
- **Monetary or Non-Monetary considerations**
- **Up-front fees / Royalties/Lump sum**
- **Cross-License**
- **Auditing and Enforcement**

General Advice: Prior to Launching a Service:

- **Apply for relevant patents**
- **Obtain warranties and indemnities from Content and Service Providers**
- **Obtain protection through insurance policies**
- **Use Website Terms and Conditions to limit liability**

General Advice: Internal Record-Keeping

- **Make sure Employee and Consultant Agreements contain clear language regarding IP ownership**
- **Document R&D efforts**
- **Review patent literature and other literature**

General Advice: When Patent Threats Arrive:

- **Don't just ignore the threat**
- **Seek patent attorney opinions**
- **Challenge questionable patents**

What's Next: future of BMP

USPTO's responses

- **Second review**
- **Expanded internal PTO sampling of application for quality review**
- **Ongoing consultation with industry customers for better prior art searches**

What's Next: future of BMP

Failed Legislative efforts by the U.S. Congress

- Shortened period of protection
- Pre-grant opposition
- Additional administrative hurdles prior to filing an infringement suit
- Specialized protection

What's Next: future of BMP

- Continuing domestic resistance
- *Laboratory Corp. v. Metabolite Laboratories*



What's Next: future of BMP

Growing international acceptance?

- European Patent Office
- Japan
- China



Business Method Patents

Elizabeth Chien-Hale

The Law Office of Elizabeth Chien-Hale

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