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Business Method Patents:
Commerce in digital goods

In their broadest sense, "business method" patents are patents relating to the creation and distribution of "digital goods." Digital goods can comprise any product or service that can be turned into bits and bytes. Examples of digital goods are software, music, video materials, financial data, medical and pharmaceutical information, stock and bond information, airline tickets and home mortgages.

The digital goods involved in two decisions of the Court of Appeals for the Federal Circuit – the court that has jurisdiction over appeals in patent cases – were, respectively, mutual fund values and telecommunication charges. *See State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368, 47 USPQ2d 1596 (Fed. Cir. 1998); and *AT&T Corp. v. Excel Communications, Inc.*, 172 F.3d 1352, 50 USPQ2d 1447 (Fed. Cir. 1999). In these two decisions, the Federal Circuit confirmed that computer-implemented "business methods" involving digital goods can be patented. Specifically, the Federal Circuit recognized that systems and methods involving digital goods – that is, systems and methods for collecting, manipulating, transforming and distributing electronic information for commercial purposes – are no less patentable than computer-implemented innovations that are not directly related to commercial activities.

Commerce in digital goods is the quintessence of commerce using the Internet. Although both physical and digital goods can use the Internet as a sales and marketing channel, only digital goods can use it for sale and delivery in a single customer transaction, thereby providing cost savings and customer convenience superior to physical distribution. In addition to benefiting consumers, e-commerce assists the sellers of digital goods and services by drastically reducing their distribution costs and decreasing transaction times.

In past years, business method patents have been relatively difficult to obtain and enforce. The situation changed, however, when earlier precedent was overruled in the 1998 decision of the *Federal Circuit in the State Street Bank & Trust Co.* case. In this opinion, which reversed a district court decision, the Federal Circuit held that an electronic system for assembling and distributing financial information was patentable subject matter. In particular, the system electronically distributed daily asset values to mutual fund companies that had pooled their assets in an investment portfolio organized as a partnership. In confirming the patentability of the system, the court said:

> Since the 1952 Patent Act, business methods have been, and should have been, subject to the same legal requirements for patentability as applied to any other process or method.

Further, the court held that:

> Whether the claims are directed to subject matter within [35 U.S.C.] § 101 should not turn on whether the claimed subject matter does 'business' instead of something else.

In 1999, the *State Street* case was buttressed by the Federal Circuit opinion in *AT&T Corp. v. Excel Communications Inc*. The *Excel* case involved a patent for a method that allows long-distance carriers to charge different billing rates depending upon whether the called party had the same or a different long-distance carrier as the caller. The method resulted in reduced charges to subscribers who placed long-distance calls to the carrier's other subscribers. Thus, as in the *State Street* case, the factual setting of *Excel* involved financial information that was electronically manipulated in digital form for business purposes. In finding that AT&T's method invention was patentable subject matter within the context of 35 U.S.C. § 101, the Federal Circuit drew no distinction relative to the system invention in *State Street*. Instead, the court deemed both inventions – each involving mathematical

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Patent Marking:
Why to do it and how to do it

A patent owner who prevails in patent infringement litigation may recover from the infringer money damages based on sales of infringing articles, provided the patent owner has marked his or her products as required by law. This article will briefly explain what the patent owner must do to satisfy the legal requirements of patent marking and the consequence of failure to do so.

In patent litigation, a patent owner can win two things:

1. An injunction which prohibits the infringer from continuing to infringe, and
2. Damages, *i.e.* money to compensate the patent owner based on sales of infringing products by the infringer.

However, the patent owner may lose the ability to recover damages by failing to mark his or her products as required by law.

The U.S. patent marking and notice statute, 35 U.S.C. §287(a), provides that a patentee has the option to mark a patented article he or she sells with the word "patent" or the abbreviation "pat." together with the relevant patent number(s). The purpose of patent marking is to give notice to potential infringers that the product is covered by a patent, and the infringer is not liable for infringement until notice of the infringement has been given. If the patent owner does not wish to mark his or her patented product, he

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Business Method Patents

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algorithms – to comprise patentable subject matter because "…the claimed invention as a whole is applied in a 'useful' manner..."

The decisions in *Excel* and *State Street* apply to innovations by a wide range of companies. These cases made clear that the standards for patenting business method innovations – namely, that patentable inventions must be new and unobvious in view of relevant prior art – are no more stringent than for other technologies.

One year after S*tate Street*, the United States Patent and Trademark Office (USPTO) saw the number of business method patent applications filed almost triple from 2821 applications in 1999 to 7800 applications in 2000. Many start-up companies saw business method patents as the shortcut to wealth during the "dot-com" era and were rushing to claim their stake in the land of untapped e-commerce wealth.

