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"Don't Let the Sun Go Down On Me:" An In-Depth Look at Opportunistic Business Method Patent Licensing and a Proposed Solution to Allow Small-Defendant Business Method Users to Sing a Happier Tune, 37 J. Marshall L. Rev. 1359 (2004)

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“DON’T LET THE SUN GO DOWN ON ME:”¹ AN IN-DEPTH LOOK AT OPPORTUNISTIC BUSINESS METHOD PATENT LICENSING AND A PROPOSED SOLUTION TO ALLOW SMALL-DEFENDANT BUSINESS METHOD USERS TO SING A HAPPIER TUNE

ANDREA LYNN EVENSEN*

Some say eat or be eaten
Some say live and let live
But all are agreed as they join the stampede
You should never take more than you give.²

INTRODUCTION

You own a small family business where you sell curios and other trinkets to the local townspeople. Your business has been doing well despite the small customer base. Finally, you decide to hire a web-programming firm to take your business online.³ All is going swell until the unexpected happens. You receive a letter from Mammoth Company,⁴ which states that you are infringing its business method patent claiming how to sell items online.⁵ You

* Associate at Brinks, Hofer, Gilson & Lione. The author dedicates this Comment to the loving memory of her mother, Vanessa Johnson, whose constant friendship, love and support will never be forgotten. The author also gives special thanks to James Katz, Associate at Brinks, Hofer, Gilson & Lione, for bringing this topic to her attention and to Professor Doris Long, Leanne Conn and Michael Evensen for their suggestions and feedback.

1. Elton John, *Don't Let the Sun Go Down on Me*, on CARIBOU (Polygram Records 1996).

2. Elton John, *Circle of Life*, on THE LION KING: ORIGINAL MOTION PICTURE SOUNDTRACK (Disney Records 1994).

3. See Rafat Ali, *CR.org Rates with Paying Public*, FOLIO: THE MAG. FOR MAG. MGMT., Sept. 1, 2002, at 37 (discussing the value in having a content website and the large amount of revenue that can be generated from it).

4. The name “Mammoth Company” is a fictitious name and is in no way meant to resemble any company, person or entity bearing such a name, or one similar thereto.

5. See Marshall Krantz, *A Patently Absurd Premise? Company Tries to Patent Online Meetings Management, Processes, Demands Royalties*, MEETING NEWS, Aug. 5, 2002 (discussing the absurdity in a company attempting to patent that which is already used and that which is overbroad), 2002 WL

are left with two choices: 1) pay the \$10,000 licensing fee⁶ that it requests or 2) fight it out in court.⁷ You choose the latter and then go broke trying to pay the \$800,000 in discovery costs before you even get to a trial.⁸

Your neighboring businesses listen to you sing a sad song, while you close your shutters and shut down your website. Then the inevitable happens: they, too, start receiving similar letters from Mammoth, which allege infringement of its business method patent. Hoping not to experience the same peril as you, they choose to pay the licensing fee, despite their gut feeling that the business method patent just does not seem right.⁹

Besides sending letters to more small online retailers, Mammoth also posts to its website a list of those that paid the licensing fee. It alleges that it is legally entitled to the fees;

25808254; Mark Del Franco, *Divine Intervention*, CATALOG AGE, Jan. 1, 2003 (addressing how one company in Chicago, Illinois is attempting to patent web commerce and that it will force those that use its invention to choose between being sued or paying a licensing fee), 2003 WL 6931601.

6. See John Soat, *Patent Troubles Pending: Small Companies Say They're Being Sued for Employing Common Practices for Doing Business on the Net*, INFORMATIONWEEK, Oct. 21, 2002, at 20 (discussing how one large company has sued many small defendants and asked for a patent licensing fee of \$30,000), 2002 WL 8145130.

7. See Richard Raysman & Peter Brown, *Computer Law: Pre-Filing Issues in Enforcing Software/Business Method Patents*, N.Y. L.J., Sept. 10, 2002, at 3 col. 1 (explaining that because of the "explosion of 'business method' patent litigation" many plaintiffs will send defendants cease-and-desist letters and will force them to make the choice between litigating the matter and simply paying a licensing fee); David V. Radack, *How to Handle Cease-and-Desist Letters*, JOM, Sept. 1, 2003, at 72 (noting how a defendant should handle a cease-and-desist letter), 2003 WL 11980193.

8. See Samson Vermont, *The Economics of Patent Litigation*, in FROM IDEAS TO ASSETS: INVESTING WISELY IN INTELLECTUAL PROPERTY 327, 328 (Bruce Berman ed., 2002) (reasoning that because of the high cost of patent suits, many of those involved in patent suits would rather settle than incur the costs necessary to fight the litigation); Richard P. Beem, *Winning Patent Fights Without Spending a Bundle*, CHI. DAILY L. BULL., Aug. 26, 2003, at 6 (noting the high cost of patent litigation: "[i]n the year 2000, patent infringement litigation in a mid-range case cost an average of \$797,000 through discovery, or \$1,499,000 through trial"); Kaare Larson, *Worried About Costly Patent Litigation? Alternatives for Invalidating a Competitor's Patent*, ORANGE COUNTY BUS. J., Mar. 24, 2003, at 21 (discussing the high cost of litigating a patent trial due to the "the everchanging patent laws and the legal and technical issues that are sometimes incredibly subtle"), 2003 WL 11294453; Barry A. Cooper, *Intellectual Property Primer*, CPA J., May 1, 2002, at 4047-48 (stating that "[e]nforcing a patent against an infringer through litigation is expensive and time-consuming"), 2002 WL 14217291; Michael Ann Knotts, *Protecting That Intellectual Property: IP Firms Thrive as Patent Value Climbs in Bad Times*, 12 N.J. LAW.: THE WKLY. NEWSPAPER, Feb. 3, 2003 at 3, col. 1 (explaining the high cost of patent litigation).

9. See Soat, *supra* note 6 (stating that many defendants would rather pay a licensing fee than incur the high costs of litigation).

otherwise why would so many have paid it? Mammoth encourages other small online retailers to pay the licensing fee too, or face a similar end as did you.

Mammoth rejoices as, slowly but surely, the licensing checks start pouring in. It was right; only a fool would choose to pay the \$1,000,000 in legal fees to fight it out in court,¹⁰ rather than just pay a few thousand for a licensing fee.

Opportunistic patent licensing, the use of invalid patents to secure licensing fees, is occurring more and more today¹¹ because of the rise of business method patents.¹² This is despite the fact that many of these patents might not stand up to a validity challenge in court.¹³ However, because of the high cost of litigating a patent dispute,¹⁴ many small defendants are forced to settle by paying a licensing fee.¹⁵ Something must change.¹⁶

This Comment will address the problem of opportunistic business method patent licensing and will propose a solution. Part I will give the reader a background regarding business method patents and the problems that they pose. Part II will give the

10. See Vermont, *supra* note 8, at 327-28, 334 n.76 (discussing the average total cost of patent litigation). See also Jon Van, *Small Online Retailers Targeted*, SEATTLE TIMES, Feb. 8, 2003, at A3 [hereinafter Van, *Small Online Retailers Targeted*] (indicating that retailers would rather settle than incur the high cost to litigate a patent dispute), 2003 WL 3620353.

11. See Scott Thrum, *The Ultimate Weapon: It's the Patent and Critics Say It Threatens to Undermine the Very Nature of the Internet*, ASIAN WALL ST. J., Apr. 24, 2000, at T11 (noting the use of business method patents in order to gain licensing fees), 2000 WL-WSJA 23744904; Vermont, *supra* note 8, at 330 (stating that "[l]icensing revenues have risen even faster than patent filings"); Robert C. Scheinfeld & Jeffrey D. Sullivan, *Internet-Related Patents: Are They Paying Off?*, N.Y. L.J., Dec. 10, 2002, at 5 col. 1 (explaining that "[a]t least some plaintiffs, more diligent or strategic in their acquisition and assertion of such [business method] patents, have deployed them to dramatic effect against a number of companies doing business over the Internet or in other computer-related fields").

12. See Scheinfeld & Sullivan, *supra* note 11 (discussing the increase in business method patents filed).

13. See Thrum, *supra* note 11 (explaining the problems with business method patents); Wes Jones, *Amazon Patent - Business Method or Business Muddle?*, INDEP. BUS. WKLY., July 16, 2003 (discussing how many business method patents are overbroad and invalid), 2003 WL 60646553.

14. See Van, *Small Online Retailers Targeted*, *supra* note 10 (stating that "[i]n the United States it is difficult and expensive to overturn a patent in court"); Vermont, *supra* note 8, at 328 (stating that "[s]eventy-six percent of patent suits settle, but not before each side incurs more than \$1 million in direct legal fees and indirect expenses").

15. See Vermont, *supra* note 8, at 328 (discussing how many parties to patent litigation may feel compelled to settle due to the inordinate cost of such lawsuits).

16. See *id.* at 329 (describing how patents are more important today than they were in the past "because the confluence of the Internet, global venture capital and cultural changes have eroded other traditional barriers to entry").

reader a better understanding of the hypothetical discussed in the introduction and a realization that this scenario is exacerbated due to the advent of the Internet. Part III will discuss why the current protections for small defendants do not work. Finally, Part IV will propose a solution to address the issue of opportunistic business method patent licensing.

I. A BACKGROUND ON BUSINESS METHOD PATENTS

I got a problem I can't explain
It's hard to solve it, I can't lose face
They all try to help me, but I can't see the light.¹⁷

To better understand the problem with opportunistic business method patent licensing, it is important to understand from where the problem stems. Thus, subsection A will discuss the history of business method patents, and subsection B will give some statistics relating to business method patents. Subsection C will discuss the problems that business method patents pose.

A. *The History of Business Method Patents*

The history of patents is rather long.¹⁸ Despite the lengthy

17. Neil Young, *I Got a Problem*, on *LANDING ON WATER* (Geffen Special Prod. 1996).

18. See Roger D. Blair & Thomas F. Cotter, *The Elusive Logic of Standing Doctrine in Intellectual Property Law*, 74 TUL. L. REV. 1323, 1336-37 (2000) (discussing on the long history of patent law). The ability to protect inventions stems from the Constitution's grant to Congress "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries. . . ." U.S. CONST. art. I, § 8, cl. 8. Congress exercised this power under title 35 of the United States Code. Although all of chapter 35 is important, there are three sections that are particularly important, especially when it comes to evaluating business method patents: § 101, § 102, and § 103. Section 101 states that the invention must be patentable subject matter. 35 U.S.C. § 101 (2000). The statute states that patentable subject matter is "any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof" 35 U.S.C. § 101. A mathematical algorithm, law of nature, or a scientific truth are not patentable subject matter. *Diamond v. Diehr*, 450 U.S. 175, 187-88 (1981). Section 102 states the novelty requirement for patentability. 35 U.S.C. § 102.

A person shall be entitled to a patent unless

- (a) the invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent, or
- (b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States, or
- (c) he has abandoned the invention, or
- (d) the invention was first patented or caused to be patented, or was the subject of an inventor's certificate, by the applicant or his legal

history of patents in general, the history of business method patents is very short.¹⁹ This is because business method patents were viewed as exceptions to patentable subject matter up until 1998.²⁰ In that year, the *State Street Bank*²¹ decision stated that business methods were no longer exceptions to that which may be patented.²²

To be patentable as a business method patent,²³ a business

representatives or assigns in a foreign country prior to the date of the application for patent in this country on an application for patent or inventor's certificate filed more than twelve months before the filing of the application in the United States. . .

