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# PATENT LAW
## Business methods

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DO THE JANITORS who clean your building leave dust and grime? Perhaps they should take a look at U.S. Patent No. 5,851,117, which covers a method for teaching janitors how to clean a building more efficiently. The secret to the invention is the use of a training book with step-by-step instructions and illustrations.

Those who surf the Internet have probably run across "auction" Web sites, such as Priceline.com, where one can bid on airline tickets and other items. Priceline claims to have patented a bidding process that makes bids available to multiple sellers (Patent No. 5,794,207).

The U.S. Patent and Trademark Office (PTO) has issued a number of patents recently that are said to cover methods of "doing business." Examples include a method for tracking expenses (Patent No. 5,947,526); a method for conducting a survey of music listeners (Patent No. 5,913,204); a method for operating a dating service (Patent No. 5,920,845); a method for estimating damage to a vehicle (Patent No. 5,839,112); and an interactive game show (Patent No. 5,108,115). Other examples include a method for forecasting business performance based on weather trends (Patent No. 5,832,456); a method for using estimates of the future earnings potential of college students to fund their college tuition (Patent No. 5,809,484); and even a method for walking under water (Patent No. 5,906,200), aptly titled "Method...and Apparatus for a Sea-Bottom Walking Experience."

## Separate category for business method patents

If the above examples sound out of the ordinary, they are not. The PTO has been examining so many patents relating to business methods that it has created a separate patent classification to handle them. Yet the boundaries of that classification are unclear, as evidenced by the wide variety of patents assigned to the category and the fact that other seemingly business-related patents are not classified as such. Indeed, the patent office is having difficulty examining these applications because they frequently involve business concepts rather than technical advancements for which the patent office is better equipped to search. It is a tenet of patent law that one cannot obtain a patent on a method that was previously patented or published by another person.

In the Internet world, where a successful business model can lead to a shower of millions of dollars of investment funds on start-ups, companies are in a feeding frenzy to patent their business models and methods. One patent, assigned to a company called CyberGold, covers the concept of paying consumers to view advertisements on the Internet (Patent No. 5,794,210, titled "Attention Brokerage"). Another patent, owned by Open Market Inc., allegedly covers the technique for using an electronic shopping cart to purchase goods on the Internet (Patent No. 5,715,314, titled "Network Sales System").

Yet another patent covers a technique for awarding frequent-flier miles in exchange for making online purchases (Patent No. 5,744,870).

These patents have been given additional force by the U.S. Court of Appeals for the Federal Circuit, which in recent years has ruled that software can be patented as long as it is more than an abstract idea. *In re Alappat*, 33 F.3d 1526 (Fed. Cir. 1994) (en banc). That court also recently held that a method for doing business can be patented if it produces a useful, concrete and tangible result—*State Street Bank & Trust Co. v. Signature Financial Group Inc.*, 149 F.3d 1368 (Fed. Cir. 1998), cert. denied, 119 S. Ct. 851 (1999)—and that a method need not involve any physical transformation of subject matter in order to be patentable—*AT&T v. Excel Communications Inc.*, 172 F.3d 1352 (Fed. Cir. 1999), cert. denied, 68 U.S.L.W. 3079 (U.S. Oct. 12, 1999). Patent filings covering business techniques have skyrocketed, partly as a result of these decisions.

## The lawsuits have started to proliferate

Where there are patents, of course, there are lawsuits. Amazon.com, the giant online bookseller, recently sued Barnesandnoble.com, its chief rival, for infringing a patented method for placing an order through an Internet Web site (Patent No. 5,960,411). The patented method allows customers who previously visited the Web site to order books without retyping their address and other personal information. The suit was filed in Seattle barely a month after the Amazon patent issued. Some complain that Amazon's patent will chill free trade on the Net, and they wonder how the patent could have been granted. [*NLJ*, Nov. 15.]

In another recently filed lawsuit, Trilogy Software Inc. sued CarsDirect.com, claiming that CarsDirect infringes its patented method for permitting customers to choose options for a car ordered over the Internet. The patented technique (Patent No. 5,825,651) purportedly guides customers through the selection process by automatically including certain options and permitting the customer to choose other options, based on compatibility among options. At first glance, the patent appears to cover the mere automation of a car salesman's ordinary business practices.

Another company claims to have a patent covering the sale of music in

electronic form over a network, such as the Internet. The company, Parsec Sight/Sound Inc., has sued N2K Inc. for infringing the patented method (Patent No. 5,191,573, titled "Method for Transmitting a Desired Digital Video or Audio Signal").

One reason these business-method patents are receiving more attention may be that the Internet has laid bare the advertising and sales techniques of competitors. Now, anyone with a computer and an Internet connection can discover a competitor's sales techniques for products and services. Companies are vying to provide advantages in consumer convenience, with patents providing a valuable edge to protect every improvement.

