BUSINESS METHODS PATENT:

AN ANALYSIS

Introduction:

We live in an era where time is money. Having said that it is pertinent to justify the statement in the light of living in an age where competition rules the world, and one can lose out on millions worth of money by a split second. This holds true especially for patent applications, be it products or processes. In the field of patents, while the notion of contributing to the society is for the greater good, the revenue or profits generated therein towards the inventor cannot be ignored. Most economists view the patent system as a necessary evil: with a patent grant we trade off short term exclusive (monopoly) rights to the use of an invention in return for two things:

- an incentive to create the innovation; and
- Early publication of information about the innovation and its enablement.

The argument is that without the patent system, fewer innovations would be produced, and those that were produced would be kept secret as much as possible to protect the returns from misappropriation.[1] In considering the economic impacts of the implicit subject matter extension implied by the increased use of patents to protect business methods, the trade-off between these benefits and the welfare cost of the grant of a monopoly right are at least as important as they are in any other technological arena.[2]

Economic analysis says first that competition may suffer when we grant a monopoly right to the inventor of a business method but it will benefit if this right facilitates entry into the industry by new and innovative firms.[3] Second, innovation in business methods will benefit from the incentive created by a patent but may suffer if patents discourage the combining and recombining of inventions to make new products and processes.[4]

[1]Pg 2, Business Method Patents, Innovation, and Policy, Bronwyn H. Hall, May 2003
[2] Id.
[3]Id.
[4]Id.

Patent:

A **patent** is a set of exclusive rights granted by a sovereign state to an inventor or assignee for a limited period of time in exchange for detailed public disclosure of an invention. An invention is a solution to a specific technological problem and is a product or a process.[5] Patents are a form of intellectual property.

The procedure for granting patents, requirements placed on the patentee, and the extent of the exclusive rights vary widely between countries according to national laws and international agreements. Typically, however, a granted patent application must include one or more claims that define the invention. A patent may include many claims, each of which defines a specific property right. These claims must meet relevant patentability requirements, such as novelty and non-obviousness. The exclusive right granted to a patentee in most countries is the right to prevent others from making, using, selling, importing, or distributing a patented invention without permission.[6]

Under the World Trade Organization's (WTO) Agreement on Trade-Related Aspects of Intellectual Property Rights, patents should be available in WTO member states for any invention, in all fields of technology,[7] and the term of protection available should be a minimum of twenty years.[8] Nevertheless, there are variations on what is patentable subject matter from country to country.

The word patent originates from the Latin patere, which means "to lay open" (i.e., to make available for public inspection). More directly, it is a shortened version of the term letters patent, which was a royal decree granting exclusive rights to a person, predating the modern patent system. Similar grants included land patents, which were land grants by early state governments in the USA, and printing patents, a precursor of modern copyright.

In modern usage, the term patent usually refers to the right granted to anyone who invents any new, useful, and non-obvious process, machine, article of manufacture, or composition of matter. Some other types of intellectual property rights are also called patents in some jurisdictions: industrial design rights are called design patents in the US, plant breeders'

[5] http://www.wipo.int/export/sites/www/about-ip/en/iprm/pdf/ch2.pdf (Last visited May 5, 2014)
[6] http://www.wipo.int/patentscope/en/patents_faq.html#protection (Last visited May 5, 2014)
[7] Article 27.1. of the TRIPs Agreement
[8] Article 33 of the Agreement on Trade-Related Aspects of Intellectual Property Rights

rights are sometimes called plant patents, and utility models and Gebrauchsmuster are sometimes called petty patents or innovation patents.

The additional qualification utility patent is sometimes used (primarily in the US) to distinguish the primary meaning from these other types of patents. Particular species of patents for inventions include biological patents, business method patents, chemical patents and software patents.

Business Method Patents:

The terminology of Business Method Patents (hereinafter as BMPs) has not been clearly defined by any law but is generally used in order to describe patenting of business methods. These comprise of a category of patents on inventive means and ways of conducting business, and could be abstract conceptual steps or schemes, irrespective of the fact whether they yield physical conclusions as well as particular methods of conducting business carried out through a machine such as computer, etc. These patents commonly fall under the ambit of e-commerce transactions and include patenting of different aspects of software, computer systems, machines and/or inter-web communications; processes and hardware which help in executing various business tasks.

