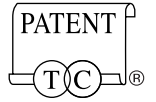


INSIGHT[®]



INTELLECTUAL PROPERTY LAW AND PRACTICE

Vol. 11, No. 2

Spring/Summer 2001

This newsletter is provided with our compliments. Its purpose is to inform our readers of developments within the firm and in the legal field of intellectual property law. We invite your comments, questions, and opinions.

Patent Clearance for E-Commerce

Preemptive Patent Clearance or Wait Until You Receive a Notice Letter Threatening a Lawsuit

by Allan Ratner and Louis W. Beardell, Jr.

Patent filings for e-commerce “business methods” have been soaring in recent years and have been stirring up significant controversy. You have invested time, effort, and expense developing your new business concept for an e-commerce service or product to be introduced via the Internet. You think it’s new and unobvious, so you have filed an application to patent it. But have you considered whether someone else may have a patent claim which may be infringed by your product or service? Maybe you should.

Doing so usually involves a freedom to use study (also known as a patent clearance study) for your e-commerce or financial business method service or product.

Business Method and E-commerce Patents In The Marketplace and Courts

Let’s consider some of the recent events in the marketplace and the courts. Electronic commerce vendors, health care service providers, credit card companies, brokerage houses and investment banks such



Allan Ratner

Louis W. Beardell, Jr.

as Amazon, Priceline, Compuserve, American Express, Merrill Lynch, and First Union, are filing for and obtaining patent protection for their electronic commerce and business methods on the heels of the well known *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 927 F. Supp. 502, 38 USPQ2d 1530 (finding valid U.S. Patent No. 5,193,056, for *Data Processing System for Hub and Spoke Financial Services Configuration*). Attempting to prevent others from cashing in on their innovative business services and products, there has been an explosive growth in litigation and other activities related to business method patents in the marketplace.

Conn., filed October 13, 1999) on Priceline U.S. Patent No. 5,794,207 (issued August 11, 1998; for *Method and Apparatus for a Cryptographically Assisted Commercial Network System Designed to Facilitate Buyer-driven Conditional Purchase Offers*), alleging that the Microsoft’s “Hotel Price Matcher” in Microsoft’s Expedia travel service infringes Priceline’s patented “reverse action.” Before the suit, Priceline and Microsoft executives met, apparently to discuss possible investment by Microsoft in Priceline and Priceline’s senior management and technical staff provided Microsoft with a variety of allegedly confidential information. Following breakdown of the

- Priceline sued Microsoft (*Priceline.com v. Microsoft Corp.*, D.

(continued on page 2)

IN THIS ISSUE:

Announcing4
Speaker’s Forum5
Philadelphia Bar Assn. Run6

Patent Clearance

(continued from page 1)

discussions, Priceline sued. This suit is pending.

- Amazon sued rival bookseller Barnes and Noble (*Amazon.com, Inc. v. Barnesandnoble.com Inc.*, 73 F. Supp. 2d 1228 (W.D. Wa. 1999)) alleging infringement of Amazon's patent, U.S. Patent No. 5,960,411 (issued September 28, 1999; for *Method and System for Placing a Purchase Order Via a Communications Network*), covering Amazon's 1-Click technology. This patent is directed to a method for allowing users to enter billing and shipping information once, then place future orders without having to reenter the same information. An Internet user can buy items with a single click without first putting the item in a "shopping cart." The court issued a preliminary injunction during the 1999 holiday shopping season preventing Barnes and Noble from using Amazon's patented method. The injunction was appealed to the Court of Appeals for the Federal Circuit (CAFC, the highest patent court in the U.S. and second only to the United States Supreme Court), which heard the case on October 3, 2000.
- Interactive Gift Express, Inc. (now E-data Corporation) sued CompuServe, Inc. and over 40 others, (*Interactive Gift Express, Inc. v. CompuServe, Inc.*, 1998 U.S. Dist. LEXIS 7081 (1998)), alleging contributory patent infringement of U.S. Patent No. 4,528,643 (issued July 9, 1985; for *System for Reproducing Information in Material Objects at a Point of Sale Location*), based on defendants' alleged use of an on-line transaction system said to incorporate E-data's patented technology. E-data maintains the patent is sufficiently broad in scope to cover many on-line digital transactions. The patent allows companies to sell directly to consumers at remote locations without having to stock warehouses at those locations. The lower federal court

held that the patent could not be expanded to cover the Internet. The CAFC disagreed and sent the case back for a broader interpretation.

