

## **Counseling Clients About Business Method Patents**

*An earlier version of this article was published at a Massachusetts Continuing Legal Education conference entitled Internet and e-Commerce Law conducted in Boston on December 5, 2000. Mr. Jacobs was a Faculty Member at this Conference*

### **I. Introduction**

Corporations and their patent counsel face a brave new world of impossibly broad business method patents, intellectual property marketplaces, patent insurance, industry-wide infringement allegations, and self-styled "patent-busters." Given the thinness of precedent and a dearth of prior art, how should patent attorneys advise clients when it comes to business method patents? This article is intended to suggest practical approaches to a rapidly-evolving area of patent law, and evoke useful dialogue between client and counsel. Section II sets forth typical client questions, while Sections III - V examine patentability, infringement and clearance issues, as well as aspects of responding to demand letters.

### **II. Top Ten Client Questions (and Answers)**

#### 1. What is a patent?

A U.S. patent is a limited-term right, granted by the U.S. government, to exclude others from making, using or selling the invention defined by the patent claims. A patent is not, per se, a right to practice. Even if a corporation owns a valid U.S. patent covering its method, it may still infringe another's "dominating" patent (a prior patent having a claim encompassing the subject matter of a claim in a subsequent patent).

#### 2. What is a "business method patent"?

The term "business method patent" remains undefined by statute, but is commonly used to describe patents relating to methods of conducting e-commerce transactions. Such patents often disclose and claim aspects of software and Internet-based communications intrinsic to the business methods. Perhaps the best-known example of a business method patent is Amazon's "one-click" shopping patent.

#### 3. Can my company's business method be patented?

State Street Bank & Trust Co., v. Signature Financial Group, Inc., 149 F.3d 1368 (Fed. Cir. 1998) confirmed that business methods can be protected by a U.S. patent if the subject matter meets the statutory requirements of utility, novelty and non-obviousness. The utility test can be satisfied by any useful, lawful function. The question thus comes down to novelty and non-obviousness. An invention can be novel if it was not "known or

used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant." (35 U.S.C. 102(a)) "Obviousness", in turn, is evaluated as of "the time of invention" and from the perspective of "one of ordinary skill in the art." As with other kinds of patents, a patentability search can be conducted to provide guidance about the prior art. Patentability searches and opinions, however, are subject to limitations, particularly in the quickly-developing field of business method patents, and can not guarantee patentability. If the decision is made to file patent applications, it may be advisable to seek protection not only for the business method per se, but also for the unique software tools or architectures that render the business method commercially viable.

#### 4. How long can I wait before applying for a business method patent?

U.S. patent rights may be lost if a patent application for an invention is not filed within one year of disclosing, publicly using or placing the invention on sale. Offering the invention for sale may be sufficient to start the one-year clock; and, unlike the U.S., most other industrialized nations provide no grace period before loss of rights. Thus, patent applications should be filed before disclosure or commercial activity occurs.

#### 5. I think my competitor is infringing my business method patent -- how do I prove it?

Proof involves at least three aspects: determining what the patent claims cover, defining the competitor's method, and establishing that it infringes the claims. Patent infringement occurs when an accused method, product or system contains every element (or its equivalent) required by a properly interpreted patent claim. The traditional rules of claim interpretation, including analysis of the claims, written description, drawings and prosecution history, can be applied to arrive at a proper claim construction. Challenges may arise in determining the competitor's method, since the details may well be hidden in software. Counsel and client may need to rely upon reports from the competitor's customers or vendors; advertising claims; SEC or other public filings; and statements made on the alleged infringer's website.

#### 6. Should I sue if I suspect infringement of my business method patent?

As with any infringement matter, comprehensive analysis and deliberation should be undertaken prior to bringing suit. Although the traditional rules apply, there has been little reported litigation and only limited judicial guidance as to patent claim construction, infringement and validity. It may be particularly difficult to establish that an alleged infringer is using the patented business method, and the patentee's chances of prevailing on summary judgment may be more readily defeated by fact issues regarding the alleged infringer's method. Filing suit, or simply alleging infringement, may jeopardize the patent by providing a basis for the alleged infringer to seek a declaratory judgment of non-infringement and/or invalidity.

#### 7. What value do patents have if they are so expensive to enforce?

Business method patents can have value in both defensive and offensive contexts, such as excluding other market players; preventing others from excluding; enabling defensive cross-licensing; facilitating strategic partnerships; and raising capital. In deciding whether patents are worthwhile, counsel should consider the connection between the

patented subject matter and the client's core business; and the burdens and risks associated with defensive and offensive exercise of the patent rights. A number of companies claim methods (some patentable) for determining the value of patents, using "patent-mapping" ([www.aurigin.com](http://www.aurigin.com)), Black-Scholes options pricing theory ([www.pl-x.com](http://www.pl-x.com)), and other techniques.

