

Are e-commerce patents patently absurd?

By Tim Clark

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Months after winning patents, e-commerce patent holders are showing few fruits for their labors. A handful have licensed patented e-commerce tools or methods of doing business, but most say it's too early to report results.

Even the successful ones say licensing patents can distract a startup from its most important business.

"We just deposited a check, a cashier's check, two days ago from a new licensee," said Mark Friedler, CEO of [Gigex](#), which in June won a patent both for scrolling tickers on Web sites and for its flavor of once-hot "push" technology.

"We are actually kind of 'patent skeptics,'" said Friedler, whose company provides technology to download large files for computer games from Web sites. "It's one thing to get a patent, and another to get people to license it."

As [reported earlier](#), some critics fear patents could slow the growth of the Internet as a commercial medium by stifling innovation and putting an emphasis on patents, not business or technology. Others say patents of "business models" for doing business on the Net are philosophically absurd.

The [U.S. Patent and Trademark Office](#) last year issued at least 10 patents for e-commerce technologies and "business processes," a controversial new category that has been upheld by a federal appeals court. ([See related story.](#))

Business process patents cover new ways of conducting business, and because Internet commerce is a new activity, the patent office has bought the argument that methods for doing business on the Net can be patented, even if they parallel established real-world practices.

The foremost example is [Priceline.com](#), which has patented its "name-your-own-price" business model that lets consumers say how much they'll pay for a specific airline ticket on a specific day.

But Priceline, which has filed for an IPO, faces a challenge to its patent. Thomas Woolston [contends](#) his patent, filed 16 months earlier, supercedes Priceline's.

Priceline denies that, but **this week** Woolston licensed his patent to Priceline rival **Cheapfares**. Cheapfares parent, Aden Enterprises, is paying stock, not cash, but it has promised \$250,000 to fund Woolston's effort to create a "day traders" market in tickets and other commodities.

Priceline won't say much about the patent dispute or its own plans to license its patents, citing **Securities and Exchange Commission** rules on "quiet periods" for companies that have filed to go public. But Priceline's **IPO filing** acknowledges the ostensibly competing patent.

After Priceline, the best-known example is e-commerce software provider **Open Market**, which **announced** with great fanfare last March that it had won three patents on widely used techniques for conducting e-commerce.

Open Market's patents kicked up considerable furor. They covered online "shopping carts" in Web storefronts, certain secure-card payments over the Net, and some ways of tracking visitors through a Web site. Critics attacked the shopping cart patent in particular, saying it was "obvious" because it merely moved a physical world concept onto the Net. A patent must cover "non-obvious" technology.

Eleven months later, Open Market remains tightlipped about licensing its patents, though it said early on it wanted to find **partners**, not punish infringements.

"We have established a technology licensing office and developed a patent licensing program," the company said in a carefully worded statement that also disclosed it has hired a patent-licensing firm. "We are making slow but steady progress in implementing licensing program, which is normal and expected at this stage."

Such discretion is common in patent licensing negotiations, and very few companies disclose discussions and even signed deals are often not publicized. Gigex's Friedler named just one of what he said was "in the neighborhood of 50" licensees of its patent.

Cross-licensing is a common strategy, and two of last year's e-commerce patent winners, **CyberGold** and **Netcentives**, are discussing that option, according to Netcentives CEO West Shell.

Cross-licensing deals grant each party the right to use the other's patented technology, and they frequently result from cases of overlapping patents or companies in different markets that have similar technologies.

Not all patent talks are so friendly.

"We are in licensing discussions with some competitors that we think are directly infringing on our patent," Shell said, but limited licenses to customers are also in the works.

Netcentives' patent covers online incentives and awards, such as using frequent flier miles for online purchases. The company is pulling in partners under its own frequent-user umbrella, Click Rewards,

but it's also in talks with so-called "portal" sites to use Netcentive's technology to encourage users to spend more time at the portal site.

"We have not announced any deals so far, but we are in negotiations with all the major portals," said Shell, who's hoping for announced deals in 30-60 days.

Nat Goldhaber, CyberGold CEO, has about the same timeframe for naming licensees for his patent, [number 5,794,210](#), on pay-per-view ads that give incentives for consumers to interact with Internet ads.

"Our philosophy is to license to companies whose products are either non-competitive or synergistic and derive a modest royalty screen and license fee," Goldhaber said. "In those instances where the companies are directly competitive, we need to make decision on whether to stop them or try to license them and have a royalty structure that makes sense."

In late December, CyberGold won another patent, this one for a method of letting consumers control how much personal information is given to Web sites they visit, a hot topic these days in the political and e-commerce arenas. The company has not begun to market the privacy patent.

Patent holders, not surprisingly, put up a spirited defense to any suggestion that "business process" patents are not philosophically legitimate or could hamper the growth of e-commerce.

"People without patents are clearly questioning the validity and importance of them," said Netcentives' Shell. "It's totally consistent with what patents are designed to do, which is to protect people who are inventing new categories and develop intellectual property that will drive a business."

He added: "One of the healthy things about this is that it forces companies to be sure they are innovating, making sure they bring additional intellectual capital to the table and not just try to ride on the coattails of early pioneers. That's what needs to be understood about patents--they do lead to greater innovation."

Netdelivery too is early in its licensing process. "We are currently in the process of assessing which companies may be using our patented technology and notifying companies we believe are infringing on the patent," Laura Reed, vice president of product marketing, said in an email today.

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