

# BUSINESS METHODS PATENTS AND ELECTRONIC COMMERCE

**A**t one time, patents could not easily be obtained for software-related inventions. Clever practitioners quickly learned to draft the claims so as not to claim protection for a computer program as such. After a few years of this game, and some important court decisions, the objections to the registration of software-related patents in the U.S. eventually disappeared.

The current hot issue is business method patents. These have become more important with the recent growth of technology companies, particularly those involving the Internet. The flood gates for business methods patents were opened by the decision of the U.S. Federal Circuit Court of Appeals in 1998 in *State Street Bank v. Signature Financial Group*. Although these types of patents have been issued in the past, *State Street* created a "feeding frenzy", particularly in respect of e-commerce applications. Patent protection may offer dot com companies the ideal way of protecting their business from competition.

The U.S. Patent and Trademark Office has been very busy issuing business method patents. It granted 1,390 patents related to the Internet in the first half of 1999, compared to only 648 in all of 1997.

While the Canadian Intellectual Property Office has so far adopted a conservative position, Canadian businesses and their legal counsel still need to be concerned with what is happening in the U.S. This is because e-commerce applications, even if originating from a server located in Canada, will likely be targeted at Americans due to the size of the U.S. market. It is not yet clear whether courts will treat such use as an infringement of a U.S. patent.

While the explosion of interest in business methods patents has left smiles on the faces of patent practitioners, it has also generated considerable controversy within the computer industry. In December 1999, Richard Stallman, an early developer of the Linux operating system, called for a boycott of Amazon.com Inc., claiming that the online retailer's effort to enforce its "1-Click" patent is an attack

against the Web and against e-commerce in general. Amazon's 1-Click feature stores billing and shipping information so that repeat customers can buy items in the future using a quick checkout process.

In October 1999, a month after obtaining the patent, Amazon.com filed a complaint against Barnesandnoble.com, alleging that its rival's Express Lane check out service was infringing on its patent. Amazon secured a preliminary injunction in early December. Amazon's actions lead to the Stallman call for a boycott, e-mail complaints and cancelled orders.

Another dot com business, LinkShare Corp. was granted a patent in early December, which if read broadly, could preclude companies from giving commissions to the owners of other sites which link to them. Many Internet web sites operate "affiliate programs" which provide for financial compensation to sites that link to them if users coming in through links from those affiliate sites purchase a product or service.

Also in December 1999, Fantasysports.com filed a lawsuit seeking to bar Yahoo and others from using its fantasy sports game concept. Last year, Priceline.com sued Microsoft over the use of a feature by Expedia, its travel service, which permits customers to name their price for flights and hotels. Yahoo has been sued over a patent which is alleged to cover the shopping-cart feature implemented on its site. DoubleClick Inc., a banner advertising network, has commenced proceedings against two smaller competitors over their use of ad-targeting technology.

One of the arguments made against the granting of patents for business methods is that developments in the Internet field are occurring at an accelerated rate and that the Patent Office simply cannot do an effective job of checking prior art. In order to obtain a patent, the invention must be novel and not obvious to someone skilled in the art. Consequently, inventions are not patentable if they have already been discovered or implemented by others.

New Internet businesses and practices are being implemented very quickly and are commonly based on incremental improvements to technology utilized by others. Accordingly, it is not always easy to ascertain who developed an invention and when it was invented. Also, the improvements may be so incremental as to be vulnerable to an argument that they were obvious.

Another argument is that many Internet businesses and practices simply involve computerizing existing and well-known business processes. The only "new" component is the fact that they are implemented on a computer network. There is also concern that the patents may impede efforts to develop industry standards.

Lastly, opponents of granting patents for business methods argue that many of the patents are too general. For instance, Sightound.com claims that it has a patent on the entire concept of selling music through digital downloading and is demanding that anyone selling music to be delivered online pay it a royalty of one per cent.

U.S. legislators have started listening. An addition to the budget bill passed in November attempts to reduce the risk that companies will be violating someone's patent.

One measure will be to make some patent applications public after 18 months, a practice followed in Canada and many other countries. Companies would also have a limited right to continue using business methods, without paying royalties, if they utilized them prior to learning that they had been patented.

A number of patent experts predict that ultimately, courts will likely decide that the U.S. PTO has been too liberal. The result may be that many of the patents now being issued will later be invalidated or interpreted very narrowly. However, this will happen only if competitors possess sufficient financial resources to overcome the presumption of validity which arises once a patent is issued. It has been estimated that the average patent infringement case costs over one million dollars. e