BMPs form a part of a bigger class of patents known as utility patents, which are given to protect inventions, chemical formulae, processes and other such discoveries, which are allowed under patent law.[9] It can be, thus, said that a business method could be classified as a process because unlike a mechanical invention or chemical composition is not a physical object.[10] The United States Patent and Trademark Office gives a fairly restricted definition to BMP under the cover of "data processing" as per Class 705 which states: "This is the generic class for apparatus and corresponding methods for performing data processing operations, in which there is a significant change in the data or for performing calculation operations wherein the apparatus or method is uniquely designed for or utilized in the practice, administration, or management of an enterprise, or in the processing of financial data. This class also provides for apparatus and corresponding methods for performing data processing or calculating operations in which a charge for goods or services is determined."[11] The scope of this class is given as:[12]

1. The arrangements in this class are generally used for problems relating to administration of an organization, commodities or financial transactions.
2. Mere designation of an arrangement as a "business machine" or a document as a "business form" or "business chart" without any particular business function will not cause classification in this class or its subclasses.

[9]Journal of Intellectual property Rights, Vol 11, may 2006, pg 175, Abhimanyu Ghosh
[10]Id.
[11]http://www.uspto.gov/web/offices/ac/ido/oeip/taf/def/705.htm (Last Visited on May 5, 2014)
[12]Id.

3. For classification herein, there must be significant claim recitation of the data processing system or calculating computer and only nominal claim recitation of any external art environment. Significantly claimed apparatus external to this class, claimed in combination with apparatus under the class definition, which perform data processing or calculation operations are classified in the class appropriate to the external device unless specifically excluded there from.
4. Nominally claimed apparatus external to this class in combination with apparatus under the class definition is classified in this class unless provided for in the appropriate external class.
5. In view of the nature of the subject matter included herein, consideration of the classification schedule for the diverse art or environment is necessary for proper search.

Historical Perspective:

Business methods are a rapidly evolving topic in patent law. Business methods originally could not be patented at all, but they are now considered on almost the same basis as any other type of invention.

Historically, one could not patent a business method because of a long-standing rule known as the "business method" exception. This rule stated that business methods were not patentable subject matter, and has been cited by cases from more than a century ago. In addition, the courts did not extend patent protection to computer software, a key component to many business method patents. In Gottschalk v. Benson and Parker v. Flook, the Supreme Court ruled that software was too similar to mathematics and laws of nature to be entitled to patent protection.

The Supreme Court changed its direction in 1981 when it ruled in Diamond v. Diehr that inventions would not be precluded from patent protection simply because they utilized computer software. Since then, courts have broadened the scope of protection available to software-related inventions.[13]

Over the last decade, patents have become the preferred method for legal protection of computer software. In a series of decisions including Computer Associates v. Altai and Lotus v. Borland,

[13] http://www.strategicpatentlaw.com/business-method-patents (Last visited May 5, 2014)

federal courts greatly reduced the scope of copyright protection for software to the point where little more is protected than exact copying of software code. If vendors want broader protection for computer software functionality, they must now seek it under patent laws. This made way for the final step before business methods became patentable subject matter.[14]

In 1998, the Federal Circuit finally rejected the "business method" exception and extended patent protection to business methods in its decision in State Street Bank v. Signature Financial Group. That decision upheld a patent on a "hub and spoke" automated data processing system that used a series of calculations to transfer assets among a pool of mutual funds. The court found the exception to be ill conceived. It stated that it would be inappropriate to prevent an otherwise patentable invention from being issued a patent simply because it is implemented using a computer. This landmark decision resulted in the court extending patent protection to business methods that used computers.

Most recently, in 2005, it was ruled in Ex Parte Lundgren that a business method is not required to apply, use, involve, or advance the "technological arts" in order to be patented. Thus, a business method can now be patented regardless of whether or not it must be carried out on a computer.[15]

[14] Id
[15] Id

Importance:

Business method patents are extremely important to the companies that use those methods. The patents serve as a form of legal protection for the investments companies make to develop new and original business models.