Amazon was one of the first e-commerce companies to capitalize on business method patents. In September 1999, the USPTO issued Amazon a business method patent on a "one-click" technology on their web site. Immediately thereafter, Amazon sued its competitor, Barnesandnoble.com, for allegedly infringing on its recently issued patent. Amazon was awarded a preliminary injunction against Barnesandnoble.com. The controversial lawsuit and preliminary injunction sent a shockwave through the patent world, resulting in a fury of criticism against Amazon and the USPTO.

In March 2000, the USPTO reacted to the surge in business method patent applications and the public outcry by increasing scrutiny for patent applications falling within class 705, the business method class. For example, a secondary examiner would conduct a second independent review of the patent application falling within this class to determine whether the search by the primary examiner was conducted properly. In addition, the USPTO increased the number of examiners assigned to class 705.

In an effort to prevent a potential flood of litigation resulting from the increase of issued business method patents, Congress enacted the American Inventors Protection Act in late 1999. The American Inventors Protection Act provides a limited defense provision to insulate an accused party on charges of infringing a "method of doing or conducting business." The statute provides a defense to an accused party who "actually reduced the subject matter to practice at least one year before the effective filing date of such patent, and commercially used the subject matter before the effective filing date of such patent." 35 USC 273 (b) (1). However, the enacted statute left out the definition of a "business method."

Concerned with the current state of business method patents, representatives Howard Berman (California Democrat) and Rich Boucher (Virginia Democrat) introduced a bill, HR 5364, into Congress, titled "Business Method Patent Improvement Act of 2000" in October 2000 to "repair the system before the PTO awards more monopoly power to people doing the patently obvious." Amongst the provisions, the Bill provided a definition for "business method," a requirement that a patent application be determined whether it is for a business method within one year from the date of filing of an application, and a post-grant opposition procedure in which any third-party can request an opposition to a patent on a business method invention within nine months after the granting of the patent. The Bill was never enacted into law before Congress adjourned for the year.

In February 14, 2001, a Federal Appellate Court vacated Amazon's preliminary injection against BarnesandNoble.com. The Court found that the lower court failed to adequately interpret prior art cited by BarnesandNoble.com. This illustrated a problem the USPTO has in uncovering prior art involving digital goods because publications in technology fields that are very new, such as business methods, are not easily located. The USPTO's attempt to address the above problem involved additional training of examiners in the field of business method patents to better uncover prior art.

Based on the feedback it received from the public after introducing the Business Method Patent Improvement Act of 2000, Representative Howard Berman again reintroduced legislation attempting to address the problems of business method patents on April 3, 2001. On April 19, 2001, the Bill was referred to the House subcommittee on Courts, the Internet, and Intellectual Property. The Bill entitled "Business Method Patent Improvement Act of 2001" sought to amend title 35 of the United States Code "to provide for improvements in the quality of patents on certain inventions."

Representative Berman still believed that Congress should enact specific legislation directed towards business method patents so that "the US patent system produces high quality patents." Specifically, the Business Method Patent Improvement Act of 2001 would require the USPTO to publish all business method patent applications after 18 months. It also would establish an administration "Opposition" process where parties can challenge a granted business method patent. However, during the House Subcommittee hearing, many expressed the feeling that legislation should not be introduced, since the same existing laws of new and obviousness are also applicable to the business method patents. In particular, the new procedures adopted by the USPTO, along with the Federal Circuit Court vacating Amazon's preliminary injunction, have provided guidance on how to adjust and guide the US patent system to continue issuing high quality patents.

To date, Congress has been preoccupied with other issues, and has not enacted or debated on any legislation addressing business method patents. Even so, we expect the availability and enforceability of business methods patents will increase. ■

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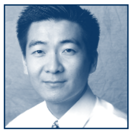

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Chairman's Message

In our Spring 2003 issue of the ***Thelen Reid & Priest Intellectual Property and Trade Regulation Journal*** we present two articles that discuss very important issues in the patent area. **Bob Krebs** and **Thierry Lo** review business method patents and the continuing debate in connection with inventors' ability to obtain such patents. There continues to be efforts in Washington DC to address business method patents through legislation, and we will keep you advised of developments in that regard.

The second article, by **Hal Bohner**, discusses the requirements of "patent marking" under section 287(a) of the Patent Act. As Hal comments, proper marking and notice will be critical to a patent owner's ability to recover damages in a patent litigation. Familiarity with these requirements is a must.

I also want to take this opportunity to bring you up-to-date on some of the activities the **Thelen Reid & Priest IP and Trade Regulation Group** is involved with. This spring we are undertaking an effort to evaluate how we are serving the needs of our clients in connection with their intellectual property and trade regulation matters. Our goal is to provide existing, and we hope new,clients with legal service that recognizes and maximizes the value of their intellectual property and other intangible assets. We would very much like to hear feedback about these issues, so please let us know how we are doing.