Id. Section 103 states that a condition for patentability is that the invention must be non-obvious subject matter. *Id.* § 103.

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.

Id. § 103(a).

19. Ann Marie Rizzo, *The Aftermath of State Street Bank & Trust v. Signature Financial Group: Effects of United States Electronic Commerce Business Method Patentability on International Legal and Economic Systems*, 50 DEPAUL L. REV. 313, 316-17 (2000) (discussing the history of business method patents).

20. See, e.g., *Hotel Sec. Checking Co. v. Lorraine Co.*, 160 F. 467, 469, 471-72 (2d Cir. 1908) (holding that business method patents are non-patentable subject matter because they are merely techniques and thus lack the required novelty to be patentable inventions).

21. *State St. Bank & Trust Co. v. Signature Fin. Group, Inc.*, 149 F.3d 1368, 1376-77 (Fed. Cir. 1998).

22. In 1998, the Federal Circuit in *State Street Bank* held that business method patents are not to be excluded as patentable subject matter under § 101. *Id.* at 1377. "The business method exception has merely represented the application of some general, but no longer applicable legal principle . . . business methods have been, and should have been, subject to the same legal requirements for patentability as applied to any other process or method." *Id.* at 1375. *Accord* *AT&T Corp. v. Excel Communications, Inc.*, 172 F.3d 1352, 1356 (Fed. Cir. 1999) (holding that a business method patent can sustain a patent infringement claim); Larry A. DiMatteo, *The New "Problem" of Business Method Patents: The Convergence of National Patent Laws and International Internet Transaction*, 28 RUTGERS COMPUTER & TECH. L.J. 1, 17-21 (2002) (evaluating the *State Street Bank* decision).

23. The United States Patent and Trademark Office ("USPTO" or "PTO") "classifies business method patents under MC Class 705 in the U.S. Patent Classification System (USPCS)." DiMatteo, *supra* note 22, at 20 (citing the Patent Classification Homepage, which can be accessed at <http://www.uspto.gov/go/classification/uspc705/sched705.htm> (last visited July 8, 2004)). The patents under this classification "reflect the implementing or enabling engineering . . . used to carry out the practical application being claimed." *Id.* at 21. See Paul Devinsky, *Crafting Meaningful Business Method Patents*, MONDAQ BUS. BRIEFING, Jun. 3, 2003, at 1 (explaining what business method patents are: "[a] business method patent is no more than an ordinary

method must “result in a useful, concrete and tangible result.”²⁴ To accomplish this, “the new business method [may need to show that it] decreases operating costs, . . . increases productivity, or . . . achieves some other tangible economic benefit.”²⁵

B. Business Method Patent Statistics

Ever since the *State Street Bank* holding and the post-dot-com world,²⁶ the amount of business method patent applications filed has “flood[ed]” the United States Patent and Trademark Office (“USPTO” or “PTO”).²⁷ “Only 170 applications for business method patents were filed in fiscal year 1995. By 1999, the number of business method patent applications received and granted by the PTO had increased to 2,700 and 583, respectively; and to 7,900 and 899 in 2000.”²⁸ The “biggest surges” in 2001 came from internet and telecommunications technologies.²⁹ Many critics feel

‘method’ patent, whose subject happens to be business. Nevertheless, business method patents are still considered sufficiently unique. . .”), 2003 WL 57495383.

24. *State St. Bank*, 149 F.3d at 1373.

25. Rizzo, *supra* note 19, at 340.

26. Erika Jonietz, *Economic Bust Patent Boom: What Recession? The Recent Patent Frenzy Shows No Sign of Abating*, TECH. REV., May 1, 2002, at 71, 2002 WL 8834967.

27. John R. Allison & Emerson H. Tiller, *Internet Business Method Patents*, TEX. BUS. REV., Oct. 1, 2002, at 1, 2002 WL 22446419. See Gerald H. Kiel & Harry K. Ahn, “Business Methods” are Broadly Defined: Patent Protection Is Available in Variety of Areas Including Marketing, Sales and Finance, N.Y. L.J., Feb. 3, 2003, at S9 col. 1 (reasoning that the *State Street Bank* and *AT&T Corp.* decisions have “opened a floodgate for companies to seek patent protection for new business methods”); Karen Rodriguez, *Dot-Coms Scramble for Patent Protection in Record Numbers*, BUS. J., Sept. 8, 2000, at 9 (stating that “[t]he pace of applications for Internet business patents has surged since 1998, the same year the federal appeals court opened the flood gate to patent protection by clearing a misunderstood exception to the patent law around so-called business methods”), 2000 WL 26139882; Troy Wolverton, *Patent Lawsuit Could Sting eBay*, at <http://news.com.com/2100-1017-956638.html> (Sep. 5, 2002) (stating that “[p]atent registration—and subsequent lawsuits—have ballooned since 1998, when the courts ruled that business processes could be patented”).

28. Allison & Tiller, *supra* note 27. The number of patent applications generally has also risen. See Keith Benman, *Businesses in Munster, Ind., Region Join Patent Rush*, TIMES, MUNSTER IND., Jan. 4, 2003 (noting that quantities of “patent applications filed each year with the Patent Office has more than doubled during the last decade, going from 177,830 applications filed in 1991 to 345,732 filed in 2001, according to Patent and Trademark Office statistics. Patents issued increased from 106,698 in 1991 to 183,975 in 2001”), 2003 WL 4552161. The number of patent examiners has also risen dramatically. *Id.* (“The office’s staff of patent examiners has increased from 2,100 in 1998 to approximately 3,600 today.”).

29. Jonietz, *supra* note 26, at 71.

Semiconductor companies saw an average increase of 21.4 percent in the number of patents issued from 2000 to 2001. Similarly, patenting grew

that the business method patent application boom will continue to grow “as the economy stagnates and companies seek new revenue streams.”³⁰

C. The Problems that Business Method Patents Pose

There are many critics of business method patents.³¹ Their complaints are found in three basic areas: 1) business method patents are overbroad³² because 2) the prior art searches are too difficult to successfully complete,³³ which leads to 3) a high error rate.³⁴

These problems, as well as others, have led some critics to call for business method patents to be removed from the realm of patentable subject matter.³⁵ The author has no interest in

20.4 percent in the telecom industry, and in computing 11.6 percent. Even more impressive, U.S. Patent and Trademark Office statistics suggest the penchant for patents amount information technology companies will continue; these three sectors saw the highest numbers of new patent applications filed in 2000 . . .

Id. See also Bill Roberts, *The Truth About Patents*, INTERNET WORLD, Apr. 15, 2000, at 72, (discussing patents statistics), 2000 WL 11672761.

30. See Scheinfeld & Sullivan, *supra* note 11 (stating that because of the economy “aggressive patentees can be expected to search more aggressively for previously untapped assets, including patents whose potential applicability to widely used business methods might have gone unnoticed in the past”); Vermont, *supra* note 8, at 330 (explaining that there is no reason to expect the increase in patent application filing to stop).

31. See Jeffrey R. Kuester & Lawrence E. Thompson, *Risks Associated with Restricting Business Method and E-Commerce Patents*, 17 GA. ST. U. L. REV. 657, 657 (2001) (reasoning that “[b]usiness method patents have taken a severe beating since the Federal Circuit decided *State Street Bank & Trust Co. v. Signature Financial Group, Inc.* in July of 1998”); Wolverton, *supra* note 27 (stating that “[c]ritics say many patented business methods are obvious and that enforcement would hinder the growth of the Internet of e-commerce”).

32. See DiMatteo, *supra* note 22, at 25 (discussing the criticisms of business method patents for their overbreadth).

33. See Jacob Razem, *Patent Protection for New Ways to Do Business and the Effect on Financial Institutions*, 4 N.C. BANKING INST. 521, 542-43 (2000) (discussing the difficulty of doing a prior art search for a business method patent); Paul F. Fehlner & Paul M. Zagar, *Protecting Secret Methods: The First Inventor Defense Could Provide a Shield for Some Biotech Processes*, NAT’L. L.J., Dec. 16, 2002, at C4 col. 4 (stating that “[a]ccused infringers of business method patents issued . . . are . . . at a significant disadvantage because of a dearth of business-method prior art available to attack the patents”).

34. See Robert P. Merges, *As Many As Six Impossible Patents Before Breakfast: Property Rights for Business Concepts and Patent System Reform*, 14 BERKELEY TECH. L.J. 577, 590-91 (1999) (explaining the high error rate of business method patents).

35. See Allison & Tiller, *supra* note 27 (stating that the “increas[ing] number of Internet business method patents applied for and received concerns many critics of the patent system, who argue that granting Internet business method patents is bad for innovation, making it more difficult for the diffusion

debating in this comment whether the *State Street Bank* decision should be overturned so that business method patents may be laid to rest. However, in order to understand the problem of opportunistic business method patent licensing, it is important to understand the difficulties these patents pose.

Because business method patents are non-technical in nature, they tend to be over-inclusive.³⁶ Specifically, e-commerce "inventions" protected by business method patents "merely apply long-standing business techniques to the Internet."³⁷ Thus, these business method patents are granted to protect "broad concepts" rather than actual innovation.³⁸

Another reason why so many overbroad business method patents are granted is because the patent office lacks the prior art resources to investigate whether the process is actually novel.³⁹ The lack of prior art is due to the fact that most business methods remained as trade secrets or were not written about at all prior to the *State Street Bank* decision.⁴⁰ Thus, to do a sufficient prior art search, patent examiners cannot go to their traditional prior art databases⁴¹ or look to granted patents.⁴² Instead, examiners need to search "in private collections of industry memorabilia," which makes the likelihood of finding the prior art very difficult.⁴³

Overbroad business method patents are granted due to the great difficulty in finding the prior art that most likely does

of ideas and entrepreneurial activity often associated with the Internet"); Leo J. Raskind, *The State Street Bank Decision: The Bad Business of Unlimited Patent Protection for Methods of Doing Business*, 10 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 61, 61-67 (1999) (discussing the many problems with the *State Street Bank* decision).

36. See DiMatteo, *supra* note 22, at 25 (explaining how the business method patent tends to be overbroad due to its non-technical nature).

37. Rizzo, *supra* note 19, at 363.

38. See *id.* (reasoning that because business method patents are non-technical, they tend to patent "broad concepts" rather than a concrete science).

39. See *id.* at 363-64 (discussing of what prior art the PTO is aware is important as to whether or not it decides to issue the patent; so, when there is a poor prior art database the patent is more likely to be issued even though the invention is not truly novel).

40. See Andre J. Porter, *Should Business Method Patents Continue to Be Patentable?*, 29 S.U. L. REV. 225, 242 (2002) (noting how prior art databases of information pertaining to that which business methods are now patented were traditionally not kept by the USPTO).

41. See Kuester & Thompson, *supra* note 31, at 668 (stating that "[o]ne of the main problems with the current system for examination of business method patents is the state of the prior art databases").