8. A competitor claims to own a business method patent -- how do I know whether I'm infringing?

A clearance analysis of the competitor's patent can be undertaken to interpret the patent claims and determine whether the client's business method infringes them. It will also be useful to investigate the validity of the patent in question. Although traditional rules of claim interpretation apply, additional uncertainty may arise from a lack of judicial precedent and indefinite descriptions, in the patent, of the claimed method steps and the environment in which the method is executed. See *Interactive Gift Express, Inc. v. Compuserve, Inc.*, 231 F.3d 859, 865 (Fed. Cir. 2000).

9. Aren't business method patents so broad as to be invalid?

Inevitably, some business method patent claims will be invalidated in litigation, but some will be properly upheld. Although applicants are required to establish to a U.S. Patent and Trademark Office (USPTO) examiner that their patent claims are novel and non-obvious in view of the prior art, examination of business method patents has been compromised by many factors, including the lack of suitable prior art databases. The USPTO has undertaken measures to improve the quality of examination, but a rigorous test of validity may occur only in litigation, when the statutory presumption of validity is pitted against the prior art mustered by a well-funded opponent.

10. My company received a letter claiming that our business method infringes a patent -- what should we do?

At issue is whether the business method infringes a valid, properly interpreted patent claim. The contention may be addressed by evaluating the scope a court is likely to accord the claim, determining whether the method in question contains all the elements of the claim, and conducting a validity search to locate prior art that may invalidate the claim. It will also be prudent to evaluate a range of possible responses, such as securing a comprehensive non-infringement opinion, negotiating a license, engineering around the claims, shifting responsibility to an indemnifier, and/or bringing a declaratory judgment action against the patentee. Counsel should also obtain all available information about the party asserting the patent, including past and present patent actions. Counsel can then review with the client the strengths and weaknesses of the opponent's case, the client's defenses, and the risks involved, before taking further appropriate action.

### **III. Patentability Opinions - Scope of Allowable Claims**

#### **A. Background**

The purpose of a patentability opinion is to determine whether the client's invention is patentable over available prior art. In the context of a business method, the question may be "how broad a patent (if any) can I obtain to protect my business method?"

## B. Discussion

The patentability of a given business method will be tested by the traditional standards of novelty and non-obviousness, and the scope of allowable patent claims will be circumscribed by relevant prior art. Thus, patentability opinions typically compare the client's invention with the most relevant patents, publications, and commercially available systems identified by a search. One object is to identify features, or combinations of features, which are novel and non-obvious in view of the publications or commercially available systems identified by the search.

Patentability opinions are necessarily limited by the information obtained by a search. Until recently, the USPTO maintained patent applications in secrecy during patent prosecution (a process that can require 3 or more years, assuming a patent issues at all). Under new rules, newly-filed U.S. applications are generally subject to publication 18 months from filing. Notwithstanding, a significant number of recently-filed applications continue to be essentially invisible to search, and many relevant activities are concealed in software or protected as trade secret, rather than patented or otherwise published.

Each of these factors creates challenges for the client and for the practitioner rendering a patentability opinion. Additional challenges may be presented by the very nature of the business methods and their inventors. As with any patentability opinion, the practitioner should thoroughly understand the client's business method inventions. However, business methods are often moving targets, with relevant specifications and definitions subject to rapid change.

Thus, the practitioner's initial tasks may include reviewing with the client the strategic goals served by patents, as well as defining with the client the invention as it exists today and may be implemented in the future. The practitioner should consider drafting patent claims as soon as practicable to facilitate discussion and consensus as to the subject matter the client seeks to patent.

Counsel can then conduct a prior art search. Counsel should encourage the client's engineering and marketing personnel (who may have the best knowledge of the relevant area) to be fully involved in the search process, open to discussion, and mindful of the requirement to fully disclose to the PTO all relevant prior art of which the applicant and counsel may become aware. In this regard, counsel may ask the client to identify the company's closest competitors, and individuals and companies who have been influential in the relevant field.

Various search resources can be employed, including traditional search firms, searches of the PTO's database (using both the PTO's and other search engines) and direct searching at the PTO. Internet and other database searches can employ multiple combinations of search terms, with various combinations of parameters developed by counsel, and can include subject matter, company, inventors' names and other searches of U.S. and foreign databases.