- Many companies, particularly in the e-commerce, financial, investment, health care service, and retail fields, not accustomed to receiving patent notice letters (offering licenses or threatening a lawsuit), are now receiving such letters.
- In July 2000, the U.S. Patent and Trademark Office (PTO) held a Round Table discussion inviting industry leaders to strengthen the ability of the PTO to identify prior art and examine business method patent applications.
- Many e-commerce and financial companies are building in house patent departments.

Obtaining and asserting business method patents is not happenstance. Walker Digital (run by Jay Walker), the self described "leading integrated business solution invention and development company" and the company that launched Priceline, states on its web site that it has "invented more than 150 new Internet business systems and received 67 patents on over 450 patents it has filed to date." Walker Digital employs a group of marketing and business experts who, together with patent attorneys, brainstorm better ways to do business and then procure patent protection for these business methods.

Are You Indemnified For Patent Infringement?

Perhaps you brought a business concept to a web developer, and if anything, you believe any patent might cover the developer's web site and software, but not your business concept. Although your business concept may have been generally practiced for many years, its inclusion as part of an e-commerce service or product may very well be the subject of a competitors' patent. E-commerce business method patents are often aimed at the busi-

ness methods or business concepts themselves and may be owned by someone on the prowl to find infringers or to decrease their competition. You may wonder whether you are indemnified for patent infringement by your web site/software developer.

If this was your business method and the software developer was merely implementing your concept, the developer may have no liability. Typically, the web site/software developer specifies in the web site development agreement that the developer provides no patent indemnity for patent infringement. Under such circumstances, you would likely remain liable.

What to Do

Before you take your e-commerce concept and spend resources on product development, advertising and fund raising, you should conduct a freedom to use study.

Before undertaking such a study, you should consider both the cost and benefit of a freedom to use study. Regarding cost, there is no other way to say it - it is expensive to obtain a quality freedom to use study. But, the costs can be controlled and the classic benefits (possible insulation from a finding of willful patent infringement and resulting treble damages) are supplemented in today's patent savvy marketplace by additional benefits. These additional benefits include obtaining information about the market space for your proposed business method and using this information during the formation, funding (either from within an organization or through private equity partners) and execution of your business plan for your proposed e-commerce business method. This information may also be most useful in formulating and prosecuting your own offensive patent protection.

Steps To Accomplish A Freedom To Use Study

The first task is to describe in clear and concise terms your proposed e-commerce service or product. Such a description allows those

involved with the freedom to use study to perform a focused search for patents which potentially may block introduction of the proposed service or product. Your business personnel, such as a marketing manager, business developer, or software guru, are generally in the best position to describe the basic concepts of the service or product. This description can be "massaged" by a patent attorney so that it is in a form that will enable a searcher experienced in searching for e-commerce patents to uncover possibly relevant patents.

Patent Landscape

The next step is to determine the patent landscape related to your proposed e-commerce service or product. The landscape can be viewed through a relatively easy electronic database search for your competitors' issued U.S. and foreign patents and published patent applications. The PTO web site and commercial web sites such as Delphion.com (formerly IBM's Intellectual Property Network) offer databases for most U.S. and foreign patents and published applications back to the early 1970's.

Until recently, under U.S. patent law, patent applications filed in the U.S. Patent & Trademark Office were maintained in secrecy until granted. Under many foreign patent laws and now in the U.S. (for U.S. patent applications filed on or after November 29, 2000 if the applicant intends to file the application in foreign countries), however, patent applications are published eighteen months from the earliest filing date. Such patents and published patent applications provide important information about your competitors' services and products and their intention in obtaining patent protection.

Patent landscape searches can also be obtained through professional electronic database searchers at patent law firms and specialized patent search consulting firms. There are also a number of software systems used for identifying relevant patents.

Another source of information

about the patent landscape can be obtained from within your business. For example, marketing managers, software writers, information technology specialists, and web site developers, who have been working on your new e-commerce service or product may have knowledge of a potentially conflicting patent written about in industry press, formerly discussed at an industry convention, or which may have been the subject of banter at networking or industry meetings. Accordingly, your personnel should be encouraged to be receptive to discuss patents related to your industry and the potential competitive intelligence which can be gleaned from such patents.

Freedom To Use Search

After you and your patent attorney have reviewed the patent landscape, you should decide whether a full or possibly "scorched earth" freedom to use patent search should be conducted by an experienced e-commerce patent searcher who may identify one or more potentially conflicting U.S. patents.

Freedom To Use Opinion

After a potentially conflicting U.S. patent has been identified, there are a series of steps and options available to handle the situation. A qualified patent attorney would initiate a non-infringement study and opinion (also required if a notice of patent infringement is received) to determine if your proposed business method service or product is within the scope of the claims in an identified patent.

