

Using Patent Reexamination to Eliminate Invalid Business Method Patents

By Bradley C. Wright¹

Imagine receiving a letter from a company offering you to license a patent covering a computer-related business method for \$50,000. Should you pay it? What if the company claims that its patent covers your web site design or your software product and the letter threatens a lawsuit for patent infringement if you refuse to pay it?

Since 1998, when an influential appeals court ruled that business methods can be patented, the U.S. Patent and Trademark Office (PTO) has been overwhelmed with patent applications covering business processes, such as Amazon.com's "one-click" shopping cart and Priceline.com's auction-based pricing schemes. Scores of dot-com companies filed thousands of patent applications covering their business models, hoping to stake a claim to a piece of cyberspace. Even company executives with no technology background filed patents on methods of advertising; methods of selling cars; and a method of teaching a janitor how to clean a building.

Unfortunately, some of the patent filings involved questionable advancements over existing technology. The patent office was initially ill-equipped to deal with patents involving "technology" that did not involve hard sciences like mechanical devices or computers. IBM obtained a patent on a method of reserving a bathroom (U.S. Patent No. 6,329,919, entitled "System and Method for Providing Reservations for Restroom Use"). A child obtained a patent on a method of swinging on a backyard swing (U.S. Patent No. 6,368,227). A patent attorney even obtained a patent on a method of preparing a patent application (U.S. Patent No. 6,049,811). Other more controversial business method patents involve Internet and e-commerce technology, such as Amazon's "one-click" patent; Open Market's patent involving electronic shopping carts; CyberGold's patent for rewarding consumers who view on-line advertising; DoubleClick's patent for collecting surfing habits of on-line consumers; and NetCentive's patent on awarding frequent-flier miles for on-line purchases. The online dating service Eharmony.com has recently trumpeted its new patent (Patent No. 6,735,568) for matching singles, leading some to question how on-line dating can be patented.

Over the past few years, critics have decried the issuance of business method patents, claiming that they will interfere with online commerce and that they exploit obvious variations of well-known techniques. The criticism has come not only from academics and pundits, but from those in the affected technology areas, especially computer software and the Internet. Attempts by some companies to enforce vaguely written patents that issued before the Internet became popular have also been criticized, and have met with limited success. British Telecom's patent, which it claimed covered hyperlinking, was narrowly interpreted by a judge to cover only pre-Internet technology. Inventor Alan Konrad, who claimed to have invented the concept of querying a database over the Internet and who sued dozens of companies for infringement, had his three patents thrown out on invalidity grounds. Other patent owners have had difficulty convincing courts that their patents covered key concepts involving the Internet or e-commerce. And other countries, particularly those in Europe, have refused to follow the U.S. lead, rejecting such patent applications out of hand.

While some of the criticism of business method patents may be warranted, some of it is unfounded. Although the scope of a patent is determined by its claims – the numbered paragraphs appearing at the end of the patent – some commentators refer to the broad titles or abstracts of the patents when complaining about the patent.

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For example, many U.S. patents issue with broad titles or phrases such as “Online Banking System” or “Advertising Method.” Yet the claims of these patents are much narrower, requiring the sequential execution of specific steps, or being limited to a particular type of data structure stored in a computer memory. Without understanding the scope of the claims, there is no way of determining whether the patent is as broad as the marketing hype makes it sound.

Nevertheless, the criticism has prompted changes. The first crack in the wall came in 2001, when the U.S. Court of Appeals for the Federal Circuit questioned the validity of Amazon.com’s one-click shopping cart patent in Amazon’s lawsuit against Barnesandnoble.com. The defendant was able to convince the court that the patent might have been an obvious variation of earlier on-line purchasing technology. The parties then settled, leaving the patent in force. Wang Laboratories, which tried to enforce its 1988 patent on “bookmarking” features against AOL, met a similar fate when the same court narrowly interpreted its patent.

