

Intellectual Property Litigation

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MESSAGE FROM THE CHAIRS

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Happy New Year to each of you! The year 2001 should continue to be a dynamic and challenging time to practice intellectual property law and we hope that you will avail yourselves of all the opportunities that membership in this Committee can provide.

First, we encourage each of you to make plans to attend the Litigation Section's Annual Meeting at The Phoenician in Scottsdale, Arizona to be held May 9-12. Our Committee is sponsoring two CLE programs at the meeting, "Law Enforcement and Attorneys Team Up Against Computer Fraud" and "The Internet Olympics," and we will also hold our semi-annual Committee Breakfast Meeting which will include a substantive program developed by one of our subcommittees.

Visit the Committee's website at
www.abanet.org/litigation/committee/intellectual/subcomm.html
to keep up with all of our exciting activities.

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YOU DON'T SAY

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Confused about business method patents?

You are not alone. Many trial lawyers are not on top of the controversy surrounding business method patents. But you owe it to yourself to get caught up. There will be more and more litigation to enforce these patents in the future.

Here is a short history lesson that may help to acquaint you with the key issues:

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We would love to meet and see more of you at the Section Annual and at the ABA Annual gatherings and hope you will join us.

In early February, our Women in Intellectual Property subcommittee is sponsoring a networking/CLE program in both New York and Los Angeles to discuss Today's Most Pressing IP Issues. For information on attending these events, contact Dale Cendali (212-326-2051) or Diana Torres (213-430-6556. Congratulations to Dale and Diana on the realization of this long-planned project.

Our successful Roundtable Luncheon Series is well underway for the year. The topics, cities, dates, and discussion outlines are being posted each month on the Committee webpage, so you will always be able to stay up to date on what is upcoming. Please invite your friends and colleagues to the luncheons in your cities so that we can increase the exposure to these worthwhile events. If there is not a luncheon scheduled for your city, then join in hosting one by calling Marjory Basile (313-496-7596) or Janice Mitrius (312-715-1000).

Finally, please take note of our new ICANN reporting topic included for the first time in this Newsletter. With domain name disputes being of such importance to clients, we thought it appropriate to add coverage of the trends in this arena.

As always, we welcome your ideas and participation in the Committee, so let us hear from you!

Marilyn, Bob, and Cherry

(You Don't Say, continued from page 1)

November 1972 -- *Gottschalk v. Benson*, 409 U.S. 63. The Court ruled that an invention claimed to cover the conversion of binary-coded decimal numerals into binary numerals was not patentable subject matter under section 101 when the claims were not related to any particular end use and applied to all general purpose computers. This decision came to be cited widely for the proposition that computer algorithms are not patentable. Undoubtedly, this case was decided correctly on its facts. The claims were so broad that they would have covered every binary computer in existence, i.e. every computer in commercial use in the country. But should the rule against patenting computer algorithms be absolute? Many lawyers did not read the Court's opinion to be that inflexible.

If you are confused why this case is relevant to a discussion of business method patents, it is because most business methods currently being claimed in patent applications (including, for example, the methods in the Priceline.com and Amazon.com cases) are little more than computer algorithms, sometimes also referred to as mathematical operations.

June 1978 -- *Parker v. Flook*, 437 U.S. 584. The Court held that the inventor's mathematical formula for updating alarm limits was unpatentable. The invention enabled a computer user to dynamically change the parameters for alarm systems which monitor things like temperature, flow, pressure, etc. in catalytic conversion processes. This opinion, authored by Justice Stevens, took a hard line against the patentability of mathematical processes which the Court equated to laws of nature.

The Court defined algorithm as "a procedure for solving a given type of mathematical problem" at 585. That definition is too narrow for today's usage. I would propose as a better definition "a recipe for accomplishing some task, or portion of a task, implemented in software." My definition begs the question whether algorithms should be characterized as "mathematical operations". Perhaps, it is more helpful to think of algorithms in software as more akin to tools or recipes than to mathematical formulas.

1978 - 1981 - The *Freeman-Walter-Abele* test was formulated. It refined the rule in *Gottschalk* and *Flook* to

permit limited patentability of algorithms and became the prevailing standard. *In re Freeman*, 573 F.2d 1237 (CCPA 1978); *In re Walter*, 618 F. 2d 758 (CCPA 1980); *In re Abele*, 684 F.2d 902 (CCPA 1982). The test has been stated:

First, the claim is analyzed to determine whether a mathematical algorithm is directly or indirectly recited. Next, if a mathematical algorithm is found, the claim as a whole is further analyzed to determine whether the algorithm is "applied in any manner to physical elements or process steps," and, if it is, it "passes muster under section 101."

In re Pardo, 684 F.2d 912, 915 (CCPA 1982).

June 1980 – *Diamond v. Chakrabarty*, 447 U.S. 303. This was not a case involving business methods. The Court granted Chakrabarty a patent on a genetically engineered bacterium meant for use in oil spill clean ups. In doing so, the Court coined the now famous phrase: "everything under the sun made by man is patentable". Did this signal a new era for patentability?