If a potential conflict is found, the next step likely would be to determine if the proposed e-commerce product or service can be modified (typically referred to as "designing around" for traditional technologies) to avoid infringement. This is a classic approach and in keeping with public policy to provide the motivation to make new inventions. Finding that there is no potential conflict with an issued patent may lead to the added benefit of providing a basis for your client to file her own patent application to cover your concepts which your client

now realizes may be new and patentable. If a potential conflict is uncovered early in the life of your proposed business e-commerce service or product, then it is usually easier to make the required changes.

If, on the other hand, it is not possible for you to easily modify your proposed e-commerce service or product to avoid conflict with the claims of a patent, then the next step typically is to determine if the identified patent is invalid (read "is not new and unobvious"). Invalidity is viewed in the light of prior public information (in patent jargon, "prior art") such as prior patents, published industry articles, commercial sales or offers for sale of prior business services and products. An opinion on invalidity usually requires a separate comprehensive invalidity search to identify invalidating prior art.

It is widely recognized that identifying invalidating prior art (particularly non-patent prior art) related to e-commerce services and products is very difficult. In fact, Jeff Bezos, President and CEO of Amazon, and Tim O'Reilly, a publisher of software books, have set up a company focused on aiding people in dealing with this difficult task. The new company, called BountyQuest.com, offers monetary rewards for hard-to-find prior art that leads to invalidity of patents posted on the site. The site is said "to support an on-line community of scientists, engineers, and professional researchers who have valuable knowledge that can help their field, their industry, and the world community."

If your proposed business method service product cannot be modified to avoid potential conflict with the claims of an issued patent and invalidating prior art cannot be uncovered, it may be possible to obtain a license to an identified patent. By performing a freedom to use study, even if a license is not available, the business decision-makers can assess the strength of a business opportunity with all available information, instead of being blind-sided by a notice of patent infringement or even a patent infringement suit. ■

Announcing

- Ratner & Prestia has expanded its current practice to include entertainment law with the addition of Steven M. Stein. Formerly a partner with New York based Loselle, Greenawalt, Kaplan & Blair, of New York City, Stein joined Ratner & Prestia as Counsel in the Valley Forge office. While developing a general entertainment practice in the areas of film, music, television and e-commerce, Mr. Stein's focus will include publishing and distribution, as well as copyright, trademark and licensing, film financing, talent negotiations, and recording artist production and label signing.

Prior to entering private practice, Stein was the Vice President of Production of Distribution for the SAS Entertainment Group, Ltd. where he was responsible for worldwide production and distribution for music videos, music specials, cable programs and feature films. Stein's career also includes Special Counsel with MGM/UA Home Video, Inc. and Director of Business for Playboy Video Corporation. At Playboy Video Corporation, he negotiated agreements for various artists, licenses for home video distribution, and was responsible for music and film clearances.

- Terry B. Morris, formerly Senior Corporate Counsel for Intellectual Property at Minerals Technologies, Inc. in Bethlehem, has joined Ratner & Prestia in an Of Counsel position. Morris has over fifteen years of experience in corporate and private practice primarily in intellectual property law, including worldwide patent prosecution, counseling on joint ventures and licensing, and contract negotiation.



Joining Jim Simmons, the Managing Partner in Ratner & Prestia's Allentown office, Morris expects

to continue his career of assisting corporations in the development and management of patent business plans and related strategic patent prosecution.

- Ratner & Prestia was responsible for the issuance of 548 U.S. patents in 2000. This earned Ratner & Prestia the number one spot for U.S. patents issued among Philadelphia area law firms, according to *Intellectual Property Today* (March 2001). Ratner & Prestia ranks #47 nationally on *Intellectual Property Today's* Top Patent Firms list. Among Philadelphia area firms which specialize in intellectual property law, Woodcock Washburn Kurtz Mackiewicz & Norris is ranked at #76 with 370 U.S. patents, Synnestvedt & Lechner is ranked #187 with 103 U.S. patents, and Caesar Rivise Bernstein Cohen & Pokotilow is #212 with 75 U.S. patents in 2000.
- On February 23, 2001, Rensselaer Polytechnic Institute (RPI) held its first annual "Intellectual Property Career Forum" at its main campus located in Troy, New York. Representatives from law schools, law firms, the U.S. Patent and Trademark Office, and other businesses were on hand to speak with students about career opportunities in the intellectual property fields. Panel discussions were also held throughout the day. Ratner & Prestia participated in the Career Forum along with other nationally prominent firms.

Rensselaer alumni have been instrumental originators of technologies, products and events that have changed our world. Some examples include the Apollo Project, e-mail (including using the @ symbol), the first pocket calculator, baking powder and the Brooklyn Bridge.