We are also redesigning our web site at www.thelenreid.com. We want to make it easier for visitors to access information on intellectual property and trade regulation matters, and to locate specific lawyers with the expertise that they seek. Please visit our site, and let us know what you think. ■

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Patent Marking

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or she can only recover damages from an infringer for infringement that takes place after the patent owner has given actual notice to the infringer, which is normally done by a letter or by filing a lawsuit. Thus, to the extent the infringer makes and sells infringing products before the patent owner marks his or her product, or gives notice to the infringer, the infringer cannot be liable for damages for those infringing products.

If the patent owner begins a program of patent marking, then marking must thereafter be done in a consistent and continuous manner in order to meet the requirements of the statute. If the patentee owns a large number of patents and produces a large number of similar products, some of which are covered by some patents and some of which are covered by others, then it may be difficult to determine exactly which products are covered by which patents. In this case, the courts have approved patent marking that indicates that a product is covered by "one or more" of a list of patents. Likewise, if an expired patent is included in the list it may not be problem, provided that the product was covered by the patent during its lifetime. The relevant statute is 35 U.S.C. §292, which governs so-called "false marking." To run afoul of this statute, a patentee must be shown to have intentionally misled the public. Therefore, there should be good faith and reasonable efforts to keep all patent marking up to date and accurate.

Who must mark? The patent owner who makes products covered by his or her patent and any other entity which makes such products under a license from the patent owner must mark. Normally marking must be done directly on the patented article. However, if it is impossible to provide the required marking directly on the product, the patent information may be placed on a label affixed to the product's packaging. If it is impractical, but not impossible to mark the product directly, for example, if the article is small, the article would be defaced by marking, or when marking on the article would be expensive, then some courts have allowed marking on the packaging.

A significant exception to the marking requirement is the situation in which the patent has only method or process claims. In such a case, the patent owner need not mark his or her products. However, if the patent contains both apparatus and method claims, then marking is required. Another exception is an obvious one – if the patent owner does not make or sell articles covered by his or her patent, then there is, of course, no requirement to mark.

What about pending patents, *i.e.* patent applications which have not yet issued? The patent marking statute is not concerned with products covered by pending patent applications. The owner of a patent application is entitled to indicate on his product and elsewhere that there is a "patent pending" or "patent applied for." However, the failure to so mark does not result in the loss of rights to collect damages for patent infringement.

So far, this discussion concerns U.S. patents. If infringement takes place in another country, the patent laws of that country govern, and if foreign coverage is desired, then patents must be obtained in that country. Generally speaking, many countries have laws regarding patent marking similar to the laws in the U.S., *i.e.* marking is optional, but failure to mark can result in the loss of the right to collect damages. Some countries have criminal sanctions for improper marking, so local counsel in the country involved should be consulted. ■

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Thelen Reid in Top 10% of "Top Trademark Firms"

In the May 2003 edition of ***Intellectual Property Today***, Thelen Reid is ranked 35th among 358 law firms in *IP Today's* annual listing of "Top Trademark Firms," placing the firm in the top ten percentile.

Rankings are based on U.S. Trademarks issued in 2002 where the law firm is listed as the legal representative on the issued trademark. ■

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Intellectual Property and Trade Regulation Journal

Spring 2003 IP/Trade Events

June 20, 2003

International Trademark Practice for Paralegals

Raddisson Hotel – San Francisco, CA

Presented by Half Moon Seminars

Faculty: **E. Lynn Perry**

June 17, 2003

U.S. Patent Practice for Paralegals

Raddisson Hotel – San Francisco, CA

Presented by Half Moon Seminars

Faculty: **Becky L. Troutman**

June 4, 2003

Women in Intellectual Property

Thelen Reid & Priest LLP – New York, NY

Presented by the NYSBA's Intellectual Property Law Section

Program moderator: **Sharon Carlstedt**

June 29–30, 2003

Advancing IP Structured Finance

Crowne Plaza – New York, NY

Sponsored by the World Research Group

Thursday, May 29, 2003

Examining the Structure of Music, Entertainment & Copyright Securitizations

Speaker: **Michael S. Elkin**

May 29, 2003

Top Panel on Standards

What we don't know about "RF" standards policies, "opt outs," "defensive suspension" and Rambus cases can hurt our clients and their patents

IBM Corporation – New York, NY

Presented by the International Intellectual Property Society

Panelist: **Richard S. Taffet**

May 3-7, 2003

125th Annual Meeting of the International Trademark Association

Amsterdam RAI, International Exhibition & Congress Centre – Amsterdam, Netherlands

Wednesday, May 7, 2003

Trade Dress Protection

Speaker: **Veronica Colby Devitt**

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