Given the relatively limited database of issued U.S. patents relevant to business methods, the practitioner should also search non-patent publications, including academic and scientific journals, press releases, SEC filings, marketing and advertising materials, and websites.

In preparing the opinion, counsel should identify and discuss the most recent, relevant decisions of the Federal Circuit and, where appropriate, the district courts. The opinion should also describe in detail the client's business methods, both present and planned, and identify the source of the information. The opinion may also describe the search field and methodology, and the limitations of the search. The opinion can then review the prior art and, based on the articulated legal standards, set forth findings and recommend further action.

#### **IV. Infringement and Clearance Opinions**

##### **A. Background**

Clients frequently call upon patent counsel to provide infringement and non-infringement ("clearance") opinions. In the context of business methods, the client may own a business method patent, and learn of a competitor who may be infringing that patent, necessitating an infringement opinion. Alternatively, the client may be contemplating the practice of a particular business method, only to learn of a particular patent owned by a competitor, necessitating a clearance opinion.

##### **B. Discussion**

Once again, although the conventional rules of claim interpretation apply to business method patents, the practitioner faces new challenges in assessing infringement. First, there is little judicial guidance to help counsel predict whether courts will construe particular business method patents narrowly or broadly (see, e.g., *Interactive Gift Express*, 231 F.3d at 865). It is one thing to state that the conventional rules apply, but quite another to predict the outcome of applying those rules to a particular business method claim, without a track record of Federal Circuit decisions. Reasonable extrapolations can be offered, but counsel should advise clients of the uncertainty involved.

In addition, business method patents may contain little or no description of the structures or underlying computing environments in which method steps are executed. Many such patents merely refer schematically to personal computers or other computing devices connected via the Internet. Counsel may be left to characterize the structure or environment by inference. Further, while a clearance opinion may utilize prior art to support the position that the client's method is simply a practice of the prior art (and thus does not infringe), the process of locating defensive prior art is complicated by the factors noted above. Counsel may consider tapping alternative sources of defensive prior art, such as [www.bountyquest.com](http://www.bountyquest.com), [www.spi.org](http://www.spi.org) and the like. From the standpoint of determining infringement by others, the exact workings of business methods are often concealed in software, and it may be necessary to utilize information gleaned from websites, advertising and marketing materials, SEC filings, and other statements made by the alleged infringer.

Notwithstanding these difficulties, infringement and clearance opinions should apply the conventional two-part infringement test, using the most recent available decisions of the Federal Circuit and district courts. Where appropriate, the opinion can discuss whether courts are willing to grant preliminary injunctive relief, and the probability of obtaining summary judgment of infringement or non-infringement, validity or invalidity. The opinion can also set forth options for engineering around the patent claims at issue.

Counsel should investigate the availability of defenses, including the good faith prior use defense under 35 U.S.C. 273 (American Inventors Protection Act). Clients should be advised to maintain comprehensive documentation of their processes in order to support such a defense in the future. In addition, clients should consider a program of filing patents on their own business methods, as well as significant improvements therein, since such patents may subsequently enable defensive cross-licensing.

Critical issues have yet to be addressed by the courts, and an infringement or clearance opinion may incorporate significant caveats regarding claim construction and related matters. Nonetheless, such opinions should identify the issues, point out areas of uncertainty, and offer reasonable extrapolations of existing law, to provide answers useful to the client.

## **V. Responding to Demand Letters**

### **A. Background**

Patent counsel may be called upon to respond to a demand or threat letter alleging that a particular patent is applicable to the client's business method. In response, counsel will analyze the patent(s), the client's business method(s), and other relevant factors to decide whether the client is infringing a valid patent claim, and what further actions are indicated.

The challenges noted above in connection with infringement of business method patents, particularly lack of defensive prior art, judicial authority, and definition of structure, apply with equal force in responding to demand letters, in that these limitations create significant uncertainty as to the scope of the patentee's claims and their applicability to the client's business methods. Nonetheless, it is worth noting some typical aspects of responding to a demand letter.

### **B. Initial Meeting**

Upon receiving a demand letter, the client will usually seek information about risks, next steps, and costs. Although counsel can outline a range of possible responses and risks at the initial client meeting, comprehensive research and analysis will be required before risks can be definitively assessed.

### **C. Information Gathering: Patent and Patentee**

Often the first source of information about the patentee's (or potential plaintiff's) case is the demand letter itself and any enclosed documents. Is the demand letter specifically targeted at the client, or is it merely a form letter? Is there an actual accusation of infringement, or merely a recitation of a "patent for which we think you may require a

license"? (Patent demand letters typically attempt to avoid a direct accusation of infringement that could provide basis for a declaratory judgment action.) Does the letter include claim charts with detailed analysis of the client's business methods, or, more likely, limited analysis? Does the letter set forth a claim interpretation, referenced to specification and drawings?

