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NOVEMBER NEWS CLUSTER:

PATENTS: TOO EASY TO GET, TOO HARD TO CHALLENGE?

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What Price Owner's Rights in a Modern World? For some time there has been unhappiness over the ready availability of IT patent protection. Many have thought that the Patent and Trademark Office (PTO) grants patents too easily, especially in the area of software. At the same time, those unlucky enough to become embroiled in patent infringement litigation typically face legal costs of over \$1 million (and several times that, in the case of biotech patent actions). That's bad enough for someone knowingly challenging a patent, but truly punishing for someone surprised to find herself on the receiving end of an infringement suit.

Opinions on this subject have become more emotional in light of several other factors. First, it hasn't helped that many seemingly elementary (or, in patent terms, "obvious") patents have been granted in the area of "business methods" involving ecommerce. Second, the Free Software and Open Source movements are championing fee-free accessibility to important software, such as operating systems (e.g., Linux) and core applications (e.g., Open Office). And, in fact, the open source model has broken out of the realm of true believers, and is gaining significant traction in the commercial marketplace. Finally, in the ever more connected world in which we live, it is becoming increasingly difficult to develop standards that can be implemented without incurring the obligation to pay royalties or other fees. All in all, there are more people feeling hostile to IT patent rights now than ever before.

But to return to the question of whether patent's are too easy to obtain: In this author's experience, it is almost unheard of for a patent asserted against a standard not to be viewed by engineers (at least) as having been conclusively anticipated by one or more pre-existing discoveries, research papers or patent claims (so called "prior art," under patent law). Since inventions that have been "anticipated by prior art" are not entitled to patent protection, there is an immediate expression of outrage in such situations.

In truth, given examples of prior art can have a different significance under the complex legal analysis of patent law than they may present to an engineer from a technical point of view. But nonetheless, more and more people have come to believe that something is out of balance, and needs to be corrected. A number of developments occurring this fall highlight the situation -- and hold out some hope of reform.

Eolas v. Microsoft: Comptons' Redux. The first development is the ongoing outcry over the patent litigation victory of a one-man software company called Eolas over industry behemoth Microsoft. Recently, Eolas won a \$512 million judgment over Microsoft. The suit involves a patent that describes a system that launches an application within a Web page. The verdict upset a far wider audience than Microsoft however, since the patent would represent the first royalty cloud that might shadow an important element of normal Web usage. In response, the W3C issued strong protests, as well as an appeal to the Patent and Trademark Office seeking a reexamination of the Eolas patent. Not long afterwards, the PTO granted the request. Hearings are now pending.

For those with long memories, all of this will have a familiar ring. It was at Comdex in 1993 that a company called Compton's New Media made an announcement that landed like a bombshell on the nascent multimedia industry. At the show, Compton's revealed that it had just been granted a patent that

would allow it to levy a royalty on a broad swath of multimedia applications, including those based on CDs, which were then coming into their own.

At that time, Multimedia was being hailed as the Next Big Thing, and with modem speeds under 2500 baud, this new technology was wholly dependent on CDs for content delivery and access. As a result, the industry besieged the PTO, demanding a review of the newly awarded patent, and citing prior art to support its case. The PTO agreed to conduct a review, and ultimately the patent was rescinded after public hearings were held. Many were left with a somewhat queasy feeling that the PTO had caved to public pressure (could the patent have, in fact, been valid?) Smarting from the outcome, the PTO vowed to reform the system, in order to prevent future such fiascos.

Would a Rescission of the Eolas Patent be Good News or Bad? How should we feel about the rapid response of the PTO to the W3C's call for review of the Eolas patent? The good news for Web surfers is that a non-fee resolution to the issue may be on the horizon. But at the same time, is this any way to run a patent system? After all, Microsoft (no slouch in the legal department) failed to successfully challenge the patent in court. So will justice be served by the PTO intervening? And would those involved in a less-public patent have been able to gain a review by the PTO?

Of course, if the PTO rescinds the patent, the legal expense and the uncertainty that the case has unleashed on the marketplace will have been considerable. Many companies and the W3C will have experienced a great diversion of resources and distraction from other business as a result of what would prove to have been an inappropriately granted patent. In that light, a rescission by the PTO can scarcely be considered to be unmitigated good news.