"We felt it was important to attend RPI's Career Forum to help educate the students about the different career opportunities in the field of intellectual property," says Allan Ratner, co-founder of Ratner & Prestia. "Since several of our

(continued on page 6)

Speaker's Forum

- Andrew L. Ney organized and spoke at a two-day workshop



hosted by the Licensing Executives Society International (LESI) for the NATO Science for Peace Programme in Moscow. The workshop was attended by over 90 managers from 17 countries who are participating in projects funded by the Science for Peace Programme. Andy selected five speakers from Canada, France, Germany, Hungary and Russia to participate in the workshop. Issues addressed by the 6-member panel included protection, ownership and commercialization of intellectual property. Andy also participated at the 1998 Science for Peace Programme workshop in Ankara, Turkey.

The objective of the Science for Peace Programme is to provide support to countries that are not members of NATO, known as "partner" countries, in their transition towards a market-oriented, environmentally-sound economy. The main form of this support is funding of research and development projects having a duration of three to five years conducted jointly by a party from a NATO country and a party from a partner country. The Science for Peace Programme helps scientists in partner countries to increase contacts in the NATO science

community, while building a stronger science infrastructure in the partner countries. The projects relate to industrial or environmental problems in partner countries, when such problems involve collaboration between science and industry or between science and other end-users. As a condition of final approval of a project, an agreement on the rights to the intellectual property coming out of the project must be entered into by the parties to the project. At the present time, 98 such projects are active and another 45 will be funded in the coming months. The average funding for a project is \$250,000.



- Ken Nigon recently gave a presentation on Business Method Patents at Sarnoff Corporation. The talk focused on the different definitions of a Business Method used by the Patent and Trademark Office, the Courts and Congress. Ken also provided basic guidelines to determine whether a particular method should be patented and discussed limits placed on business methods by current laws as well as pending legislation. If you would like your company to benefit from Ken's presentation, please call Lori Haas at 610-407-0700.

(continued on page 6)

Speaker's Forum

(continued from page 5)



- Jonathan Spadt presented a seminar on patent law to representatives of R&D and management of Multisorb Technologies, Inc. on May 23, 2001 at their headquarters in Buffalo, NY. The presentation focused on both patent law, generally, and also on how the patent laws can add value to a company's bottom line. Multisorb is a leader in active packaging components, including desiccants and related technologies. R&P is pleased to have the opportunity to aid our clients in the development of their intellectual property portfolios, and we believe that both parties can benefit from educational seminars such as the one Jonathan presented to Multisorb. ■



For about 10 years, Ratner & Prestia has entered race teams in the Philadelphia Bar Association 10K and 2 mile run in support of the American Diabetes Association and the Support Center for Child Advocates. This year, Ratner & Prestia was also a sponsor of the race. We had one of the largest turnouts of all law firms, fielding 3 teams with 13 runners, and providing six volunteers to help with race support. A great effort and a lot of fun for all!

Announcing

(continued from page 4)

attorneys are RPI graduates, we felt an even greater sense of responsibility to assist these particular college students with their career goals.”

- Ratner & Prestia was pleased to once again sponsor the Seventh Annual Ben Franklin Technology Partners Innovation Awards Luncheon held on May 14, 2001 at Lehigh University. Representing Ratner & Prestia were Jim Simmons, Terry Morris, and Jonathan Spadt. The objectives in holding

the awards ceremony are to congratulate the winners on their success and achievement, to highlight the effectiveness of the Ben Franklin program in building a strong regional economy driven by technology and innovation, and to educate entrepreneurs and manufacturers as to the resources that are available to them in Northeastern Pennsylvania. This year's luncheon theme explored the nature of entrepreneurial risk taking in developing ideas and companies and honored those risk takers who thought beyond the “usual” and have reaped the rewards of innovation. ■

Ratner & Prestia specializes in patent, trademark, and copyright matters and realizes an obligation to keep its clients, and others, informed in those areas. The articles in this newsletter are intended to provide only a brief, general overview of each subject and are not necessarily the opinion of this firm. R & P recommends that readers seek specific information on particular matters of concern.

INSIGHT is published by Ratner & Prestia. The firm welcomes your articles, ideas for articles, comments, and suggestions. Please contact Jonathan H. Spadt, the editor, at our offices:

*Suite 301, One Westlakes, Berwyn, P.O. Box 980, Valley Forge, PA 19482
Phone: (610) 407-0700 • Fax: (610) 407-0701
Email: insight@ratnerprestia.com • www.ratnerprestia.com*

RATNER & PRESTIA - Committed to Quality

© 2001 Ratner & Prestia