42. See Razem, *supra* note 33, at 541 (explaining how patent examiners are not usually able to gain any prior art relating to business methods by reviewing patents already issued because business method patents are so new).

43. See *id.* (noting that it is very difficult for a patent examiner to find prior art because they need to search outside their prior art databases).

exist.⁴⁴ Thus, there are a growing number of business method patents that are of “extremely poor quality”⁴⁵ being issued, despite the fact that they do not meet the requirements of non-obviousness and novelty.⁴⁶ These concerns about the quality of business method patents being issued lead some commentators to draw the conclusion that “the patent system is in crisis.”⁴⁷

II. BACKGROUND REGARDING THE HYPOTHETICAL

I got some ocean front property in Arizona.

From my front porch you can see the sea.

I got some ocean front property in Arizona.

If you'll buy that, I'll throw the golden gate in free.⁴⁸

Today, business method patents are an important consideration for internet business,⁴⁹ since they can and are being used as weapons to gain licensing fees.⁵⁰ By stating this, the author in no way intends to allege that licensing patented inventions for use is necessarily a bad thing. Quite the contrary, this is obviously one of the many benefits to having a limited-time monopoly over the invention.⁵¹ However, there is clear injustice when an entity uses its business method patent, which is overbroad and would not stand up to a validity challenge,⁵² to force other entities, that are unable to financially afford to make a validity challenge,⁵³ to pay licensing fees.⁵⁴ Because of the

44. See *Merges*, *supra* note 34, at 589-90 (stating that “[i]t therefore seems likely that many of the [business method] patents being issued in this area (software patents) overlook highly relevant prior art”); *Roberts*, *supra* note 29 (explaining that “[o]ne problem [with business method patents] is that the non-patented research isn’t easy to dig up. ‘You have to go through back volumes of stuff page by page to find it’” (quoting Greg Aharonian)).

45. *Merges*, *supra* note 34, at 589.

46. See *DiMatteo*, *supra* note 22, at 23 (stating that “[t]he open recognition of business method patents and their Internet application have resulted in the issuance of a growing number of ‘bad patents’”). Bad patents can be defined as “patents granted for alleged inventions that do not meet the requirements of novelty or non-obviousness.” *Id.*

47. See *Merges*, *supra* note 34, at 591 (concluding that “[t]he concerns about quality, especially in light of the data on overall volume, point to one conclusion: the patent system is in crisis”).

48. George Strait, *Ocean Front Property*, on OCEAN FRONT PROPERTY (MCA Records 1990).

49. See *Rizzo*, *supra* note 19, at 315 (noting how important business method patents are for today’s companies).

50. See *Vermont*, *supra* note 8, at 330 (discussing the recent increase in patent licensing revenues).

51. See U.S. CONST. art. 1, § 8, cl. 8 (giving Congress the ability to award a limited time monopoly over inventions).

52. See *Rizzo*, *supra* note 19, at 363-64 (reasoning that because many business method patents are overbroad, they would probably not withstand a validity challenge in court).

53. See *Allison & Tiller*, *supra* note 27, at 1 (stating that “[i]n addition to

shortcomings of the business method patent, opportunistic business method patent licensing ensues.⁵⁵

Subsection A will discuss opportunistic business method patent litigation and licensing and subsection B will state how this causes the public to bear the burden of bad patents. Subsection C will discuss the new weapons that plaintiffs and defendants are using with regards to opportunistic business method patent licensing.

A. *Opportunistic Business Method Patent Litigation and Licensing*

Strike suits exist in litigation.⁵⁶ Strike suits are “when a plaintiff, often in a securities case, raises a baseless claim of fraud to win a settlement. Plaintiffs file baseless claims with the hope of ‘exacting quick and extortionate settlements.’”⁵⁷ Thus, a strike suit, referred to here as opportunistic litigation, is “[a]ny litigation prosecuted with some motive other than a good faith expectation of success on the merits.”⁵⁸

Although opportunistic litigation is usually seen in securities cases, the definition can be extended to patent cases as well.⁵⁹ Thus, a patentee sues a defendant alleging infringement of its business method patent in order to gain licensing revenue, knowing it is overbroad and would fail in a validity test.

Because of the “flood”⁶⁰ of business method patents being granted, the number of opportunistic suits has also increased.⁶¹

[patent] protection, many firms and individuals have acquired such [business method] patents for profitable licensing opportunities, regardless of whether they intend to employ these business operations”).

54. See Vermont, *supra* note 8, at 327-30 (discussing how the extreme costs of patent litigation may compel parties to settle and pay licensing fees).

55. See Jon Van, *E-Commerce Patent Threat; Firms Claim Broad Coverage, Then Sue; Targets Often Pay To Avoid Fight*, CHI. TRIB., Jan. 13, 2003, at 1 [hereinafter Van, *E-Commerce Patent Threat Firms*] (discussing the problems with business method patents and how that leads to opportunistic patent licensing), 2003 WL 3743244.

56. See Michael A. Weidinger, *Inequitable Pleading: Defendants' Particular Burden in Patent Infringement Suits*, 62 GEO. WASH. L. REV. 1178, 1202-03 (1994) (explaining strike suits).

57. *Id.* at 1202 (quoting William M. Richman et al., *The Pleading of Fraud: Rhymes Without Reason*, 60 S. CAL. L. REV. 959, 982 (1987)).

58. Richman et al., *supra* note 57, at 963.

59. See Weidinger, *supra* note 56, at 1202-03 (discussing how opportunistic litigation is generally seen in securities cases, and how it arises in patent litigation).

60. See *supra* note 27 and accompanying text (discussing the proliferation of business method patents in recent years).

61. See Michael J. Meurer, *Controlling Opportunistic and Anti-Competitive Intellectual Property Litigation*, 44 B.C. L. REV. 509, 517 (2003) (stating that “[t]he explosion of e-commerce patents has generated many complaints about opportunistic patent litigation”).

Their use by a patentee against a defendant is a way to generate licensing revenue because it sends a message to the defendant that the patentee is willing to litigate in order to enforce its patent rights.⁶² “Small companies may not be willing to invest resources in such a challenge, especially with the presumption of [patent] validity that attends PTO decisions. Rather, it may make more sense for these companies to accept a license fee from the patentee, thereby leaving the inappropriate patent unchallenged.”⁶³ Thus, what was really a weak lawsuit, because of the overbroad business method patent, now turns into a “credible” one solely because of the cost that litigating it would impose on the defendant.⁶⁴

B. The Damage Caused to the Public via Opportunistic Business Method Patent Licensing

It is understood that opportunistic patent litigation not only damages the public at large, but it also does not further the law of patents in any way.⁶⁵ In addition, there is a social cost to having bad patents issued that are then used to obtain licensing fees from

62. Adam T. Bernstein, *Use Of Patent Enforcement to Drive a (Patent) Licensing Program*, 740 PRAC. L. INST. 707, 716 (2003).

There are many examples of companies or individuals who have vigorously asserted their patent(s) against whole industries (or even against a number of different industries), who have collected tens (or hundreds) or millions of dollars in royalties, and who have brought multiple suits for patent infringement against any number of defendants.

Id. See also Meurer, *supra* note 61, at 509-10 (discussing predatory patent litigation).

63. DiMatteo, *supra* note 22, at 23. See Jon Van, *E-commerce Suit Exposes Fuzzy Patent Laws, San Diego Company Picks Fights with Small, Out-of-State Companies, Demands Steep Licensing Fees*, AKRON BEACON J., Feb. 2, 2003, at 1 [hereinafter Van, *E-commerce Suit Exposes Fuzzy Patent Laws*] (discussing opportunistic patent licensing), 2003 WL 2472139.

64. See Meurer, *supra* note 61, at 516 (reasoning that because “[d]efendants fear the high cost of IP litigation[, they] settle opportunistic claims to avoid that cost”); Chris Guthrie, *Framing Frivolous Litigation: A Psychological Theory*, 67 U. CHI. L. REV. 163, 168-69 (2000).

Plaintiffs in frivolous litigation are likely to have an advantage in settlement negotiations in that they are relatively more risk seeking than defendants. Because trial is more attractive to plaintiffs than defendants, plaintiffs are likely to demand more, and defendants are likely to offer more, than the expected value of plaintiffs’ claims. If there is sufficient bargaining overlap between plaintiffs’ inflated demands and defendants’ inflated offers, the litigants in frivolous litigation will likely settle their disputes for an amount greater than the expected value of the litigation.

Id.

65. See *Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986, 993 (9th Cir. 1979) (stating that “[patent] infringement actions initiated and conducted in bad faith contribute nothing to the furtherance of the policies of either the patent law or the antitrust law”).

defendants, who cannot afford to fight the patent's validity.⁶⁶ "It is as important to the public that competition should not be repressed by worthless patents, as that the patentee of a really valuable invention should be protected in his monopoly."⁶⁷

Patent licensing is a 110 billion dollar business.⁶⁸ When bad patents are used against defendants who then pay for a license, the cost is inevitably passed onto the consumer.⁶⁹ Many defendants will choose to pay the licensing fee and forego the costs that they would incur if they were to challenge the patent's validity.⁷⁰

The court system even realizes the huge expense associated with patent litigation.⁷¹ "[O]ne of the benefits accruing to a businessman accepting a license from a patentee who was threatening him with a suit was avoiding 'the necessity of defending an expensive infringement action during the period when he may be least able to afford one.'"⁷² With the cost of patent lawsuits often stretching into the millions of dollars and taking many years to complete,⁷³ few defendants, and even fewer small defendants, are capable of footing the bill.⁷⁴

66. See Mark A. Lemley, *Rational Ignorance at the Patent Office*, 95 NW. U. L. REV. 1495, 1515-17 (2001) (explaining the social costs of bad patents).

67. *Lear, Inc. v. Adkins*, 395 U.S. 653, 663-64 (1968) (citing *Pope Mfg. Co. v. Gormully*, 144 U.S. 224, 234 (1892)).

68. See Rodriguez, *supra* note 27, at 9 (stating that "[p]atent and licensing revenue has increased 700 percent compared with the last eight years to 110 billion in 1999").

69. See Rizzo, *supra* note 19, at 365 (concluding that because of "licensing costs, Internet licensees will be forced to pass those costs onto their consumers"); Lemley, *supra* note 66, at 1515-17 (discussing the social costs of bad patents that are issued).

70. See *Lear*, 395 U.S. at 673 (concluding that "the cost of prosecuting slow-moving trial proceedings and defending an inevitable appeal might well deter many licensees from attempting to prove patent invalidity in the courts"); Roberts, *supra* note 29, at 74 (quoting Jeet Singh discussing why his company chose to settle a patent litigation suit rather than fight it out in court). Specifically, Mr. Singh stated that "[s]ettling the [patent infringement] suit . . . had little to do with the patent's merits, and everything to do with a desire to resolve the issue and get on with business in a fast-growing market." *Id.* He went on to explain that "[p]aying even a stiff fee made better business sense than continuing to fight [because] it is to our advantage to put our resources into growing the business, rather than slogging through this complex and costly legal process." *Id.*

71. *Blonder-Tongue Lab. Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 334 (1971).