The FTC Weighs in. While the Eolas litigation was playing out, a different process was unfolding in Washington D.C. During the first half of 2002, the Federal Trade Commission (FTC) and Department of Justice (DOJ) were holding extensive joint hearings on antitrust and other aspects of intellectual property, including the patent system and the process of standard setting. The hearings extended for over 24 days, during which more than 300 commercial, legal, technical and academic experts (including this author) gave testimony.

Now, the first of two reports has been issued by the FTC (the FTC and the DOJ plan to also issue a joint report on antitrust issues). The FTC report focuses almost exclusively on the reform of the patent system, and is entitled " *To Promote Innovation: the Proper Balance of Competition and Patent Law and Policy* ." Fortunately for those with a less than avid appetite for the subject, the 315-page report is accompanied by a more accessible, 18 page Executive Summary. Included in the FTC's findings are conclusions such as this: "Questionable patents are a significant competitive concern and can harm innovation."

In its report, the FTC offers a broad range of specific recommendations for reform. Several are dramatic, and are based upon systemic flaws that the FTC finds in the PTO. For example, the report notes that examiners on average spend only 8 to 25 hours on each patent application, thereby limiting the amount of time an examiner can spend seeking and evaluating prior art. This should not be a surprise, given that the PTO receives over 1,000 new applications a day, and is under the same budget pressures as any other Federal agency. Further stacking the deck in favor of patent approval, however, is the fact that court cases have held that examiners are to look for reasons why a patent should not issue, rather than establishing the qualifications that would entitle an application to be approved at all (in other words, an application is presumed to be valid unless a reason can be found by the examiner to the contrary).

Of course, even with more time and different standards, mistakes would still be made by the PTO. The FTC accordingly based some of its recommendation on the acceptance that "The PTO works under a number of disadvantages that can impede its ability to reduce the issuance of questionable patents." As a result, the FTC also focused on the question of how difficult it should be to challenge a patent once it has been issued.

While some of the FTC's recommendations (15 in all, counting "sub recommendations") involve finer points of the patent process, some are fundamental, including the following:

- That legislation be enacted that would create a new administrative procedure to allow post-grant review of, and opposition to, patents.
- That the legal standard required to overturn a patent be reduced from a showing of "clear and convincing evidence" in support of rescission to a "preponderance of the evidence" (from a legal point of view, the reduction in the burden of proof is significant, and would make it easier to defend against charges of infringement when a dubious patent is asserted against another party)
- Tighten the legal standards used to evaluate whether a patent is "obvious."
- Increase the PTO's funding.
- Increase the authority of patent examiners to query applicants more extensively, including as regards prior art.

What Next? Of course, most of the reforms recommended by the FTC are directly or indirectly dependent on Congressional action, either legislatively or as regards increasing the budget of the PTO. It is hardly likely that Congress will place the FTC recommendations at the top of its agenda, or that ready, willing and able Congressional sponsors will easily be found to sponsor necessary legislation. In this light, the FTC report is therefore likely best seen as a first step towards raising, and legitimating, the dialogue on the topic of patent reform. Hopefully, the FTC's worthwhile efforts will succeed in doing so.

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Online resources:

I. THE EOLAS SUIT

A. The Eolas - Microsoft suit began in 1999 (Eolas Press Release):

EOLAS SUES MICROSOFT FOR INFRINGEMENT OF PATENT FOR FUNDAMENTAL WEB BROWSER TECHNOLOGY THAT MAKES "PLUG-INS" AND "APPLETS" POSSIBLE

Chicago, IL, (February, 2, 1999) -- Eolas® Technologies Incorporated, an Internet technology firm based in downtown Chicago, today announced that it has filed suit here in Federal court against Redmond, Washington-based Microsoft Corporation (NASDAQ: MSFT) for infringement of Eolas' patent on fundamental Web browser technology that makes "plug-ins" and "applets" possible.

For the full story see: <http://www.eolas.com/zmapress.htm>

B. The press begins to pay attention:

Microsoft, Eolas in court over patent dispute By James Evans

InfoWorld, Boston, October 25, 2000 -- MICROSOFT was in court again on Wednesday, this time in Chicago for a little-known patent infringement case filed early last year by a small research and development company.