March 1981 – *Diamond v. Diehr*, 450 U.S. 175. The Court applied the *Freeman-Walter-Abele* test and held that a method for continually recalculating the temperature of rubber curing inside a mold is patentable even if the novelty derived solely from the use of a computer to execute calculations according to a mathematical formula:

"Although a mathematical formula is not accorded patent protection, when a claim containing a mathematical formula implements that formula in a structure or process which, when considered as a whole is performing a function that the patent laws were designed to protect, then the claim satisfies 35 U.S.C. section 101."

Evidently, the calculation was too cumbersome to be done by hand. The PTO had rejected the claims as unpatentable in reliance on *Benson* and *Flook*. Justices Stevens, Brennan, Marshall and Blackmun dissented.

1996 – The Patent Office announced that it would issue patents on methods of doing business on the same basis as any other process patent. See <http://www.clemcheng.com/html/pb.html>.

July 1998 – *State Street Bank v. Signature Financial Group*, 149 F.3d 1368 (Fed. Cir. 1998). The Federal Circuit reevaluated the *Freeman-Walter-Abele* test, finding it "has little, if any, applicability to determining the presence of statutory subject matter" today. 149 F.3d at 1373-74. In its place, the court announced that claims that use a mathematical algorithm require only that the algorithm be applied in a "useful way". 149 F.3d at 1373. This test now is sometimes referred to as "the practical utility test" in contrast to the "physical limitation test" of *Freeman-Walter-Abele*. Interestingly, *State Street* did not involve a business method. The claims at issue in *State Street* were apparatus, not method claims. Some saw this as providing a basis for squaring the result in *State Street* with the *Benson* and *Flook* decisions. Others believe that *Benson* and *Flook* were overruled in *Diehr*, if only implicitly.

April 1999 -- *AT&T v. Excel*, 172 F.3d 1353 (Fed. Cir. 1999). The Federal Circuit applied the "practical utility test" of *State Street Bank* to pure software process claims. The invention involved the creation and use of a new data field for the purpose of differential billing to customers whose long distance calls share the facilities of more than one long distance carrier. The court found that, under the practical utility test, the claims were patentable. The court repeated *State Street's* rejection of the physical limitation test. "Whatever may be left of the earlier test, if anything, this type of physical limitations analysis seems of little value" when applied to business methods in our computerized world of today. 172 F.3d at 1359.

Some say that the "practical utility test" breaks sharply with Supreme Court precedent. See, Dunner and Rainey, *Business Method Patents: Far From a Settled Issue*, Center for Intellectual Property Law News Source, Vol. II No.4 (Fall 2000). However, the CAFC is not contrite. The court seems convinced that the newer practical utility test will serve the public well. My interpretation is that the court sees the nation at the beginning of a new technological era in communications, biology and computing. The court believes that the practical utility test rewards inventors who create new methods of utilizing these technologies and avoids drawing the zone for patent protection too narrowly: "The sea-changes in both law and technology stand as a testament to the ability of the law to adapt to new and innovative concepts, while remaining true to its basic principles . . . this court (and its predecessor) has struggled

to make our understanding of the scope of section 101 responsive to the needs of the modern world.” 172 F.3d at _____.

October 1999 – *AT&T v. Excel*, 120 S.Ct. 368. Justice Stevens, author of *Flook*, took the unusual step of noting in the order denying certiorari: “The importance of the question presented in this certiorari petition makes it appropriate to reiterate the fact that the denial of the petition does not constitute a ruling on the merits.” 120 S.Ct. 368.

November 1999 – *American Inventor’s Protection Act*. Among other things, the Act established the so-called First Inventor Defense. The defense is limited to infringement of a business method patent and is a shield against past damages only. The Act does not define business method. Nor does the Act limit or restrict the scope of section 101 patentable subject matter in reaction to *State Street* and *Excel* though that was urged by some lawmakers. Does that imply that congress has approved the “practical utility test”?

December 1999 – *Amazon.com v. Barnesandnoble.com*, 73 F.Supp.2d 1228 (W.D.Wash. 1999). The district court preliminarily enjoined Barnes and Noble from infringing Amazon.com’s “one-click purchase” method patent.

2000 was an eventful year as well. Priceline.com continued its lawsuit against Microsoft and Expedia to protect its “reverse on-line auction” patent, but, perhaps, could not afford the litigation as the company’s value plummeted? The case was settled recently. Scott Bezos stirred controversy by advocating, among other things, that business method patents should have a term of only five years. Meanwhile, Bezos’ injunction against Barnes and Noble was argued to the Court of Appeals in October. The PTO announced that it will beef up its prior art library for software patents and that patent applications for business methods will receive extra scrutiny. The year ended with critics of *State Steet* and *Excel* calling for the Supreme Court to address the standard for patentability.

Stay tuned. 2001 should be interesting.