USING INTELLECTUAL PROPERTY TO PROTECT BUSINESS METHODS

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So you have a new client. You recently handled its incorporation and helped to unleash a new business upon the world. The client really intrigues you because its business plan is unlike any you have ever seen. It is the most exciting new idea since Amazon.com. It is surely going to make money, lots of money.

After advising the founding entrepreneur about the best way to set up her new company, working through the tax implications, drafting an operating agreement and articles of incorporation, lining up liability insurance as well as the most appropriate accountants, you believe that you have thoroughly instructed the entrepreneur regarding the do's and don'ts of good corporate startup management. But then the client's inevitable question comes: "How do I legally protect my business from others that would simply take my business plan and run with it?" After all, there are other larger companies out there that are adept at quickly and efficiently implementing a business plan. Also, in the market that your client's new business plan is surely going to create, there are no real practical barriers to entry.

Your client is afraid of creating a market at great effort just to see others take it away and begins to wonder about a future path that appears difficult and treacherous. But you (with a little help from this article) begin to explain some of the protections afforded by the intellectual property laws.

Types of Intellectual Property

First, let's tackle the question of preventing others from taking your client's writings, Web designs and software. Unfortunately, it is now all too common to witness the launch of a new Web site and, a few weeks later, watch as a competitor launches a very similar Web site. Using inexpensive do-it-yourself means of copyright protection, a new market entrant can at least motivate a copycat competitor to conduct its own writing, Web design and software development. Copyrights protect "original works of authorship" that are fixed in a tangible form of expression,[1] as distinguished from an "expression" of a work of authorship. Copyrights do not cover any idea, procedure, process, system, method of operation, concept, principle or discovery.[2] Under U.S. copyright law, your client automatically secures a copyright when the work is created, *i.e.*, fixed in a tangible media.[3] While it is no longer necessary to provide a copyright notice in the U.S. to secure the right, there are still good reasons to place the following labels on any visibly perceptible copies of your client's work product: a "©" symbol or the word copyright, the year of first publication and the name of the owner of the copyright, such as "© 2002 WebSouls, L.L.C.".[4] Also, adding a phrase like "[a]ll rights reserved," particularly on software, is a good idea.[5] These types of notices protect works that have taken substantial effort and are worthy of protection for their intrinsic value. They also facilitate control over the copyrighted material such as simple brochures, notes, etc. (which your client would not want others to distribute or use without her permission). Registering the copyright with the U.S. Copyright Office of the Library of Congress is also a good idea if there is some chance that you might actually have to enforce the copyright in federal court.[6]

Second, keeping virtually everything a trade secret can be a valuable strategy for a vulnerable start-up company.[7] While trade secret protection can often be the most fleeting of all protections, it can also be the most enduring, if implemented properly. The formula for Coca-Cola® is probably the best and most cited example of a valuable trade secret that has lasted more than 100 years. However, if the information is released or cannot be kept secret, or someone else develops the same information without breaching a fiduciary duty to the trade secret owner, then the trade secret is lost.[8] Most importantly, premature publication of an innovation could cost a fledgling start-up business its ability to procure a patent. Accordingly, developing non-disclosure or confidentiality form agreements, enforceable provisions in employment contracts and a set of uniform policies are good ideas for any entrepreneurial endeavor. Moreover, under a trade secret strategy, all commercially valuable information, such as client lists, accounting records, contact information and methods of carrying on its business should be maintained by your client in complete confidence and secrecy.

Third, it is never too early to start thinking about trademark and/or service mark protection. Generally, a trademark (or service mark) is a word, phrase, symbol or device, or any combination of words, phrases, symbols or devices that identifies and distinguishes the source of the goods (or services) of one party from others.[9] An initial trademark clearance search should occur before a client invests any money in promoting the company using trademarks covering either the company or its products. Recently, a client came to us after launching a half-million-dollar campaign for his business only to be put on notice of a small, distant competitor's federally registered trademark. Eventually, the client chose to adopt a different company name (selected after seeking our advice). As the client pointed out, the competitor basically got the benefit of our client's expensive advertising campaign. For a relatively small fee, we could have avoided these problems.

While the foregoing techniques and strategies are all well and good, none will universally prevent someone from taking the client's core, novel and nonobvious business method, because, once the business opens or "goes live" on the Internet, many business methods can not be maintained in secret.

Business Method Patents

Patents, though more costly and effort-intensive than some other forms of intellectual property, can be of significant value to start-up ventures, as well as established companies. They are intended to be broader in scope than copyrights and shorter lived. The right conferred by the patent grant is "the right to exclude others from making, using, offering for sale or selling" the invention in the United States or "importing" the invention into the United States.[10] We emphasize that what is granted is the right to exclude others from making, using, offering for sale, selling or importing the invention and not the right to make, use, offer for sale sell or import. This is the most basic definition of a property right: a government-endorsed right to exclude others held by a private citizen.

