

BT's "Hyperlinking" Patent Litigation Fails

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On 22 August 2002, McMahon J of the US District Court, Southern District of New York, handed down summary judgement in British Telecommunication plc's ("BT") action against Prodigy Communications Corp ("Prodigy") for infringement of BT's US Patent 4,873,662 (known as the "Sargent patent").¹

In the United States, a party is entitled to summary judgement when there is no "genuine issue of material fact" and the undisputed facts warrant such summary judgement. Summary judgement in the context of patent infringement proceedings is appropriate if the Court, drawing all reasonable inferences in favour of the patent holder, concludes that no reasonable jury could find infringement.

BT claimed that Prodigy had, by a variety of means (discussed below), infringed its Sargent patent which, it claimed, was essentially a patent for hyperlinking, a technology essential to navigation of the World Wide Web (the "Web").² McMahon J granted Prodigy's motion for summary judgement on the grounds that, as a matter of law, no jury could find that Prodigy infringed, contributed to the infringement of, or actively induced others to infringe, the Sargent patent.

BT has not indicated whether it will appeal the decision.

Background to the Proceedings

The Sargent patent was initially filed in the United States on 12 July 1977, but was not issued until 1989. It is unclear exactly why BT's claim was granted so long after it was filed.

However, according to David Weaver (of Houston-based law firm Vinson & Elkins, who acted on behalf of Prodigy), the United States Patent and Trademark Office refused to accept BT's claim for twelve years, because the patent application contained nothing new.³ BT has stated that it "rediscovered" the patent in a routine audit of its patents in 1999.

BT claimed that the Sargent patent was a system in which numerous users access data stored on a central computer via remote terminals. BT asserted that Prodigy's web servers provided access to information in a manner that literally infringed the Sargent patent. BT also alleged that the Internet infringed the Sargent patent and that Prodigy facilitated that infringement by providing subscribers with software and encouraging them to access pages of information from web servers maintained by third parties. Prodigy denied infringement and counter claimed seeking revocation of the Sargent patent.

BT chose to sue only Prodigy, rather than other ISPs, for tactical reasons. In the United States Federal Court, which hears all patent appeals in the United States, there is a rebuttable presumption of "laches", which defeats a patent infringement claim which arises more than six years after a patentee knew or should have known of an infringement of their patent. BT's claim against Prodigy fell within the six year period and a laches argument probably could not have been sustained by Prodigy. In addition, since Prodigy was the first ISP in the United States to offer World Wide Web access, no other ISP in the United States could argue laches. Accordingly, BT's suit against Prodigy

was a test case. If successful, BT was expected to attempt to collect royalties for the use of hyperlink technologies from other ISPs and other entities in the United States.

It should be noted that the activity described in the BT complaint was broad enough to cover the activities of ISPs, Web hosting companies, and even entities and individuals that publish or maintain Web sites.

The Markman Ruling

In the United States, determining whether a device infringes another's patent is a two step process. First, the Court in a Markman Hearing construes the patent claim to determine its scope and meaning. The Markman Hearing is concerned, amongst other things, with putting the words of the patent claim into plain English. The Court will then compare the allegedly infringing device against the claims as construed by the Court to determine whether the device embodies every limitation of the claims.

In the Markman Ruling dated March 13 2002⁴ (the "Markman Ruling"), McMahon J held that BT's Sargent patent claim referred to the idea of information that is stored on a central computer and is accessed by remote terminals:

"The information accessed by the remote terminals is stored on the central computer in the form of blocks, each block identified by a complete address. The central computer uses the complete address to retrieve the block identified by that address from storage when a user requests it. Each block stored on the central

computer is comprised of two parts: a first portion, which contains textual and graphical data for display (a display page), and a second portion, not intended for display, which contains the complete addresses of other blocks of information that are related to the current display page. The two portions of information are stored together indeed, next to each other yet they can be separated from each other. For a given block of information, the displayed (first) portion references other blocks of information, while blocks in the second portion of the block of information contain the complete addresses.

In the asserted claims, the entire block is transmitted to the remote terminal where the first portion is displayed and the second portion is stored in the local memory. The display page includes abbreviated addresses for particular blocks of information that can be accessed from the central computer. When the user selects one of the displayed abbreviated addresses from the first (displayed) portion of the block, the terminal accesses the second portion of the block from its memory to determine the corresponding complete address. That complete address is then sent via the modem to the central computer to obtain the next desired block of information."⁵

BT's case was made difficult by the terminology used in its patent claim. The problem with BT's claim of infringement was that the integers in the claims of the Sargent patent did not correspond well with modern day technology. This problem was highlighted in McMahon J's Markman Ruling; the Sargent patent covers a system with a single central computer in one location, containing a centralised information database, connected to a number of remote terminals. The Web is clearly not arranged in this way. Rather, the Web comprises numerous Web servers holding data, connected to each other and to Web browsers via the Internet. The Markman Ruling accordingly

gave scope to Prodigy to successfully argue that what happens on the Web cannot infringe the Sargent patent.

Infringement

The second step in United States patent infringement proceedings is to compare the allegedly infringing device against the claims (as construed by the court after the Markman Hearing) to determine whether the device embodies the claims.

