

Article for EContent Magazine

Ecommerce Patents Apply to Content

Content creators, developers, and managers may wonder why they should concern themselves with patent law. For the most part, their work involves creativity in a form that is served through a different set of intellectual property law called copyrights.

However, there are patents that concern content creators when their work involves ecommerce Web sites. For instance, does the Web site use a database to store the images, the accompanying text, and sales information? Does the visitor to the site request the display of these items for sale by selecting from a list or searching with key words for them rather than from a long page that includes every possible item in stock? Does the visitor then purchase these items electronically using a shopping cart or online transactions? Do they use credit cards to lock in a price for a reverse auction? Are Web site links visible as visitors move from page to page?

Companies who own patents on these and other Internet related “inventions” are starting to sue for royalties and damages for patent infringement. This trend seems to be snowballing since it first caught my eye in mid 2003.

DeBrand Chocolates

For me, it all started with DeBrand Chocolates and Tim Beere’s Web site www.youmaybenext.com, which focuses on a lawsuit for patent infringement claims by PanIP, LLC. I saw the Web site while studying legal aspects of ecommerce last summer and decided to research patent law related to content developers for a small group at RPI in Troy, NY during the fall.

When PanIP sued Tim Beere and Cathy Brand Beere (DeBrand Chocolates, Ft. Wayne, Indiana) in a San Diego, California court, regarding their online catalog, Tim thought it was a joke. After all, who would have thought that putting pictures of chocolates together with text, with a price and method of ordering them, would be patentable because they are on a Web site? Even though this takes place on the Internet, the idea isn’t novel and is manifest in the Sears Catalog for over 100 years. According to similar claims filed with the United States District Court in San Diego, the infringement occurs because “the defendant is a corporation that conducts business via a computerized system for distributing a variety of information, goods and services and processing of business and financial transactions”. The patents listed are US #5,576,951 and US #6,289,319.

The Patent Holder

PanIP calls itself a “technology development company”, and has filed multiple patent applications in the US and Canada that relate to automated applications and ecommerce. Lawrence B. Lockwood invented a process for interactive multimedia sales terminals in the 1970’s and has created other inventions in related areas. He licensed the patents, referenced in the suit, to PanIP.

If you look at the PanIP Web site, you will see a listing of current patent holdings and long lists of infringement litigation.

So far, PanIP has been able to reach out-of-court settlements with many of those it has sued. It may be that these small businesses, mostly located in the mid west, find that paying the \$5,000 to \$30,000 royalty and damages is cheaper than fighting in a foreign jurisdiction or closing their online business. Some try to counter that the California long arm of the law doesn't apply to them, but are generally unsuccessful. These businesses are able to connect with markets outside their own city, state, or even country, by advertising on the Internet. If it can be proved that they purposely avail themselves of business in the state where the patent holder resides or does business, then they can indeed be sued in a state outside their own.

One wonders why PanIP is picking on small businesses. Could they be building cash reserves to prepare for battle with well-funded giants like Amazon.com?

How are patents issued?

In general, the current patent law provides for patents to be issued on new and non-obvious inventions. A patentable invention must be of practical use. According to the United States Patent and Trademark Office (USPTO), it is not patentable if it "...would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains". The applications are published during review, and when granted, normally give exclusive rights to the patent holder for a period of 20 years from the date of application.

Abuse of the System

Some people believe ecommerce patents have been issued erroneously during the mad dotcom era when requests for patents were overwhelming the USPTO, and there was little expertise to handle them. Eugene R. Quinn, Jr., a Patent Attorney and Law Professor at Syracuse University College of Law writes in [Abusing Intellectual Property Rights In Cyberspace: Patent Misuse Revisited](#) in the William Mitchell Law Review, that "many e-commerce patents are not objectively valid", and he questions whether they would pass the "obviousness" test.

How did PanIP get patent 5,576,951? This particular patent, issued in 1996, has an interesting history. Before 1998, the laws allowed patent applications to be held confidential until the patent was issued, and the exclusive use was for 17 years from the date of issue. Attorney Albert Ubieta told me that some invention companies, especially those headed by patent attorneys, "were able to take advantage of this in a practice known as submarine patents". What they did was apply for a patent and then track the latest technology changes. Then when they saw a technology change they could incorporate into their application, they filed a new application as a continuation of the previous one, which was then abandoned. In this case, the original patent application can be traced back to 1984, long before common use of the Internet. However it came about, PanIP was granted the patent and now has the full force of the law behind them.

In fact it is up to the patent owner to find and enforce infringement by bringing action for damages and to prohibit use.

So far, there doesn't appear to be a proactive solution offered by PanIP, such as selling a license for this business method. It's Web site allows that non exclusive rights can be purchased for its entire portfolio. There are no package prices listed, and no products listed.

In addition to aggressively protecting it's patents, PanIP seems to be establishing defensibility. It claims #5,576,951 is a pioneering patent and could become historically significant because it is cited as prior art to at least 50 other patents.

Responsible Ecommerce

What should a responsible business owner or ecommerce developer do? If you are working for a large corporation with in-house attorneys, you should make sure they are aware of your concerns in this area. They should educate themselves and scan the latest articles related to these questions. A risk management strategy could include liability insurance.

If you are an independent Internet developer, as I am, you may decide to purchase solutions from reputable software companies who are willing to take the risk of patent infringement claims. You should investigate whether they carry protective insurance. You should update your knowledge of basic legal terminology and stay up to date on issues through articles published by groups such as IP Watchdog, World Intellectual Property Organization, and Chilling Effects.

What is the future?

The PanIP Group Defense Fund, Inc. was set up by Tim Beere to inform and stop what it considers "abusive lawsuits". They have been receiving donations to fund a search of prior art in hopes that at least one of the patents will be invalidated. Tim Beere states that, "In May we used this evidence to file requests with the U.S. Patent and Trademark Office ("PTO") to reexamine and invalidate both of them. At the same time we moved to stay PanIP's lawsuits, and in June the federal court in San Diego issued an order staying the cases to allow our reexamination requests to be considered. In July, we received notice that the PTO has accepted our request for reexamination and agrees that we have raised "a substantial new question of patentability" as to the claims of the first of PanIP's patents."

This is the story of a small company who decided to fight back, against what it considered invalid patents. It may be the substance of a landmark change in the patent process if reexamination shows the invention did not meet guidelines for patentability. It illustrates vulnerability where not expected, sparks an interest in the legal context, and warns that vigilance is needed to protect content from infringement of legally valid ecommerce patents.

Sources - companies and institutions mentioned and quoted

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Sidebar: Utility Patents information from USPTO

There are three basic types of patents: utility, design, and plant. The type discussed here is a utility patent. Within this type there are 5 sub categories and a multitude of classifications.

United States Code Title 35 - Patents, CHAPTER 10 – PATENTABILITY OF INVENTIONS, subsection 103, Conditions for patentability; non-obvious subject matter

“(a) A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negated by the manner in which the invention was made.”

www.uspto.gov/web/offices/pac/mpep/consolidated_laws.pdf, visited 12/5/03

“Class 705: Data processing apparatus and corresponding methods for performing data processing operations”

“Subclass 27: Subject matter which includes a feature enabling a user to inspect a listing, or other visual or audible representation of plural items available for purchase. This is an indentation of subclass 26: Subject matter drawn to a computerized arrangement which enables a purchaser to inspect or select from a plurality of different items, or effect a purchase of one or more items at a location geographically separated from the system user.”

www.uspto.gov/web/patents/classification/uspc705/defs705.htm#C705S027000, visited 12/5/03

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