Patents prevent competitors from copying ideas without permission and compensation. Patents also allow the patent holder to sue infringers for damages and obtain injunctions to stop them. In fact, such infringement occurs frequently. Amazon prevailed against Barnes & Noble for infringing on its "1-Click shopping" patent, while EBay lost a lawsuit to MercExchange, who claimed that EBay's "Buy It Now" system infringed on patents held by MercExchange. These cases serve as an important lesson showing that businesses must be aware of existing business method patents before putting innovations to use in the marketplace.

Because there is strict liability for patent infringement, the infringing party cannot use ignorance as a defense to protect itself. Therefore, online businesses should consult with an experienced attorney before implementing new methods of conducting business.[16]

Essentials:

In order to qualify for patent protection, a business method or software must meet four requirements:[17]

- The method or software must fall within the classes of patentable subject matter. Anything that is created by humans falls within these classes; laws of nature, natural phenomena, and abstract ideas do not.
- The method or software must be useful. This requirement is fairly easy to satisfy because any functional purpose will suffice. A business need only demonstrate that its method or software provides some concrete tangible result. For example, the Amazon 1-Click patent provides a tangible result -- an expedited purchase.

[16] http://www.strategicpatentlaw.com/business-method-patents (Last visited May 5, 2014)
[17] http://www.nolo.com/legal-encyclopedia/business-method-patents-30098.html (Last visited May 5, 2014)

- The method or software must be novel. This requirement means the method must have an aspect that is different in some way from all previous knowledge and inventions. This requirement is discussed in more detail below.
- The method or software must be nonobvious, meaning that someone who has ordinary skill in the specific technology could not easily think of it. This, too, is discussed just below.

Novelty

An Internet method will flunk the novelty test if it was put to public use -- or described in a published document -- before the patent application for the business method was filed. (If the method is exposed to the public in one of these ways, it loses its novelty.) The only exception is if the actual inventor-applicant created the publication and it was made up to one year before the filing date, it will not bar the application. For this reason, a business that is seeking to acquire a patent must research the "prior art" (previous inventions or methods) and promptly file its patent application or it risks losing valuable patent rights.

Nonobviousness

Meeting the nonobviousness test turns on whether the method provides a result that would be new or unexpected to someone with ordinary skill in the field of the business. Or put another way, if the differences between the business method and the prior art would not have been an obvious development to someone in the field, it is probably nonobvious.

Case Study:

Concept of Business method patent is now a decade old. State Street case is an important decision in this regard. Further developments have taken place after this judgment. Business Method was considered as an exception to Patent protection until 1998. The first case of this kind was filed in the year 1908. In Hotel Security[18] case the question was whether business methods can be said to be patentable. Here the case rejected the argument of it being capable of protection and created a per se exception to business methods. It was until year 1998 that this position was accepted.

- **State Street Bank v. Signature Financial Group, Inc.[19]**

In the present case the District Court had rejected application for Business Method Patent on the said process of "hub and space". But Later the Federal Circuit confirmed that there is no rule which prohibits the patentability of "business methods." The Court stated "The judicially-created business method exception to patentability is . . . an unwarranted encumbrance to the definition of statutory subject matter in section 101 that should be discarded as error-prone, redundant, and obsolete. It merits retirement from the glossary of section 101. Patentability does not turn on whether the claimed method does "business" instead of something else, but on whether the method, viewed as a whole, meets the requirements of patentability as set forth in Sections 102, 103, and 112 of the Patent Act.

Federal Court further clarified that it was never intended that business methods should be kept out of the subject matter. Rather in earlier few cases claim was rejected due to incapability of those methods to be taken as inventions. Thus, *State Street* confirmed that business methods can be patented if they meet the statutory requirements of utility, novelty and non-obviousness.

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[18] Hotel Security Checking Co. v. Lorraine Co., 160 F. 467 (2d Cir. 1908).
[19] 149 F.3d 1368 (Fed. Cir. 1998).