McMahon J found that the Internet did not infringe the Sargent patent because:

- the Internet has no "central computer". As McMahon J concluded "BT cannot dispute that any user throughout the world can access information stored in any of the millions of computers connected to the Internet. In contrast, the Sargent patent claims revolve around a central computer, a single device, in one location, with one main data store. The Internet is, in short, an entirely different beast from the system described in the Sargent patent. Consequently, the Internet does not infringe the Sargent patent either literally or under the doctrine of equivalents";⁶
- the Internet does not contain the "blocks" of information as required by the Sargent Patent. McMahon J noted that HTML code (which her Honour also noted is the primary language of the Web) is not constructed in blocks as described by the Sargent Patent;⁷ and
- the URL "address" mechanism used by the Internet is not the same as the "complete address" claimed by the Sargent patent. A URL contains "virtual addresses" which then point to several other sources of information that must be obtained to determine a complete address.⁸

Because the Internet itself was non-infringing, it followed that Prodigy was not liable for contributory infringement or inducement for providing users with access to the Internet. BT's argument that Prodigy's Web servers directly infringed the

Sargent patent also failed, because Web pages stored on Prodigy's Web servers did not contain the "blocks of information" or "complete addresses" as claimed by the Sargent patent.⁹

Lack of novelty

A claimed invention will lack novelty in the United States if, before the patentee's invention date, the subject matter was invented by someone else.¹⁰ While the summary judgement by McMahon J removed the need for the Court to consider the issue of novelty, Prodigy may well have been able to successfully assert that there are a number of possible examples of "prior art" evidencing that the invention as claimed by the Sargent patent existed before 1976.¹¹

Perils in pursuing patent claims

BT's decade long delay in attempting to reap commercial benefits from the Sargent patent emphasises that while it is important for innovators to secure protection for their inventions through patents or other intellectual property rights, the management of such rights is of equal importance. Like any asset, patents should be used in a strategic way. It is necessary for organisations to maintain a culture of knowledge and understanding of intellectual property rights within the organisation, which extends to all levels of the organisation including senior management. Simply having a register of one's intellectual property rights may not be sufficient.

As well as losing the legal battle, BT was comprehensively trounced by the media and IT insiders for pursuing its patent claim. For instance, John Naughton of *The Observer* noted that:

"In technological terms, therefore, the BT case seems daft. So why is it spending thousands of dollars of shareholders' money on this doomed venture? One hypothesis is that the clowns simply don't know what they're doing ... I suspect the decision to launch the suit was made by corporate lawyers who understand nothing about technology and even less about the net. The case has all the makings of a PR catastrophe.

It has already aroused significant hostility in the US internet community, which sees the case as either a Microsoft-type wheeze to exert corporate control over the net, or a cynical punt on the eccentricities of the US legal system."¹²

While BT may not deserve such stringent criticism, the outcome of this case shows that patent holders may have an incorrect understanding of the scope of their patent. Indeed, McMahon J noted that, in contrast to what BT argued, there were no disputed issues of material fact in this case, rather the two sides reached "vastly different conclusions based on the same set of facts". Unfortunately for BT, McMahon J preferred Prodigy's conclusions.

This decision highlights the need for holders of patents, and their legal advisers, to understand exactly what it is that their patent claims, and understand how they can best exploit their patent. While patent owners are granted an important legal right, being the right to stop others from making, using or selling any device that infringes on the patent, patent owners should beware of overly optimistic interpretations of the scope of their patent.

¹ *British Telecommunications PLC v Prodigy Communications Corporation*, 00Civ. 9451 (CM), Decision and Order granting Summary Judgment, 22 August 2002 (the "Summary Judgment").

² This author previously considered the merits of BT's claim and its implications in "British Telecom lays claim to hyperlinking" (2002) 15(3) *Australian Intellectual Property Law Bulletin* 38.

³ Matt Loney, "BT hit with ruling in patent case" 14 March 2002, <http://news.com.com/2100-1033-860407.html>

⁴ *British Telecommunications PLC v Prodigy Communications Corporation*, 189 F. Supp. 2d 101.

⁵ Summary Judgment, p 6.

⁶ Summary Judgment, p 15.

⁷ Summary Judgment, p 17.

⁸ Summary Judgment, p 23.

⁹ Summary Judgment, p 27.

¹⁰ Title 35, United States Code, section 102(2).

¹¹ In 1945 Vannevar Bush in his article "As We May Think" outlined his concept of "associative indexing" by which "any item may be caused at will to select immediately and automatically another. This is the essential feature of the memex. The process of tying two items together is the important thing." (see <http://www.theatlantic.com/unbound/flashbks/computer/bushf.htm>). In 1960 Bob Bemer coded the critical concept of the "escape sequence" used in hyperlinks. In 1968 Douglas Engelbart gave a demonstration at the Stanford Research Institute of an "oN Line System" or "NLS". Engelbart demonstrated the capability of NLS to "jump between levels in the architecture of a text, making cross references, creating internal linking and live hyperlinks within a file. Links can be made visible or invisible." (see <http://sloan.stanford.edu/MouseSite/1968Demo.htm>). Ted Nelson worked on the Xanadu

hypertext project for IBM in the 1960's and 70's (its history is documented at www.xanadu.net). In 1968 Nelson stated that "Any text structures may be interconnected [linked] in arbitrary ways, and the user may jump along connections in this linkage structure."

¹² John Naughton, "BT clowns in tangle over web patents", *The Observer*, 17 February, 2002, <http://www.observer.co.uk/Print/0,3858,4357510,00.htm>.