72. *Id.* (citing *Lear*, 395 U.S. at 669). Interestingly, in *Blonder-Tongue*, the court noted that in 1971, the average patent litigation cost was \$50,000. *Id.*

73. See Bernstein, *supra* note 62, at 713 (noting that "[p]atent litigation can be a particularly time-consuming and expensive process — typically several years and at least several millions of dollars").

74. See Van, *E-Commerce Patent Threat Firms*, *supra* note 55 (quoting Sharon Barner's explanation of how "[p]atent litigation tends to be long and

Furthermore, “the existence of an unchallenged patent may deter others from attempting to compete with the licensee.”⁷⁵ “[The] [l]icensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor’s discovery. If they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification.”⁷⁶

Those defendants that choose not to fight it out in court, nor pay the licensing fee, are left incapable of using a piece of technology that should not be patented.⁷⁷ As a result, it will now be harder for “e-commerce to flourish”⁷⁸ due to this “destructive approach to innovation.”⁷⁹

Furthermore, the licensing of bad patents also causes the public to lose faith in the USPTO and the patent system as a whole.⁸⁰ Such a reduction in credibility of the patent system “may reduce the value of good patents, and therefore harm innovation.”⁸¹

Overall, opportunistic patent licensing not only causes the innocent defendant to pay the licensing fee, but it forces the public to pay the price as well.

C. New Weapons in the Opportunistic Patent Licensing Arsenal

Today, many patentees use the Internet as a way to deter

costly”). Ms. Barner states that “[i]n the beginning you fight on principle, but the costs add up quickly. The average cost of a piece of patent litigation is \$1 million. That’s a significant amount of money when you can settle for \$10,000 or \$15,000.” *Id.* Accord Rodriguez, *supra* note 27 (reasoning that licensees “pa[y] [licensing] fees only because it is cheaper than the customary \$500,000 to \$1 million to fight the patent lawsuit”); Stephan Nickels & Jeffrey Simmons, *Western District of Wisconsin Court Proves Speedy and Affordable Venue for Patent Litigation* at http://www.foley.com/publications/pub_detail.aspx?pubid=163&fulldesc=1 (July 21, 2001) (discussing the high cost of patent infringement suits: “a patent litigant can expect to spend at least \$500,00 and up to \$6 million to try a patent case”). See also Philip Judson, *IP Litigation a Costly but Real Concern in High Tech*, 22 AUSTIN BUS. J. 18 (noting the expense in patent litigation); Lemley, *supra* note 66, at 1507-13 (discussing in depth the cost of patent litigation).

75. *Lear*, 395 U.S. at 669.

76. *Id.* at 670. See Blair & Cotter, *supra* note 18, at 1363 (concluding that “the defendant might find it more cost-effective simply to give up [on the lawsuit] and purchase a license from the patent owner. But if, in fact, that patent is invalid . . . , then the social costs flowing from the licensee’s acceptance of the patentee’s exclusive rights would seem to outweigh the social benefits”).

77. See Lemley, *supra* note 66, at 1515-17 (discussing the social costs of bad patents that are issued).

78. Thrum, *supra* note 11.

79. See *id.* (quoting Tim O’Reilly).

80. Lemley, *supra* note 66, at 1522-23 (2001).

81. *Id.* at 1522.

would-be defendants from infringing their business method patent. They also use the Internet as a way to gain licensing revenues for issued business method patents.

A great example of such Internet use is by Pangaea Intellectual Properties L.L.C. ("PanIP").⁸² PanIP is a plaintiff currently involved in many infringement lawsuits regarding two of its business method patents.⁸³ PanIP uses the internet to detail its past successes in obtaining licensing fees from small defendants. This is an interesting way to encourage other small defendants to also pay the licensing fees.⁸⁴

Plaintiffs are not the only ones using the Internet in order to gain leverage.⁸⁵ Some of the defendants in the PanIP lawsuits are banding together in an attempt to gain outside financial and litigation support via their Internet website entitled "You May Be Next.com."⁸⁶ On the website, the authors question PanIP's motives

82. PanIP, *PanIP Patent & Trademark Infringement Litigation*, at <http://www.panip.com/litigation.htm> (last visited Oct. 22, 2003) [hereinafter *PanIP Litigation*].

83. U.S. Patent No. 5,576,951 (issued Nov. 19, 1996); U.S. Patent No. 6,289,319 (issued Sept. 11, 2003). The '951 patent is entitled "Automated sales and services system," and is "[a] system for composing individualized sales presentations created from various textual and graphical information data sources to match customer profiles." U.S. Patent No. 5,776,951. The '319 patent is entitled "Automatic business and financial transaction processing system" and is:

[a] system for filing applications with an institution from a plurality of remote sites, and for automatically processing said applications in response to each applicant's credit rating obtained from a credit reporting service comprising a series of self-service terminals remotely linked via a telephone line to a first computer at the institution and to a second computer at the credit reporting service headquarters.

U.S. Patent No. 6,289,319. While this author draws no conclusions as to the validity or merits of the patents at issue, the case is brought to the reader's attention because it is a large corporation currently pursuing licensing fees from several small defendants for alleged business method patent infringement. See generally *PanIP Litigation*, *supra* note 82 (discussing the many lawsuits in which PanIP is involved); PanIP, *Decisions*, at <http://www.panip.com/decisions.htm> (last visited Oct. 22, 2003) (discussing the court decisions in which PanIP is involved); PanIP, *Defaults*, at <http://www.panip.com/defaults.htm> (last visited Oct. 22, 2003) (discussing the default judgments that PanIP received). For other authors' views of the PanIP lawsuits, see Van, *Small Online Retailers Targeted*, *supra* note 10 (explaining the PanIP lawsuits). See also Van, *E-Commerce Patent Threat Firms*, *supra* note 55 (discussing the PanIP lawsuits); Anna Wolfe, *On-Line Retailers Sued for Patent Infringement*, GOURMET NEWS (Dec. 2002) (noting the PanIP lawsuits), <http://www.gourmetnews.com/december2002/depts/gn/gnstory1.htm>.

84. See Bernstein, *supra* note 62, at 718-19 (discussing the many ways to "encourage[e] such other[s] to take a license while the litigation is pending").

85. See Jon Van, *Firm Claims Patent On E-Commerce*, BRADENTON HERALD, Feb. 2, 2003, at 2 (explaining how PanIP defendants are attempting to use the Internet to gain leverage), 2003 WL 2526822.

86. Postings from PanIP defendants can be viewed at *You May Be Next*, at

as being an opportunistic patent litigation and licensing scheme.⁸⁷

It is interesting to note that of the over fifty defendants that PanIP targeted, most of the suits were brought within a few months of each other.⁸⁸ Thus, it seems as though the plaintiff is trying to attack as many small defendants as possible, all within the same time, so as to limit each defendant's use of PanIP's past litigation outcomes.⁸⁹

Do the multiple PanIP lawsuits together act as an exemplar of opportunistic patent licensing? The defendants appear to think so.⁹⁰

III. CURRENT PROTECTIONS FOR SMALL DEFENDANTS DO NOT WORK

Help me if you can, I'm feeling down
And I do appreciate you being round.
Help me, get my feet back on the ground,
Won't you please, please help me?⁹¹

Patent litigation is an expensive business which forces many defendants to pay a licensing fee in order to avoid litigation costs.⁹² However, there are many protections for defendants faced with litigation. Such protections include rule 11,⁹³ the Patent Act's fee-shifting statute,⁹⁴ declaratory judgments,⁹⁵ summary judgment,⁹⁶

<http://www.youmaybenext.com> (last visited July 6, 2004).

87. Within this case, it is interesting to note that the plaintiff seems to be going after small on-line retailers that are all located outside the venue of where the lawsuits are being brought. See *You May Be Next*, at <http://www.youmaybenext.com/why.html> [hereinafter PanIP Defendants Ask Why] (questioning PanIP's motives for suing these particular defendants); PanIP Litigation, *supra* note 82. Thus, it seems as though the plaintiff is further attempting to burden the defendants by picking a venue that is inconvenient to them, in order to encourage them to pay the licensing fee. See *id.* (asking questions about PanIP's motives for suing these particular defendants in a particular venue).

88. *Id.*

89. See *id.* (noting the high number of defendants sued by PanIP in a short period of time).

90. See *id.* (questioning PanIP's motives for suing these particular defendants).

91. The Beatles, *Help!*, on *HELP!* (Capitol Records 1990).

92. See Lemley, *supra* note 66, at 1494-1511 (discussing the high cost of patent litigation); Jeffrey T. Haley, *Strategies and Antitrust Limitations for Multiple Potential Patent Infringers*, 21 AIPLA Q. J., 327, 328 (1993) (concluding that because patent litigation is very expensive, many defendants would rather pay a licensing fee in order to avoid paying the money to litigate).

93. FED. R. CIV. P. 11.

94. See 35 U.S.C. § 285 (stating that "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party").

95. See *Bayer AG v. Housey Phar., Inc.*, 340 F.3d 1367, 1369 (Fed. Cir. 2003) (holding in the case where an alleged patent infringer brought a suit seeking a declaratory judgment that the patents were invalid).

the First Inventor Defense Act,⁹⁷ the Patent Reexamination Process, and class actions.⁹⁸

These protections for defendants faced with litigation will be discussed in the following subsections. The following subsections will also discuss the fact that these protections fail to protect small defendants from opportunistic business method patent licensing.⁹⁹

A. Rule 11 Does Not Protect Small Defendants

Rule 11 is a federal rule of civil procedure stating that when a person represents something to the court, it does so with a certain amount of knowledge and with a purpose other than to harass its adversary.¹⁰⁰ It states when a party presents any pleading, paper or motion to the court, it does so with the indication that such document submitted is based on the party's "knowledge, information, and belief, formed after an inquiry reasonable under the circumstances."¹⁰¹

The party submitting the document further asserts that "it is not being presented for any improper purpose, such as to harass or to cause unnecessary delay or needless increase in the cost of litigation."¹⁰² Furthermore, the party asserts that the "claims, defenses, and other legal contentions" contained within the document are "warranted by existing law."¹⁰³ Finally, the party submitting a document to the court asserts that the "allegations and other factual contentions have evidentiary support."¹⁰⁴

If a person violates rule 11 by submitting a document to the court in violation of the assertions detailed above, the person is subject to sanctions by the court.¹⁰⁵

96. FED. R. CIV. P. 56.

97. 35 U.S.C. § 273.

98. FED. R. CIV. P. 23 (2003).

99. See Lemley, *supra* note 66, at 1494-1511 (discussing the high cost of patent litigation often times forces many small defendants to settle in order to avoid paying excessive litigation fees).

100. FED. R. CIV. P. 11. Rule 11 states that

By presenting to the court (whether by signing, filing, submitting, or later advocating) a pleading, written motion, or other paper, an attorney or unrepresented party is certifying that to the best of the person's knowledge, information, and belief, formed after an inquiry reasonable under the circumstances,—

(1) it is not being presented for any improper purpose, such as to harass or to cause unnecessary delay or needless increase in the cost of litigation

FED. R. CIV. P. 11(B).