- **Amazon.com Inc. v. Barnsandnoble.com[20]**

In this case one-click patent to Amazon.com was criticized by few writers on the ground of it being "unplanned mutation".[21] Here an injunction was granted to Barnes & Noble for not using the said feature. This case clearly reflects drawbacks that can arise in case a business patent is protected in countries which are still developing their technologies. Through its Web site (www.amazon.com), Amazon.com enables customers to find and purchase books, music, videos, and other items over the World Wide Web. Amazon.com pursued a strategy of innovating to distinguish its shopping experience from the competition, and it made substantial investments to build customer relationships and broaden its customer base during the early growth phase of electronic commerce.

Creating easy-to-use and easy-to-learn consumer interfaces was a key aspect of Amazon's strategy. Sometime before May 1997, Amazon.com CEO Jeffrey Bezos conceived of an idea to enable Amazon.com customers to purchase items with a single-click of a computer mouse button. That idea resulted in a system in which a consumer could complete a purchase order for an item via the Internet using only a single action (such as a single click of a computer mouse button) once information identifying the item was displayed to the consumer. This system was applicable in situations where a retailer already had in its files various information about the purchaser (such as the purchaser's address and credit card number) and where the purchaser's client system (e.g., a personal computer) had been provided with an identifier – or "cookie" -- that enabled the retailer's server system to identify the purchaser. Technologically, the 1-Click was an order fulfillment component of a server system that took the information provided by the databases of user information and inventory, combined those into a shipment order, and then notified the customer that the order was ready for shipment. Amazon.com commercially implemented this idea in September of 1997. Amazon.com's single-action ordering method addressed an unsolved need that had been long-felt, namely, streamlining the on-line ordering process to reduce the high percentage of orders that were begun but never completed (i.e., abandoned shopping carts." In the on-line industry over half of the shopping carts started by

[20] 53 USPQ 2d 1115 (W.D. Wa. Dec. 1, 1999)

[21] The Brave New World of Business-Method Patents, by E. Robert Yoches.as reported in website of Finnegan, Henderson, Farabow, Garrett & Dunner, LLP.

customers are abandoned before checkout. The single-action ordering invention solved the problem by eliminating the checkout process entirely.

While the 1-Click ordering system may have been an innovative business method for Internet retailing, technologically it was neither too sophisticated nor complicated to replicate. In May of 1998, one of Amazon.com's chief business competitors, Barnesandnoble.com, developed an "Express Lane" checkout system that closely mimicked Amazon's 1-Click. Express Lane allowed customers who had registered for the feature to purchase items by simply clicking on the Express Lane button shown on the product page that identified the book or other item to be purchased. The text beneath the Express Lane button invited the user to "Buy it now with just 1 click!"

Barnesandnoble.com described Express Lane as one of its "major enhancements" to its on-line business. Prior to Barnesandnoble.com's use of Express Lane, Amazon.com took advantage of a recent U.S. Patent Office policy allowing for the patenting of software enabled business methods. Amazon.com filed a patent entitled "Method and System for Placing a Purchase Order via a Communications Network." That patent, granted in September 1999, protected the idea of using a single action to order, not just the particular technology to do it. Shortly after the issuance of the patent, Amazon.com went to court to enforce it against Barnesandnoble.com. Amazon.com argued that it would be particularly harmed if its competitor were allowed to continue using the 1-Click checkout during the upcoming 1999 holiday season. A federal judge granted a preliminary injunction against Barnesandnoble.com from using a one-click checkout. The Federal Circuit Court of Appeals later invalidated that injunction pending the full trial set for fall of 2001. To bolster its position regarding the validity of its patent, Amazon.com entered a licensing agreement allowing Apple Computer to use 1-Click on its Apple Store Web site. The Amazon-Apple agreement was a cross-licensing deal coming at minimal costs to either company. Nonetheless, the action taken by Apple and Amazon.com was expected to dissuade other companies from challenging Amazon.com's patent as the market had now in some sense "accepted" the patent's validity.