It is also useful to determine, either from the letter itself or from extrinsic sources, what other parties have been targeted by the patentee. This may help identify whether the effort is a directed one, or an industry-wide dragnet.

Similarly, the practitioner should collect all available information about the patentee or potential plaintiff. Is the patent being asserted by an individual or a company? What information is available about the entity's assets and business activities? Counsel should obtain information regarding prior and current litigation of any kind; patent litigation, particularly litigation of the presently asserted patent; demand letters to others; news articles and bulletin-board discussions about the patent or patentee.

Counsel can conduct searches on the Internet, and in SEC and other databases; and where appropriate, may initiate discreet inquiries with trusted attorneys in his or her network. If the client has in-house counsel, they may have already initiated inquiries with their corporate affiliates, subsidiaries, parents, customers or vendors. In some cases, corporations have shared prior art and other information to rebut the assertion of business method patents.

If not already known, it may be useful to obtain information about the other side's counsel, including biographical data, practice areas, litigation record and whether the firm has a history of undertaking patent litigation on a contingent-fee basis.

Counsel should consider requesting further information and specification from the other side, in an effort to narrow the issues and induce the other side to take a firm position on claim construction (an effort which the other side may naturally resist). Counsel may also request a list of entities that have taken licenses under the patent, since the absence of such licensees may represent useful information about the other side's case.

#### D. Information Gathering: Client's Business Method

It is vital to define the client's business method with specificity. It is the comparison between the client's business method and the opponent's properly interpreted patent claims that ultimately determines the issue of infringement. In-house counsel and key management and engineering personnel should assist in describing the business method. Attaining a precise definition can be challenging, particularly where the business method is embedded in thousands of lines of software code, and where numerous individuals have responsibility for different parts of the client's system. However, the task is essential, since it may identify the difference that enables a finding of non-infringement. Synopses and diagrams prepared by the client's engineering and marketing personnel will help define the method, and may provide a further basis for defense.

#### E. Non-infringement Analysis

Analysis of the asserted patent will involve the traditional test for infringement, and require counsel to thoroughly research the claims, the specification, drawings, prior art references and prosecution history. A defensive prior art search may also be undertaken to invalidate the patent claims. Counsel should consider preparing claim charts setting forth his or her interpretation of the asserted claims, with particular references to the specification, drawings, and, where applicable, the prosecution history; and application of the interpreted claim to the client's business method. These charts should specifically point out the elements required for infringement that are absent from the client's method. In any case, to reduce the danger of a subsequent finding of willful infringement, with its potential for enhanced damages, counsel must provide to the client a well-reasoned opinion letter setting forth bases for findings of non-infringement and/or invalidity.

#### F. Further Action

Once counsel has collected all available information, analyzed and interpreted the patent claims, and reached preliminary conclusions regarding infringement and defenses thereto, counsel can then review those findings with the client, and outline risks associated with various courses of action. Counsel should reach agreement with the client on a response or responses, which can include, inter alia, opening license negotiations, transferring responsibility under an indemnification provision, answering the allegations with non-infringement and invalidity arguments, or bringing a declaratory judgment action.

If the client is interested in a license, under what circumstances? And at what price? If the client wishes to consider declaratory judgment litigation, it is appropriate to address the myriad issues and risks presented by patent litigation, including jurisdiction and venue, whether the client is likely to prevail on summary judgment, or at trial, and what the client stands to lose if the result is unfavorable. If litigation is a "bet-your-company" action, in which there is a danger of the patentee obtaining injunctive relief sufficient to put the client out of business, the client should be so advised. As in any action, the client should be thoroughly informed as to the possible monetary and other costs of litigation, including discovery, motion practice, Markman (claim construction) hearings, pre-trial, and trial phases.

#### VI. Conclusion

Although the Federal Circuit has indicated that it will apply traditional rules in cases involving business method patents, it appears certain that questions of patentability, infringement, and enforceability of such patents will continue to present fresh challenges to clients and counsel. Given the difficulty of assuring clearance from others' business method patents, clients should be advised to file patent applications covering key aspects of their business methods. In addition, a growing number of entities offer insurance policies covering patent-related exposures, such as transactional risks and the cost of patent litigation, both defensive and offensive. Clients should be advised to consider these options, subject to caveats regarding coverage, limitations and other policy terms.