101. FED. R. CIV. P. 11(b).

102. FED. R. CIV. P. 11(b)(1).

103. FED. R. CIV. P. 11(b)(2).

104. FED. R. CIV. P. 11(b)(3).

105. FED. R. CIV. P. 11(c). Rule 11(c) states that

[i]f, after notice and a reasonable opportunity to respond, the court determines that subdivision (b) has been violated, the court may, subject

Thus, because of rule 11, some may argue that a plaintiff, who thinks that its patent will fail in court, would be deterred from filing a lawsuit claiming that the small defendant infringed the patent.¹⁰⁶ However, such an argument fails because of the presumption of validity that is associated with a patent.¹⁰⁷ Therefore, it will be almost impossible to show the requisite “claims . . . are [un]warranted” in order to obtain rule 11 sanctions since issued patents enter all disputes with the presumption of validity.¹⁰⁸ Thus, rule 11 fails to protect the small defendant from opportunistic business method patent licensing.

B. *The Patent Act’s Fee-Shifting Statute Does Not Protect Small Defendants*

The fee-shifting statute under the Patent Act allows the court to award attorney’s fees in “exceptional” patent cases.¹⁰⁹ This fee-shifting statute is intended not only to benefit plaintiffs, but is also intended to benefit defendants if the case meets the requisite requirement of being “exceptional.”¹¹⁰ Thus, the court can order the plaintiff to pay attorney’s fees if the plaintiff brings suit against a defendant for a patent that is obviously invalid.¹¹¹

Some commentators argue that this statute “deters

to the conditions stated below, impose an appropriate sanction upon the attorneys, law firms, or parties that have violated subdivision (b) or are responsible for the violation.

FED. R. CIV. P. 11(C).

106. Weidinger, *supra* note 56, at 1210-11 (discussing the many shortcomings of rule 11 in patent litigation).

107. *See Lear*, 395 U.S. at 670 (explaining that every issued United States patent is presumed to be valid). *See* 35 U.S.C. § 282 (stating that “[a] patent shall be presumed valid The burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity”).

108. FED. R. CIV. P. 11(b)(2). *See Lear*, 395 U.S. at 670 (noting that “the licensor’s case is buttressed by the presumption of validity which attaches to his patent”). *See generally* Kenneth R. Adamo, *Basic Motion Practice for the Accused Infringer*, 15 AIPLA Q. J. 124, 132-34 (1987) (discussing rule 11).

109. 35 U.S.C. § 285. The Act states that “[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party.” *Id.*

110. *Kaehni v. Diffraction Co.*, 342 F. Supp. 523, 533-36 (D. Md. 1972) (discussing the purpose of 35 U.S.C. § 285), *aff’d* 473 F.2d 908 (4th Cir. 1973), *cert. denied*, 414 U.S. 854 (1983).

111. *Kaehni*, 342 F. Supp. at 534-35.

[An] example [of a situation where the court can award attorney fees] is [where] a plaintiff-patentee prosecut[es] on the basis of an obviously invalid patent No court holding or rule of law *prohibits* declaring a case ‘exceptional’ and awarding attorneys’ fees on the ground that the allegation of infringement is frivolous and/or brought without reasonable care This court now holds that a case can be ‘exceptional’ within the meaning of § 285 where the allegation of infringement is frivolous and/or asserted without reasonable care and sufficient justification.

Id. (emphasis added).

opportunistic suits by raising the expected cost of weak lawsuits and undermining the credibility of the plaintiff's threat to go to trial."¹¹² However, this argument lacks merit when the defendant is one with little resources.¹¹³

Defendants that lack \$1 million (i.e., sufficient resources to fight a patent infringement claim and to overcome the presumption that the business method is valid¹¹⁴) will still be enticed to settle the frivolous infringement dispute despite the prospect of a future award of attorney's fees.¹¹⁵ This is because a small defendant, who goes bankrupt before even seeing the light at the end of the tunnel, is not benefited by the Patent Act's fee-shifting statute.¹¹⁶

Therefore, despite the fact that the plaintiff knowingly files a frivolous lawsuit alleging infringement by the small defendant of its business method patent that a court would find overbroad, and despite the fact that the defendant could be awarded attorney's fees in this "exceptional" case, the small defendant will still be forced to pay the patentee's licensing fee.¹¹⁷ Hence, the Patent Act's fee-shifting statute fails to protect small defendants from opportunistic business method patent licensing.

C. Declaratory Judgments Do Not Protect Small Defendants

Suits seeking a declaratory judgment exist in patent litigation.¹¹⁸ When a plaintiff threatens a defendant with a patent infringement lawsuit, the defendant can respond by filing a suit seeking a declaratory judgment.¹¹⁹ A suit seeking a declaratory judgment will have the court make a finding as to the patent's

112. Meurer, *supra* note 61, at 535-40 (explaining the benefits of the Patent Act's fee-shifting statute in deterring frivolous lawsuits).

113. *Id.* at 537.

114. Van, *E-Commerce Patent Threat Firms*, *supra* note 55 (noting that the average cost of patent litigation is around \$1 million).

115. See Meurer, *supra* note 61, at 537 (discussing the Patent Act's fee-shifting statute and how it influences the defendant's behavior in litigation); Van, *E-Commerce Patent Threat Firms*, *supra* note 55 (concluding that many defendants will settle to forgo the high cost of patent litigation).

116. See Meurer, *supra* note 61, at 537 (discussing how many small defendants go bankrupt in fighting patent infringement disputes).

117. See *id.* at 537-38.

The most aggressive predatory litigation strives to choke off financial resources from the defendant. The prospect of recovering attorney's fees after trial has no value to a defendant who goes bankrupt before trial, and perhaps little value to a defendant who suffers financial distress because of trial cost and delay.

Id.

118. See *Bayer*, 340 F.3d at 1369 (stating that alleged infringer brought a suit seeking declaratory judgment).

119. *Id.*

validity.¹²⁰

A suit seeking a declaratory judgment seems to be an effective way for a defendant to avoid plaintiff-initiated patent litigation by having the court make a finding of fact as to whether the patent is invalid. However, to come to such a conclusion would require one to forget about the financial backing required by the defendant to win a suit seeking a declaratory judgment.¹²¹

All issued patents enter the courtroom arena with a presumption of validity.¹²² Thus, in order for the defendant to win a suit seeking a declaratory judgment, the defendant still needs to overcome the strong presumption that the plaintiff's patent is valid.¹²³ To do so will require discovery and thus, sufficient resources available to the defendant to pay for it.¹²⁴

Small defendants will not be capable of paying for discovery costs that often times exceed \$800,000.¹²⁵ Therefore, the defendant will not be effective in a suit seeking a declaratory judgment, despite the fact that the business method patent is overbroad.¹²⁶

D. Summary Judgment Does Not Protect Small Defendants

Rule 56 allows a party to be granted summary judgment if "the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law."¹²⁷ The question of a patent's validity is not a question of fact, but rather is a question of law.¹²⁸

A motion for summary judgment will often be ineffective

120. See *EMC Corp. v. Norand Corp.*, 89 F.3d 807, 811 (Fed. Cir. 1996) (discussing that in a declaratory judgment suit, the court will determine the patent's validity).

121. *Meurer*, *supra* note 61, at 528-30 (noting declaratory judgments in patent disputes).

122. *Lear*, 395 U.S. at 670 (stating that there is a presumption of validity associated with every issued United States patent). See *Canon Computer Sys., Inc. v. Nu-Kote Int'l, Inc.*, 134 F.3d 1085, 1088 (Fed. Cir. 1998) (explaining that the presumption of a patent's validity exists at every stage of litigation).

123. *Uniroyal Inc. v. Rudkin-Wiley Corp.*, 837 F.2d 1044, 1050 (Fed. Cir. 1988) (discussing that the party disputing the patent's validity must do so by clear and convincing evidence).

124. *Meurer*, *supra* note 61, at 529-30.

125. See *Vermont*, *supra* note 8, at 360 n.2 (noting the high cost of patent discovery).

126. See *Canon*, 134 F.3d at 1088 (stating that the existence of the patent alone is capable of satisfying the patentee's burden on the issue of the patent's validity).

127. FED. R. CIV. P. 56(c). See generally *Adamo*, *supra* note 108, at 153-74 (discussing rule 56 being used in patent infringement lawsuits).

128. *Uniroyal*, 837 F.2d at 1050.

before discovery because in order to be granted, there must be no material facts in dispute.¹²⁹ Thus, discovery, a very expensive and time-consuming process, must ordinarily be completed.¹³⁰ Discovery requires the defendant to have sufficient resources to pay for it.¹³¹

Therefore, the small defendant sees itself in the same predicament as it did in rule 11, fee-shifting, and declaratory judgment situations. The small defendant, despite the fact that it may succeed in a summary judgment motion based on the invalidity of the business method patent, will be forced to pay the licensing fee because it will be unable to afford the necessary cost of discovery.¹³² Accordingly, the small defendant is not protected with the rule 56 summary judgment motion from opportunistic business method patent licensing.

E. The First Inventor Defense Act Does Not Protect Small Defendants

The Patent Act contains a statute entitled "Defense to Infringement Based on Earlier Inventor,"¹³³ known as the "First Inventor Defense Act."¹³⁴ The First Inventor Defense Act protects defendants, acting in good faith, who have reduced the method to practice at least one year prior to the filing date¹³⁵ of the business

129. *Advanced Cardiovascular Sys., Inc. v. Scimed Life Sys., Inc.*, 988 F.2d 1157, 1164 (Fed. Cir. 1993). See Meurer, *supra* note 61, at 530-31 (explaining summary judgment in patent lawsuits).

130. Meurer, *supra* note 61, at 530-31 (reasoning that because "summary judgment [is] a fact-intensive question[, it] may be delayed until time-consuming and expensive discovery is completed").

131. See Vermont, *supra* note 8, at 360 n.2 (stating that patent discovery costs are very high).

132. Meurer, *supra* note 61, at 531 (concluding that summary judgment often provides poor protection in fact-intensive patent litigation). See *Blonder-Tongue*, 402 U.S. at 335 (explaining that "[i]f a patentee's expense is high though he enjoys the benefits of the presumption of validity, the defendant in an infringement suit will have even higher costs as he both introduces proof to overcome the presumption and attempts to rebut whatever proof the patentee offers to bolster the claims").

133. 35 U.S.C. § 273.

134. Allison & Tiller, *supra* note 27. See David A. Fox, *Business Method Patent: Feast or Famine?*, CONN. L. TRIB., Jul. 21, 2003, at 9 (discussing the First Inventor Defense Act).

135. The Act states in relevant part that

[i]t shall be a defense to an action for infringement under section 271 of this title with respect to any subject matter that would otherwise infringe one or more claims for a method in the patent being asserted against a person, if such person had, acting in good faith, actually reduced the subject matter to practice at least 1 year before the effective filing date of such patent, and commercially used the subject matter before the effective filing date of such patent.