For the full story see: <http://archive.infoworld.com/articles/hn/xml/00/10/25/001025hnpatentdispute.xml>

C. The court's decision is announced, and emotions are mixed:

**Microsoft loses \$521 million browser lawsuit
Chalk up another one for the little guys
By Eric Smith**

Geek.com, August 13, 2003 -- The old saying says that crime doesn't pay, but Microsoft is finding out the hard way (again) that crime *can* pay--just not in the direction Microsoft wants.

For the full story see: <http://www.geek.com/news/geeknews/2003Aug/gee20030813021295.htm>

**Patent Politics: Rivalries set aside in defense of Internet Explorer
By Paul Festa**

CNet News.com, September 25, 2003 -- ...What a difference a patent suit makes. With one staggering loss at the hands of a federal court jury in Chicago, Microsoft has won the support--if not the sympathy--of nearly the entire software industry, from standards organizations to corporate rivals that are rushing to defend the company's Internet Explorer browser

For the full story see: <http://news.com.com/2009-1023-5082004.html>

D. Microsoft reacts:

Microsoft press release:

Microsoft Announces Steps to Address Eolas Patent Ruling

REDMOND, Wash. -- Oct. 6, 2003 -- Microsoft Corp. today announced how it will respond to the August jury decision in the Eolas patent lawsuit. The steps include modest changes to Microsoft® Windows® and Internet Explorer as well as measures that Web developers and others who use Internet Explorer technology can take to ameliorate or eliminate the impact of the ruling.

For the full story see: <http://www.microsoft.com/presspass/press/2003/oct03/10-06EOLASPR.asp>

Microsoft technical page:

MICROSOFT INFORMATION FOR DEVELOPERS ABOUT CHANGES TO INTERNET EXPLORER

Issue

This change is a result of an adverse verdict against Microsoft in a patent infringement lawsuit brought by the University of California and Eolas Technologies...Eolas has asserted that its patent covers one specific mechanism used by Web page authors to embed and automatically invoke certain interactive programs. We made this change to IE to respond to this ruling after considering many factors, including impact on the customer and impact on developers.

For the full story see: <http://msdn.microsoft.com/ieupdate/default.asp>

E. The W3C speaks out:

W3C press release:

W3C Director Tim Berners-Lee urges USPTO Director to review prior art, take action

W3C.org, 29 October 2003 -- The World Wide Web Consortium (W3C), the global standard-setting body for the Web, has presented the United States Patent and Trademark Office with prior art establishing that US Patent No. 5,838,906 (the '906 patent) is invalid and should therefore be re-examined in order to eliminate this unjustified impediment to the operation of the Web. The W3C is urging US Under Secretary

of Commerce for Intellectual Property James E. Rogan to initiate a re-examination of the patent because the critical prior art was neither considered at the time the patent was initially examined and granted, nor during recent patent infringement litigation.

For the full story see: <http://www.w3.org/2003/10/28-906-briefing>

W3C FAQ sheet on the impact of Eolas and W3C's response:

FAQ on US Patent 5,838,906 and the W3C

For the full story see: <http://www.w3.org/2003/09/public-faq.html>

F. The PTO Responds:

PTO Director Orders Re-Exam for '906 Patent By Dale Dougherty

O'Reilly Network, November 11, 2003 -- In what could be good news for the Web, the Director of the US Patent and Trademark Office has ordered a re-examination of the '906 patent, which was the subject of a patent infringement lawsuit this summer brought by Eolas against Microsoft.

For the full story see: <http://www.oreillynet.com/lpt/wlg/3969>

II. The FTC Report

FTC press release:

FTC Issues Report on How to Promote Innovation Through Balancing Competition with Patent Law and Policy

Washington, October 28, 2003 -- The Federal Trade Commission today issued its report on how to promote innovation by finding the proper balance of competition and patent law and policy.... Although questionable patents can harm competition and innovation, valid patents work well with competition to promote innovation. This Report analyzes and makes recommendations for the patent system to maintain the proper balance with competition. <http://www.ftc.gov/opa/2003/10/cpreport.htm>

The Executive Summary: <http://www.ftc.gov/os/2003/10/innovationrptsummary.pdf>

The Full Report: <http://www.ftc.gov/os/2003/10/innovationrpt.pdf>