A bill was introduced in Congress to crack down on business method patents, making it easier to challenge their validity and even making some technologies presumptively obvious. It has not been passed. Both the Federal Trade Commission and the National Academy of Sciences have recently proposed changes to the patent laws to make it easier to invalidate questionable patents.

The PTO also began cracking down on computer-implemented business method patents, requiring an independent second review of such patents before they are issued. This program has resulted in a decline in the number of such patents, and those that get through are often narrow. The PTO has also spent more money training its employees and hiring patent examiners skilled in various business areas.

Nevertheless, there are many business method patents that issued before the crackdown, and companies may find themselves “invited” to take a license under one of these patents. Those who refuse may find themselves hauled into court to defend against charges of patent infringement.

The Reexamination Process

Fortunately, the PTO has a procedure for retracting invalid patents, including those involving business method inventions. Anyone who believes that an issued patent is invalid because of prior technology can file a request for reexamination of the patent. The requester must file the request along with earlier patents or publications and an explanation as to why the patent is invalid (e.g., it is either obvious or not new). If the request is granted, the PTO conducts an expedited re-examination of the patent, typically within a year or so, and takes one of three actions: reconfirms the patentability of the patent; narrows the scope of the patent; or cancels the patent.

Asking the PTO to reexamine an issued patent is not cheap. The filing fee alone is about \$2,500, and a patent attorney may charge legal fees of \$5,000 or more to prepare the paperwork and legal arguments needed to convince the PTO to cancel a patent. The reexamination process is limited to convincing the PTO that the patent should not have been granted because of a prior inventor's patent or publication – known as “prior art.” In a reexamination proceeding, a patent cannot be challenged on the ground that a competitor's product or service was sold or used before the patent was filed. A patent also cannot be challenged on the basis that it is vaguely written or that it lacks enough information. Such challenges – along with others – can only be made in court.

Despite its costs, there are several advantages to having the PTO reexamine a patent. First, unlike court challenges, where patents are presumed valid, in the PTO there is no presumption of validity. Second, the PTO assigns a different employee to review the patent than the one who originally granted the patent. Third, recent statistics show that many reexamination requests are being granted, prompting the PTO to cancel or narrow many patents. Unlike litigation, which can drag on for years, the PTO must reexamine patents with “special dispatch,” which sometimes amounts to a year or less. And despite its costs, reexamination is much cheaper than fighting a patent in court.

Even if the PTO decides not to cancel or narrow a reexamined patent, the patent owner may be forced to argue that the patent is different from prior technology. These arguments can be relied on by accused infringers in any later litigation to differentiate their products from the patent. For example, if the patent owner argues to the PTO that the patent is different from earlier technology because it requires a specific type of data structure, in litigation the patent would be specifically limited to that type of data structure, allowing others to use the patented technique as long as the data structure was different.

Conclusion

In 1994, a company called Compton's Multimedia tried to enforce its patent, which it claimed covered basic multimedia technologies. The PTO ordered a reexamination of the patent, and Compton's was stopped in its tracks. More recently, Microsoft Corp. has been both the beneficiary and the victim of patent reexamination. After a jury found Microsoft liable for infringing a patent on a browser plug-in and awarded Eolas Technologies more than \$500 million in damages, the PTO ordered the Eolas patent to be reexamined. Microsoft's own patent on its FAT file system has also been the subject of a PTO reexamination. Other would-be patent owners have found their patents under attack at the PTO, including an inventor (Dickens) who claimed that he had invented the solution to the so-called “Year 2000” computer glitch. Many companies received threatening letters from Mr. Dickens offering to license the patent for \$50,000. It is unknown how many companies paid the licensing fee rather than risk litigation.

The Electronic Frontier Foundation (EFF) has recently launched a project, entitled its “Patent Busting Project,” to file patent reexamination requests on questionable software and Internet-related patents. The EFF is conducting a contest to identify the ten worst offenders, for which it will then ask the PTO to conduct a reexamination proceeding. The PTO has also recently been invoking a rarely-used administrative rule under which it can order reexamination of questionable patents even if no request for reexamination has been filed. All of these developments may lead to fewer lawsuits down the road.