35 U.S.C. § 273(b)(1).

method patent and have commercially used the invention before the filing date of the business method patent.¹³⁶

In order for a defendant to be successful in asserting the First Inventor Defense Act, the defendant must establish the defense by clear and convincing evidence.¹³⁷ Interestingly, if the defendant raises the defense and fails to establish a "reasonable basis for asserting the defense," the court *shall* find the case to be an "exceptional" case for the purpose of 35 U.S.C. § 285, the fee-shifting statute.¹³⁸ Also interesting is that a patent will not be deemed invalid just because the defendant raises or *establishes* the first inventor defense.¹³⁹

The first inventor defense helps a defendant in establishing a statutory weakness in enforcing business method patents.¹⁴⁰ However, like the problems with the defendant protections discussed earlier, the small defendant, due to its lack of sufficient resources to effectively perform discovery, is still not benefited. The small defendant will most likely not be able to afford the discovery costs necessary to prove the defense by clear and

136. The term "method," as used in 35 U.S.C. § 273(b)(1), means "[a] method of doing or conducting business." 35 U.S.C. § 273(a)(3). Thus, "a person may not assert the defense under this section unless the invention for which the defense is asserted is for a method." *Id.* § 273 (b)(3)(A). The statute is not providing a general license, but one only "to the specific subject matter claimed in the patent" *Id.* § 273 (b)(3)(C).

137. See 35 U.S.C. § 273(b)(4) (establishing the burden of proof and who bears the burden of proof). Specifically, the Act states that "[a] person asserting the defense under this section shall have the burden of establishing the defense by clear and convincing evidence." *Id.* Furthermore, the Act requires that the one asserting the defense be the person who performed the required acts necessary to establish the defense. *Id.* § 273 (b)(6). The Act also requires that

[t]he defense under this section may be asserted only by the person who performed the acts necessary to establish the defense and, except for any transfer to the patent owner, the right to assert the defense shall not be licensed or assigned or transferred to another person except as an ancillary and subordinate part of a good faith assignment or transfer for other reasons of the entire enterprise or line of business to which the defense relates.

Id.

138. Section (b)(8) provides:

[i]f the defense under this section is pleaded by a person who is found to infringe the patent and who subsequently fails to demonstrate a reasonable basis for asserting the defense, *the court shall find the case exceptional* for the purpose of awarding attorney fees under section 285 of this title.

Id. § 273(b)(8) (emphasis added).

139. See 35 U.S.C. § 273(b)(9) (stating that "[a] patent shall not be deemed to be invalid under section 102 or 103 of this title solely because a defense is raised or *established* under this section" (emphasis added)).

140. Fox, *supra* note 134, at 9 (stating that the defense provides "an additional weakness in enforcing business method patents not found in other types of patents").

convincing evidence, and thus, will still be subject to opportunistic business method patent licensing.

F. The Patent Reexamination Process Does Not Protect Small Defendants

The patent reexamination process allows for a patent's validity to be reexamined by the USPTO based on prior art. This can be done via an *ex parte* process or an *inter parte* process.¹⁴¹ Although the *inter parte* process allows for a third party to seek patent reexamination based on prior art,¹⁴² the reexamination process does not protect small defendants.

First, in order to file for *inter parte* reexamination, the requester must pay a \$8,800 fee.¹⁴³ Second, because the requester must "set forth the pertinency and manner of applying cited prior art to every claim for which reexamination is requested,"¹⁴⁴ a patent attorney most likely will have to be hired, and the small defendant will have to spend money to have the prior art search conducted (money that the small defendant cannot afford to spend). Third, "the party requesting reexamination has very limited opportunity to present its point of view after the initial filing, and under section 311, has very limited opportunity to present its point of view in an appeal."¹⁴⁵

141. See 35 U.S.C. §§ 301-307 (setting forth the *ex parte* reexamination process). Section 302 provides that

any person at any time may file a request for reexamination by the Office of any claim of a patent on the basis of any prior art cited under the provisions of section 301 of this title The request must set forth the pertinency and manner of applying cited prior art to every claim for which reexamination is requested.

Id. § 302. See also 35 U.S.C. §§ 311-318 (setting forth the *inter parte* reexamination process); 35 U.S.C. § 311(a) (stating that "[a]ny third-party requester at any time may file a request for inter partes reexamination by the Office of a patent on the basis of any prior art cited under the provisions of section 301"); M. Patricia Thayer, *Rocket Dockets: What, When and Where*, 619 PRACTISING L. INST. PATS., COPYRIGHTS, TRADEMARKS & LITERARY PROP. COURSE HANDBOOK SERIES 51, 58-61 (2000) (giving an overview of the patent reexamination process).

142. 35 U.S.C. § 311(b)(2).

143. 2004 U.S. PATENT & TRADEMARK OFFICE FEE SCHEDULE, available at <http://www.uspto.gov/web/offices/ac/qs/ope/fee2004jul26.htm> (last visited Aug. 2, 2004). Notably, the *ex parte* reexamination fee is only \$2,520. *Id.*

144. *Id.*

145. 1 LEE CARL BROMBERG, BUSINESS TORTS IN MASSACHUSETTS, PATENT INFRINGEMENT § 6.11.1 (2002). "A third-party requester whose request for an inter partes reexamination results in an order under section 313 is estopped from asserting at a later time, in any civil action arising in whole or in part under section 1338 of title 28, the invalidity of any claim finally determined to be valid and patentable on any ground which the third party requester raised or could have been raised during the inter partes reexamination proceedings." 35 U.S.C. § 315(c).

However, despite the fact that the reexamination process looks at prior art, if the USPTO director determines that there is not a "substantial new question of patentability affecting any claim of the patent,"¹⁴⁶ then the concerned challenger cannot appeal the "determination that no substantial new question of patentability has been raised."¹⁴⁷

The reexamination process does not protect the small defendant. Therefore, "[t]here is a need to have something short of litigation, but more expansive [than re-examinations]," says Jon Dudas, acting undersecretary of commerce for intellectual property and acting director of the USPTO.¹⁴⁸

G. Class Actions Do Not Protect Small Defendants

Defendant class actions¹⁴⁹ are permitted in patent disputes.¹⁵⁰ They are "a procedural device whereby an entire class of defendants can be bound to a judgment although some individual member did not participate in the litigation but were [sic] represented by named class representatives."¹⁵¹ In patent litigation, class actions are a rare occurrence.¹⁵² This is due in part to the difficulty in meeting the many requirements that rule 23 requires in order for a class to be certified.¹⁵³

It is well settled that if a patentee's patent is declared invalid by a court of competent jurisdiction in a case involving Defendant

146. 35 U.S.C. § 312(a).

147. See 35 U.S.C. § 312(c) (stating that "[a] determination by the Director under subsection (a) shall be final and non-appealable").

148. Christine Hines, *At Home and Abroad, Dudas Weighs in*, LEGAL TIMES, July 19, 2004, at 60.

149. Class actions are governed by rule 23. FED. R. CIV. P. 23. The prerequisites of a class action are:

[o]ne or more members of a class may sue or be sued as representative parties on behalf of all only if (1) the class is so numerous that joinder of all members is impracticable, (2) there are questions of law or fact common to the class, (3) the claims or defenses of the representative parties are typical of the claims or defenses of the class, and (4) the representative parties will fairly and adequately protect the interests of the class.

FED. R. CIV. P. 23(a).

150. *Tracor, Inc. v. Hewlett-Packard Co.*, 176 U.S.P.Q. 505, 507-08 (N.D. Ill. 1973) (reasoning that while this group of defendants did not meet the requisite requirements in order to be certified as a class, defendant class actions are permitted).

151. Robert E. Holo, *Defendant Class Actions: The Failure of Rule 23 and a Proposed Solution*, 38 UCLA L. REV. 223, 223 (1990).

152. Adamo, *supra* note 108, at 137.

153. See *id.* at 138-39 (explaining the many difficulties and hurdles that must be addressed in order to have a class certified in a patent action); Holo, *supra* note 151, at 249-57 (discussing the many obstacles that must be overcome in order for a class to be certified in a patent dispute).

A, it will be invalid against all other defendants.¹⁵⁴ However, as discussed earlier, it is often times hard for a small defendant to prove invalidity due to the strong presumption of validity and the high cost of discovery and litigation.¹⁵⁵ Thus, it would seem that a defendant-certified class action would be the cure-all for the financially deficient defendant since such certification would allow the defendants to pool together their resources.¹⁵⁶

There are many benefits to a class action lawsuit for a defendant class such as a common defense fund, a unified defense, and the award of attorney's fees.¹⁵⁷ Despite the benefits, class actions often times fail to protect small defendants for a number of reasons.¹⁵⁸ First, many times potential defendants are competitors of each other.¹⁵⁹ Thus, "no one company has an incentive to organize a meeting of the competitors or lead the group to make an effective plan" against the patentee.¹⁶⁰

Another problem with class actions is that often times a potential defendant will be unwilling to share with other potential defendants its use of the business method for fear of disseminating its trade secrets to competitors. Similarly, with the high cost of patent litigation,¹⁶¹ many potential defendants that lack resources will be forced to drop out because of the inability to foot their fair share of the business method patent validity fight.¹⁶²

154. *Blonder-Tongue*, 402 U.S. at 350. See Blair & Cotter, *supra* note 18, at 1356-58 (explaining patent invalidity estoppel); Holo, *supra* note 151, at 249-52 (discussing the implications of *Blonder-Tongue*, holding when a previously adjudicated patent is declared invalid; it is also invalid if the patentee attempts to assert the patent against a different defendant); Haley, *supra* note 92, at 328 (discussing *Blonder-Tongue*, stating that "[a] patent cannot be valid for some potential infringers and invalid for others. Consequently, . . . if a patent is declared invalid in a binding proceeding in a United States court, all other potential infringers have the benefits of collateral estoppel to prevent the enforcement of the patent against them"). However, the converse does not apply (i.e. if a patent is determined to be valid in a suit involving Defendant A, in a subsequent lawsuit Defendant B can seek to prove invalidity). *Id.* at 337 n.2.

155. *Blonder-Tongue*, 402 U.S. at 335-36 (noting the high cost of patent litigation that is especially put on the defendant due to the presumption of an issued patent's validity).

156. *Defendant Class Actions*, 91 HARV. L. REV. 630, 630-32 (1978).

157. Haley, *supra* note 92, at 328-31 (explaining the many benefits of the certified defendant class).

158. *Id.* (discussing the many reasons why class actions fail to protect defendants).

159. *Id.* at 330-31, 335 (noting that often times the defendants in multiple-defendant patent lawsuits are competitors).

160. *Id.* at 330-31.

161. See Van, *Small Online Retailers Targeted*, *supra* note 10 (discussing the high cost of patent litigation).

162. See *id.* (stating that while some small-business operators attempt to "band together" in order to fight "what appears to be an unreasonable [business method patent infringement] lawsuit," many of those operators drop

Furthermore, many small defendants would prefer to pay the \$10,000 to \$15,000 licensing fee rather than continue to contribute funds to battle the patent's validity.¹⁶³ Thus, as with the other protections for defendants that fail to protect small defendants from opportunistic business method patent licensing, so too the class action fails.

Overall, there are many protections for defendants in litigation. However, these protections fail to protect small defendants involved in patent litigation from opportunistic business method patent licensing.