To some degree, complaints about business-method patents may be nothing more than sour grapes. Particularly in the Internet world, where access to free information and ideas is the norm, some find it abhorrent that a Web site design or a Web-based computer technique can be protected by a patent and thus not free for all to share. On the other hand, patent practitioners have been griping for years about the ability (or lack thereof) of the PTO to examine patents in this rapidly changing area of technology, leading to the issuance of questionable patents.

## Distinguishing old concepts from unpopular patents

Some of the techniques now being patented may have been described long ago in business school or marketing textbooks, beyond the easy reach of patent examiners more accustomed to searching through previously issued patents. Software inventions likewise have proved difficult to search, partly because many old software techniques were never patented or described in published technical literature. The distinction between patents that should not have been issued because they are merely old concepts and patents that are unpopular is an important one.

The fact that the PTO is issuing such patents is not dispositive because patents can always be challenged in court long after they have issued. The patent statute permits a patent to be granted for a useful process that is new and not obvious. (The term "method" is synonymous with "process.") Assuming that a method meets the novelty and nonobviousness requirements, what constitutes a useful process? The U.S. Supreme Court has stated that abstract ideas and laws of nature cannot be patented. *Diamond v. Diehr*, 450 U.S. 175 (1981). Could a new method for speaking constitute a patentable process? What about a new method for performing surgery?

Some of these questions have been simmering for decades in various contexts. An early court decision concluded that a method for performing anesthesia by administering ether vapors to a patient did not qualify as a patentable process because it was not limited to any particular apparatus. *Morton v. New York Eye Infirmary*, 17 F. Cas. 879 (C.C.S.D.N.Y. 1862). In 1996, Congress responded to criticism of patents covering surgical techniques by amending the patent statute to preclude enforcement of such patents. 35 U.S.C. 287(c).

The Supreme Court struggled during the 1970s and 1980s with various software cases, trying to determine whether a process that involved numerical computation was a useful process rather than an abstract idea. Courts in the early part of this century struck down patents that included mental steps on the ground that they were not a useful process covered by the patent statute. The Federal Circuit, despite its most recent cases on the subject, held as recently as 1994 that a method for competitive bidding was not a useful process because it lacked any physical transformation of subject matter. *In re Schrader*, 22 F.3d 290 (Fed. Cir. 1994). The court apparently changed its mind a few short years later, concluding that no such transformation was necessary. *Excel*, 172 F.3d 1352.

Most, if not all, of the patents described above probably meet the minimal quantum of providing a useful, concrete and tangible result. That leaves open the possibility that the patents are not new or that they are obvious—completely separate inquiries. Some companies have become understandably nervous about the possibility that accounting techniques or other business practices that they have used for years might somehow become the subject of a competitor's patent. Others have argued that patenting such business methods should not be permitted, for fear that the patents will stifle free trade on the Internet. Neither concern is well-founded.

As to the possibility that a latecomer could patent a company's established business practices, any such patents likely would be held invalid in court under the provisions of the patent statute. If the business practice was published or openly used before the patent application was filed, it would become prior art against any later filed patent. In the less likely event that a company had maintained the business practice in secrecy, the patent might indeed be valid and enforceable against the company because, under the patent statute, such secret uses would not qualify as prior art. One wonders, however, whether such infringement would ever be detected.

Bills pending in Congress would provide additional protection for this situation in the form of "prior user rights." [See *NLJ*, Nov. 15.] Moreover, the fact that a company seeks to keep certain of its practices secret rather than obtaining a patent on them should arguably not bar other inventors from patenting ostensibly new techniques.

The patent statute also provides a defense against stealing inventions, in that an inventor who derives an invention from another cannot be awarded a patent.

As to the possibility that the new breed of patents could stifle free and open trading on the Internet, such concerns are not unique to the Internet. After all, patents are designed to provide a limited monopoly in exchange for an inventor's complete disclosure of how the invention works.

The culture of free information exchange and sharing that occurs on the Internet should not create a bar to patentability for inventors whose business models are creating great wealth and employment. Patents provide a powerful engine that drives many new companies, some of whose only assets are in the form of intellectual property.

## Following in the footsteps of biotechnology patents

In a sense, patents covering business methods and Internet transactions are like biotechnology patents that began to issue about 20 years ago. When the Supreme Court opened the door to patenting life forms in the early 1980s, an entirely new industry sprang up almost overnight.

As electronic commerce has taken off, new companies have relied heavily on creative sales and advertising techniques over the Internet. Those who seek to copy the commercially successful features of others can always take a license or design around the patents.

So what about that patent covering a method for teaching janitors how to clean a building? If it increases worker efficiency, results in cleaner buildings (a "tangible result") and increases profits, why shouldn't it be patentable? The next time you're sitting in your chair mulling over whether to patent your latest business practice, you might want to take a break and play solitaire. If so, watch out for U.S. Patent No. 5,653,635 ("Wagering Solitaire Game"). You might have to pay a royalty. NLJ

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