Because the 1-Click has a generic use (not just for book sales), it could possibly allow Amazon.com to reach beyond its traditional area of business. Consider the effects upon Escalate Inc., a Silicon Valley company backed by James Barksdale, the former chief executive of Netscape. Escalate builds computer systems to operate online stores on behalf of other

companies. The company had developed its own one-click-buying software but decided not to offer it to customers because of the Amazon.com patent.[22]

Amazon.com has also patented other business methods, such as its Web Affiliate Program, which includes the process used to apply to become an affiliate, the technology used to link Amazon.com's databases to the affiliate site, and the billing system used to make sure the affiliate gets its share of the profits. Amazon.com's pursuit and attempted enforcement of its 1-Click patent brought much criticism from the Internet community. Many believed that business methods such as the 1-Click did not meet the legal requirement that the invention be "nonobvious" to be patented. They argued that many of these patented methods did nothing more than computerize a known business method. Moreover, many of the critics argued that patenting Internet business methods was antithetical to the nature and purpose of the Internet – the free flow of information and ideas. Amazon.com was the target of much of the criticism surrounding Internet Business Method Patents. Web sites such as Noamazon.com were set up to encourage boycotts of Amazon.com and to direct consumers to public policy makers with their concerns about Internet Business Method Patents. Amazon.com CEO Jeff Bezos eventually responded to the public criticism in an open letter posted to Amazon.com's Web site. Jeff Bezos and Tim O'Reilly also joined forces to set up the Bounty Quest Web site (www.bountyquest.com). That site allowed companies to offer a reward to individuals who could find "prior art" on Internet Business Methods – something that would invalidate those patents if enforcement were brought in court. Bounty Quest offered a reward for documented prior art related to the 1-Click. While some documentation was offered, and rewards given, the conclusion of O'Reilly was that Amazon.com's 1-Click patent would be somewhat limited, but not invalidated.

[22] A. Hansel, "As Patents Multiply, Web Sites Find Lawsuits are a Click Away," New York Times, December 11 1999.

Indian Perspective:

In India, patent regime is governed by Indian Patents Act 1970. Following the TRIPS Agreement, the parliament has come up with amendments to this Act in order to bring the same in conformity to the agreement. The Indian Patents Act provides for certain areas to be treated as inventions. In order to quality any activity to be invention the conditions provided in the Act itself are required to be satisfied. However as far as business method patents are concerned the Act specifically precludes them. According to Section 3 (k) a mathematical, business method, a computer programme or algorithms are not treated as inventions. Again by virtue of Section 3(m) a mere scheme or rule or method of performing mental act or method of playing game is not invention within the meaning of the Act. In other words, a mere abstract idea is not subject to patent unless the same is actually implementable. Further the Act also excludes a presentation of information from the purview of patentability by treating it as non-invention under section 3(n).

The above position clearly depicts that from a statutory perspective business method is not allowed in India. Despite the position of non patentability of business methods, the influence of software and automation patents are increasingly asserting their influence on Indian patent regime. Though software is protected through copyright, however patenting of software backed business methods are expected to bring a radical change in the entire commercial activities of the country. The Indian patent regime has already extended its tentacles to various areas of economy and hence in such a juncture prevention of business methods patents may lead to unwise decisions.[23]

[23] Prasad, Rakesh, Business Methods Patents in India- Or is it the contradiction in Terms, Source: http://www.algindia.com/publication/article3500.pdf, Last accessed on May 5, 2014

Conclusion:

With the help of advancement in science and technology the world today has turned up into a high-tech global village. However, such advancement of science and technology can never be static and requires constant evolution. The existence of a strong patent system encourages scientific and technological development with guaranteed incentives. If analyzed in terms of traditional principles then a patent system can be said to contemplate only hardcore technical inventions and in this sense business method inventions as such cannot be considered for the purpose of patents. Despite, countries have been found to have deviated from this basic premise and sought to grant patents on inventions which are not hardcore technical in a strict sense. Few countries have justified this position with adding the requirement of some kind of technical aspects to a business method invention though there is no universal rule is prevailing in this regard. However, notwithstanding the application of technical aspects, a business method remains a business method for all practical purposes and addition of a technical feature does not alter its character substantially rather enhances the efficacy only. It is therefore high time that in the light of business method inventions, global patent system must be reconsidered as a whole. Apart from considering technical functioning of an innovation the object of such invention is also required to be scrutinized by authorities. Considering patent system as a mere tool for perpetuating monopoly of trivial innovations should not be tolerated, rather the positive impact of an innovation on the societal and economic development must also be considered. It is therefore of the essence to evolve a separate stream of intellectual property jurisprudence to take care of the business method innovations which are going to rule the global IPR regime in near future.