IV. THE PATENT VALIDITY COURT

But I feel that a change is,
A change is gonna come.
I said I feel so alive now.
And you know I feel that a change is,
A change is gonna come.¹⁶⁴

In 1982 the United States Court of Appeals for the Federal Circuit was legislated into being¹⁶⁵ and given limited jurisdiction.¹⁶⁶ As of 2002, the Federal Circuit overturned over twenty percent of the district court decisions.¹⁶⁷ This results in the current process for litigating a patent dispute to be "drawn out" and full of inevitable delays.¹⁶⁸ Those delays, along with the high cost of litigation,¹⁶⁹ the presumption of the patent's validity,¹⁷⁰ the poor

out "as [] the road gets long," due to the high cost of patent litigation and the strong incentive to settle for significantly less money).

163. See *id.* (concluding that many small defendants would rather pay the "\$10,000 or \$15,000" licensing fee than to contribute to litigation expenses).

164. Candlebox, *Change*, on CANDLEBOX (Maverick Records 1993).

165. Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25. ("An Act to establish a United States Court of Appeals for the Federal Circuit"); See Jeffrey W. Tayon, *The Federal Transfer Statute: 28 U.S.C. § 1631*, 29 S. TEX. L. REV. 189, 200 (1987) (stating that "[t]he major focus on the 1982 Act was on creation of a new, specialized federal appellate court known as the United States Court of Appeals for the Federal Circuit").

166. See 28 U.S.C. § 1295 (establishing the jurisdiction of the United States Court of Appeals for the Federal Circuit).

167. 2002 U.S. COURT OF APPEALS FOR THE FED. CIR. ANN. REP. 114 tbl. B-8, available at <http://www.fedcir.gov/pdf/h08sep02.pdf>.

168. Arianne H. De Govia & Timothy D. Casey, *Arbitration of Patent Licenses Comes with Risks: Panel Could End Up Issuing Rulings on Such Substantive Aspects as Validity and Scope*, NAT'L L.J., Sep. 23, 2002, at B16 col. 1 (discussing the "drawn-out process of patent litigation" and the delays, high costs, etc. associated with it that forces many to arbitrate patent license agreements rather than using the traditional means of litigation). See Guthrie, *supra* note 64, at 171-72 (discussing modeling frivolous lawsuits).

169. See Beem, *supra* note 8 (noting the high cost of patent litigation that ranges from an average cost of \$797,000 up through discovery and around \$1.5 million up through trial).

170. See *Lear*, 395 U.S. at 670 (explaining that patents are presumed valid).

quality of many business method patents,¹⁷¹ and the lack of protections for small defendants from opportunistic business method patent licensing¹⁷² all lead to the conclusion that there needs to be a change in the way that patents are litigated.¹⁷³ Thus, I propose creating the Patent Validity Court (PV-Court), whose sole function will be to determine the validity of a business method patent that is allegedly infringed.

The establishment of the PV-Court is the next logical step from the current system which already makes use of a special hearing, known as a *Markman*¹⁷⁴ hearing, for construing claims which must be done before a finding of the patent's validity is made.¹⁷⁵ As will be detailed below,¹⁷⁶ the PV-Court judges and workers will be individuals with more than just a basic understanding of patent law,¹⁷⁷ and as such will be better able to deal with the highly technical and scientific issues seen exclusively in patent law.¹⁷⁸

171. See Merges, *supra* note 34, at 591 (discussing the poor quality of business method patents).

172. See *supra* part III (explaining that current litigation protections for defendants fail to protect the small defendant).

173. See Lemley, *supra* note 66, at 1495-1511 (explaining the many problems with the PTO and the need for change).

174. *Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996).

175. See *Markman*, 517 U.S. at 372-91 (discussing how a patent's claims must be construed before a validity determination may be made); *Oakley, Inc. v. Sunglass Hut Int'l*, 316 F.3d 1331, 1339 (Fed. Cir. 2003) (explaining the process for determining a patent's validity).

An assessment of the likelihood of validity of a patent claim over the prior art . . . involves a two-step process. The first step is the same claim construction implicated in an infringement analysis. The second step involves a comparison of the asserted claims with the prior art.

Id. (citation omitted). *Accord* *Smiths Indus. Med. Systems, Inc. v. Vital Signs, Inc.*, 183 F.3d 1347, 1354 (Fed. Cir. 1999) (detailing that "[i]t is well-established that the first step in any validity analysis is to construe the claims of the invention to determine the subject matter for which patent protection is sought"). See also Holmes J. Hawkins III, *Claim Interpretation in a Post-Markman Environment*, 572 PRACISING L. INST./PATENTS, COPYRIGHTS, TRADEMARKS, AND LITERARY PROP. COURSE HANDBOOK SERIES 681, 688 (explaining that "a 'Markman hearing' or 'Markman trial,' . . . is an evidentiary hearing or mini-trial held prior to any decision on infringement or validity for the purpose of construing the patent claims"); Eric C. Harrell, *Casenote, Markman v. Westview Instruments, Inc.*, 23 OHIO N.U. L. REV. 1029, 1030-36 (1997) (discussing the *Markman* opinion); Doris Johnson Hines & Esther H. Lim, *How to Prepare & Conduct Markman Hearings 2002: Markman Practice: Past and Present*, 714 PRACISING L. INST. PATENTS, COPYRIGHTS, TRADEMARKS, AND LITERARY PROP. COURSE HANDBOOK SERIES 581, 583-84 (2002) (explaining what a *Markman* hearing is).

176. See *infra* Part IV.B (discussing the benefits of establishing the PV-Court).

177. See *infra* Part IV.A (discussing the logistics of the PV-Court).

178. Notably, the Court in *Markman* stated that:

[p]atent construction in particular is a special occupation, requiring, like

Subsection A will discuss the logistics of the PV-Court. Subsection B will discuss how the PV-Court benefits small defendants from opportunistic business method patent licensing and what disadvantages such a system may pose.

A. *The Logistics of the PV-Court*

1. *What the PV-Court Is Not*

The PV-Court will not be run as an arbitration group, which is currently permitted under the Voluntary Arbitration Act.¹⁷⁹ The Act permits the parties to arbitrate the patent's validity, infringement matters, and whether it is enforceable.¹⁸⁰ However, the Voluntary Arbitration Act requires the parties to agree to arbitrate.¹⁸¹ Thus, it seems unlikely that any plaintiff that is attempting to bleed the small defendant out of all its money, in order to obtain a licensing fee, would be willing to arbitrate, despite the fact that arbitration might be easier.

Furthermore, "arbitrators still cannot single-handedly invalidate patents,"¹⁸² nor should they be given that power, because of the effect that patents have on the public.¹⁸³ Instead,

all others, special training and practice. The judge, from his training and discipline, is more likely to give a proper interpretation to such instruments than a jury; and he is, therefore, more likely to be right, in performing such a duty, than a jury can be expected to be.

Markman, 517 U.S. at 388-89 (citation omitted). Thus, a logical conclusion from this is that a judge having specialized legal training pertaining to patent law is better equipped to construe patent claims than a judge without such specialized training.

179. 35 U.S.C. § 294.

180. *Id.* § 294(a).

A contract involving a patent or any right under a patent may contain a provision requiring arbitration of any dispute relating to patent validity or infringement arising under the contract. In the absence of such a provision, the parties to an existing patent validity or infringement dispute may agree in writing to settle such dispute by arbitration. Any such provision or agreement shall be valid, irrevocable, and enforceable, except for any grounds that exist at law or in equity for revocation of a contract.

Id. See De Govia & Casey, *supra* note 168 (explaining the significance of 35 U.S.C. § 294).

181. See 35 U.S.C. § 294 (stating that the parties may agree to arbitrate a patent lawsuit in two ways: 1) anticipatorily agree by a contract or 2) once involved in a patent dispute, the parties may agree to arbitrate by a writing).

182. De Govia & Casey, *supra* note 168. See *Ballard Med. Prods. v. Wright*, 823 F.2d 527, 531 (Fed. Cir. 1987) (discussing arbitration).

183. See Dutch D. Chung, *The Preclusive Effect of State Court Adjudication and the Federal Courts' Choice of Preclusion Laws*, 69 FORDHAM L. REV. 707, 752 (2000) (stating that "[a]ttention must be given, however, to other factors which argue against giving preclusive effect to the state court determination, including the 'special public interest' in ensuring that good patents are upheld and bad patents are stricken").

the ability to declare a patent invalid should remain with the courts and not the parties' arbitrators.

The USPTO will not run the PV-Court. This is to help avoid a possible conflict of interest that may arise if patent examiners were asked to invalidate a patent that a fellow colleague allowed to be issued.

Instead of functioning as an arbitration hearing or being run by the USPTO, the PV-Court will function as a court because it will be run as a federal district court. Like the Federal Circuit,¹⁸⁴ it will be legislated with the power to decide issues based in a highly technical area of law—the area of patent validity. Deciding the validity of a challenged business method patent will be the sole responsibility of the PV-Court.

2. *The Inaugural Years of the PV-Court*

The PV-Court's duty during its first few years of existence will be that of only adjudicating the validity of business method patents. This is because to overhaul the entire patent system by requiring all patents' validity to be adjudicated in this manner could be dangerous if the system fails or needs to be significantly changed.¹⁸⁵ Thus, since the majority of the problems associated with the validity of patents are associated with business method patents,¹⁸⁶ the PV-Court will start by considering the validity of business method patents alone.

The PV-Court will consist of Patent Validity Judges (PV-Judges) and Prior Art Investigators (PAIs). Each business method patent's validity that is questioned will be assigned to one PV-Judge and a plurality of PAIs.

3. *The Requirements and Role of the PV-Judge*

The role of PV-Judge will be an appointed position, similar to

184. See 28 U.S.C. § 1295 (detailing the jurisdiction of the Federal Circuit). For example, the Federal Circuit has exclusive jurisdiction over an appeal from the decision of:

the Board of Patent Appeals and Interferences of the United States Patent and Trademark Office with respect to patent applications and interferences, at the instance of an applicant for a patent or any party to a patent interference, and any such appeal shall waive the right of such applicant or party to proceed under section 145 or 146 of title 35

28 U.S.C. § 1295(a)(4)(A).

185. See Martha J. Dragich, *Once a Century: Time for a Structural Overhaul of the Federal Courts*, 1996 WIS. L. REV. 11, 73 (1996) (describing changes in the federal court system and how Congress moves slowly before making such changes, in order to study the problems, issues, and possible solutions).

186. See Thrum, *supra* note 11 (concluding that there are many problems with business method patents over non-business method patents); Jones, *supra* note 13 (explaining the problem with many business method patents is that they are overbroad and invalid).

other federal district judiciary positions,¹⁸⁷ requiring that the person selected be one who evinces a strong background in patent litigation and patent prosecution. Furthermore, the PV-Judge candidate must evince a strong understanding of business methods and models, be it by having held significant positions in the business market, having served as a corporate attorney advising businesses, holding an M.B.A., etc. This will help to insure that the judge determining the validity of a business method patent not only understand patents but the business methods that patentees may be patenting.¹⁸⁸ The PV-Judge's role will be to handle her docket of patent validity challenges and to ultimately determine the patent's validity.¹⁸⁹

4. *The Requirements and Role of the PAIs*

The PAIs will consist of those that possess skills similar to that which the PV-Judge embodies. The PAI candidate must hold a Juris Doctor, have exceptionally sound research skills, and greatly understand business methods and models. The PAI candidate must also embody a strong understanding of patent prosecution, especially the requirements found in 35 U.S.C. §§ 101, 102, and 103.¹⁹⁰

A PAI's most significant role will be to conduct an independent investigation as to the prior art relating to the business method patent. To do this, the PAI's duty is to search for prior art will not be restricted to solely the USPTO databases. This is because, as discussed earlier,¹⁹¹ the chances of finding the business method patent's prior art in the USPTO databases alone is slim.¹⁹² Therefore, the PAIs will be charged with searching for prior art not only in the USPTO databases, but by interviewing

187. See Virginia L. Richards, *Temporary Appointments to the Federal Judiciary: Article 11 Judges?*, 60 N.Y.U. L. REV. 702, 702-05 (1985) (explaining the federal judiciary appointment process).

188. See *supra* note 185 (discussing how judges with a patent background are logically better suited to handle patent law related issues than those without such training).

189. See *Sakraida v. Ag Pro, Inc.*, 425 U.S. 273, 280 (1976) (holding that "[t]he ultimate test of patent validity is one of law"); *Avia Group Int'l., Inc. v. L.A. Gear Cal., Inc.*, 853 F.2d 1557, 1562 (1988) (holding that patent "[v]alidity is a question of law").

190. See 35 U.S.C. § 101 (describing "Inventions Patentable"); 35 U.S.C. § 102 (describing "[c]onditions for patentability; novelty and loss of right to patent"); 35 U.S.C. § 103 (describing "[c]onditions for patentability; nonobvious subject matter").

191. See *supra* Part I.C (discussing the problems with business method patents).

192. Razem, *supra* note 33, at 542-43 (noting the huge difficulty in finding prior art for business method patents using the traditional prior art search methods), Fehlner & Zager, *supra* note 33, at C4 col. 4 (explaining that there is a "dearth of business-method patent prior art available").

experts in the field of the art (e.g., M.B.A.s, scientists, etc.), attempting to gain access to "private collections of industry memorabilia,"¹⁹³ and researching other non-traditional avenues for prior art.

5. *When the PV-Court Can Hear a Validity Dispute*

A procedure will be enacted to determine when the PV-Court can hear a dispute regarding a business method patent's validity.¹⁹⁴ To avoid having the PV-Court's docket overrun by having to determine the validity of every business method patent issued, only certain situations will enable one to have the PV-Court determine the validity of the business method patent.¹⁹⁵

First, the PV-Court will decide the issue of a business method patent's validity if it is at issue in a pending lawsuit filed in a district court. Because all patents are presumed valid,¹⁹⁶ if a party takes on the burden of attempting to prove otherwise,¹⁹⁷ the issue of validity alone will automatically be heard by the PV-Court which will issue a finding. The finding will be final and binding unless appealed.¹⁹⁸

A second situation which will enable the PV-Court to make a determination as to the validity of a business method patent is if a party receives a letter from a business method patentee requiring the party to stop using the method or pay a licensing fee. The party that receives the letter can file the letter with the PV-Court and request that it make a decision as to the validity of the business method patent.

6. *The Process for Making a Validity Determination*

After the PAIs conclude their investigation, they will provide

193. See Razem, *supra* note 33, at 541 (explaining that one reason why business method patent prior art is difficult to find is that much of it is located in private collections).

194. See *Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826, 827-32 (2002) (explaining the federal courts' limited jurisdiction to hear cases).

195. See Lemley, *supra* note 66, at 1497, 1511 (discussing the overburdening of patent examiners). Before a patent's validity can be determined, its claims must be construed. *Amazon.com, Inc. v. Barnesandnoble.com, Inc.*, 239 F.3d 1343, 1351 (Fed. Cir. 2001). However, Lemley concludes that to make a full validity determination before issuing a patent, say by having the examiner spend an extra thousand hours examining it, would be "ludicrous and unworkable" since the validity of most issued patents is never challenged. Lemley, *supra* note 66, at 1497, 1511.

196. See *Lear*, 395 U.S. at 670 (stating that all issued United States patents are presumed to be valid); 35 U.S.C. § 282 (requiring a presumption of validity with every issued patent).

197. See 35 U.S.C. § 282 (explaining the burden of establishing that the patent is invalid).

198. See *infra* Part IV.A.6 (explaining the appeal procedure).

the PV-Judge with an analysis of their findings and a recommendation as to whether that which is patented as a business method exists as prior art.

The PV-Judge will conduct the *Markman* hearing¹⁹⁹ and will review the documents submitted to her by the PAIs and any relevant briefs submitted by the parties. The PV-Judge will request any testimony or additional information that the PV-Judge determines is necessary to decide the issue of validity. The PV-Judge will then make the decision of validity based on the parties' briefs, the independent investigation conducted by the PAI's, testimony, relevant statutes, and existing case law.²⁰⁰ After making her decision, the PV-Judge will issue a ruling on the sole issue of the business method patent's validity.

7. *The Process for Reviewing a Validity Determination*

In the event that a party feels that the PV-Judge's determination is erroneous, and can back that opinion by evidence in the record, the party may appeal the finding. In such an event, the finding will be appealed to the Federal Circuit that will review the decision using a clearly erroneous standard, as opposed to a de novo review. Any further appeal would go to the United States Supreme Court, whose choice whether to review is discretionary.

B. *The Advantages and Potential Problems with the PV-Court*

The PV-Court provides many benefits over the current way that a business method patent's validity is determined. First, it frees up the current federal district court system's docket by moving validity determinations over to a separate court system.²⁰¹ As a result, decisions regarding the validity of a business method patent at the PV-Court level will be resolved quicker than under the current system. Furthermore, on appeal, because of the clearly erroneous standard of review, the process should also be accelerated.

Under the current system, if a business method patent is invalid, the parties will not know that for many months or even years because of the current docket-backlog at the district court level.²⁰² Under the PV-Court system the parties will know sooner as to whether the plaintiff's claim of infringement may have

199. See *Markman*, 517 U.S. at 372-91 (discussing the judge's role in a *Markman* hearing).

200. See Thomas G. Field III, *The Role of Stare Decisis in the Federal Circuit*, 9 FED. CIR. B.J. 203, 203-09 (1999) (discussing stare decisis in the Federal Circuit).

201. See *Nickels & Simmons*, *supra* note 74 (noting that many of the federal district courts suffer from tremendous backlogs in their dockets).

202. See *id.* (illustrating the extent of docket backlog by providing statistics and the median times for a dispute to go from filing to disposition).

merit.²⁰³ If the business method patent is determined to be invalid, the allegedly infringing party can use the method and the public can continue to be benefited by it.²⁰⁴ If, on the other hand, the business method patent is deemed to be valid, the patentee can maintain or initiate a suit against the alleged infringing party, or the parties can discuss settlement while avoiding the current problem of opportunistic business method patent licensing.²⁰⁵

Another significant advantage to the PV-Court over the current system is that validity of the patent is determined by those who are experts in the highly technical area of patent law.²⁰⁶ As opposed to the validity of the patent being determined by a federal district court that is capable of hearing many different kinds of civil and criminal claims, validity is instead determined by a specialized court having a significant level of expertise in the area of patent law.²⁰⁷

The small defendant is also directly benefited by the PV-Court because part of the discovery work, at least as it relates to prior art of the business method patent, is also investigated by the PAIs. Thus, this takes away some of the financial burden that often accompanies the small defendant in having to do discovery, which then forces them to pay a licensing fee despite the fact that the business method patent may be invalid.²⁰⁸ Because the PAIs are not acting as adversaries, but rather as independent investigators, the small defendant that is unable to afford the cost of discovery is likely to be damaged less than under the current system.²⁰⁹

The small defendant is also benefited by the PV-Court because it is able to have the validity of the patent decided after receiving a letter from the business method patentee to either stop using the method or to pay a licensing fee. Because validity of the business method patent is the only issue being decided, and because PAIs incur much of the discovery cost, the small defendant can seek out the PV-Court to make a determination on validity and avoid being forced into paying the licensing fee for

203. See Roberts, *supra* note 29, at 74 (noting the merits of a patent claim).

204. See Lemley, *supra* note 66, at 1515-17 (noting the social costs of bad patents); *Lear*, 395 U.S. at 663-64 (explaining how competition should not be frustrated due to bad patents).

205. See Vermont, *supra* note 8, at 328, 360 n.2 (indicating that many defendants choose to settle in order to avoid the high cost of patent litigation).

206. See *supra* note 185 (discussing how judges with a patent background are logically better suited to handle patent law related issues than those without such training).

207. *Id.*

208. See Meurer, *supra* note 61, at 530-31 (explaining the significant expense involved in the discovery process).

209. See Vermont, *supra* note 8, at 360 n.2 (noting the high cost of discovery for defendants in patent litigation).

fear of litigation expense without first knowing the validity of the business method patent.

The public would also benefit from the PV-Court. Under the current system, the growth of industry and entrepreneurialism are stunted when business method patentees engage in opportunistic business method patent licensing.²¹⁰ Under the new system, the PV-Court restores confidence in the patent system and protects the public from bad business method patents by having the highly specialized area of law regarding patent validity determined by experts in the field in less time and for less money than under the current system.

Although the PV-Court provides many benefits, there is also a potential problem: the cost of implementing such a system. Perhaps funding could be raised by increasing the patent filing fee, which could generate significant revenues.²¹¹

Despite the many benefits to the PV-Court, it would be silly to suggest that in one swoop it is guaranteed to fix the highly complicated problem involving opportunistic business method patent licensing.²¹² Instead, new solutions must oftentimes be tweaked and massaged in order to achieve the desired level of functionality.²¹³ Thus, the PV-Court serves as a proposed solution; it serves as a workable start to addressing the serious problem in which it is intended to solve.

V. CONCLUDING THOUGHTS

Don't you know I'm still standing better than I ever did
Looking like a true survivor, feeling like a little kid
I'm still standing after all this time
Picking up the pieces of my life without you on my mind.²¹⁴

Small defendants currently face being put out of business due in part to large patentees asserting that the small defendants are infringing their business method patents. However, many business method patents would be found invalid by a court if litigation was allowed to proceed to that point. The problem is that under the current system, the small defendant is unable to get to a validity determination due to the high cost of patent litigation. Thus, many small defendants pay the licensing fee,

210. See *Lear*, 395 U.S. at 663-64 (explaining that bad patents should not be allowed to stunt competition). See *supra* Part II.B (explaining the damage caused to the public due to opportunistic business method patent licensing).

211. See Benman, *supra* note 28 (detailing the significant growth in patent application filings).

212. See Dragich, *supra* note 185, at 74 (explaining the long road of changes in the federal court system).

213. See *id.*

214. Elton John, *I'm Still Standing*, on TOO LOW FOR ZERO (MCA Records 2001).

which results in both the growth of industry and entrepreneurialism to be stunted.

The new PV-Court provides a workable solution to the current problem faced by small defendants. The system takes some of the initial discovery costs off of the small defendants by allowing the PAIs to investigate the prior art of the business method patent. The issue of validity is decided faster than under the current system, thus resulting in small defendants being able to continue using the method claimed if the patent is found invalid. As a result, industry and entrepreneurialism can flourish as bad business method patents are appropriately weeded out of the system. This will leave small defendants that use business methods singing a happier tune.