The New Category of Inventors: The Business Person

Your client asks: "But don't engineers and scientists get patents? I'm just a business man." In the United States we have a whole new category of inventors: the business person. Technically, this is not precisely accurate insofar as business methods, that, according to the Federal Circuit, have been patentable subject matter since at least 1952 when the current Patent Act was passed into law. Nevertheless, in *State Street Bank and Trust Co. v. Signature Financial Group, Inc.,*[11] the U.S. Court of Appeals for the Federal Circuit overturned a lower court's ruling denying that a business method patent was patentable. In so doing, the court unambiguously stated that an invention directed to a new method of doing business would no longer be denied patent protection if the invention satisfies the standards of novelty, nonobviousness and sufficiency of claims.[12]

Since the *State Street* decision, there has been an explosion in the number of patent applications filed in the U.S. Patent and Trademark Office concerning business method patents (classified in class 705).[13] The traditional reasons for obtaining patent protection apply equally well to business method patents. These motivations include protecting inventions from being copied or adopted by others, providing opportunities to generate revenue through assignments, licenses and other forms of IP transfers from both core and non-core technologies and business methods, creating assets against which liens can be placed and investments secured, establishing a reputation as an innovative company among potential customers, competitors and investors, providing "bargaining chips" if a competitor asserts its patents ("you fight patents with patents"), differentiating your client's company from companies competing for capital and providing incentives for the sometimes considerable investment required for developing an invention or start-up company. If a business model is novel—not obvious to those of ordinary skill in the art—and provides commercial advantage, then attempting to obtain a U.S. patent makes sense, particularly because obtaining a U.S. patent covers the 270 million U.S. consumer market for a relatively small amount of money that is paid over a period of years.

This increased demand in obtaining U.S. business method patents resulted not only

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from the clarity of recent court pronouncements and the standard motivations for obtaining patents, but also from some very high profile patent litigation and the proliferation of the Internet as an international business tool. For example, U.S. business method patents have been used to protect the market share of Internet-based businesses in the famous *Amazon.com v. BarnesandNoble.com* litigation.[14] In that case, Amazon sued Barnes and Noble for infringement of its "single-click" patent[15] and received a preliminary injunction against Barnes and Noble shortly after the patent issued in September 1999, and just before the busy Christmas shopping season. The preliminary injunction stopped Barnes and Noble from using the single-click, non-shopping cart technology through both the 1999 and 2000 Christmas seasons. On February 14, 2001, however, the Federal Circuit overturned the preliminary injunction on the basis that Barnes and Noble had raised substantial issues as to whether the asserted single-click claims were valid.[16]

The Legal Framework

Over the years, Congress has passed a series of intellectual property statutes, including the Patent Act of 1952. These legal requirements defining patentable subject matter have remained remarkably unchanged throughout the history of the U.S. Patent system. The relevant statutory provisions are as follows:

> 35 U.S.C. § 101
> **Inventions Patentable**
> Whoever invents or discovers *any new and useful process,* machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirement of this title. (Emphasis added)

In *Diamond v. Chakrabarty*[17] with reference to statutory subject matter, the U.S. Supreme Court stated:

> . . . a complete definition of the scope of 35 U.S.C. § 101, reflecting Congressional intent, is that any new and useful process, machine, manufacture or composition of matter under the sun that is made by man is the proper subject matter of a patent.

The traditional reasons for obtaining patent protection apply equally well to business method patents.

Despite the clear language of the statute and the statement in *Diamond v. Chakrabarty,* up until at least 1996, there was a general belief that pure business methods were not patentable. For instance, until revised in 1996, the Manual of Patent Examining Procedure (MPEP) stated that "[t]hough seemingly within the category of process or method, a method of doing business can be rejected as not being within the statutory classes." The case proffered in support of this statement was decided in 1908,[18] but this case was actually decided on the basis of lack of novelty rather than non-statutory subject matter.

Patent practitioners, therefore, claimed business methods as apparatuses or more conventional, technology-based processes. It is the authors' personal belief that the issue rarely presented itself because business methods could often be protected as trade secrets until the advent of the Internet, which changed the basic boundaries of business. There was also a general lack of awareness of the availability of patent protection for non-technical inventions. The general belief was that according to the "business method exception," such innovations in business practices were not patentable.

State Street Bank

The U.S. Court of Appeals for the Federal Circuit decided *State Street* in July of 1998.[19] In *State Street,* the Federal Circuit held that the declaratory judgment plaintiff, State Street Bank, was not entitled to the grant of summary judgment of invalidity of the patent under § 101 as a matter of law. The Federal Circuit stated that, according to the *plain and unambiguous meaning of § 101, any invention* falling within one of the four categories of statutory subject matter may be patented, provided it meets the other requirements for patentability as set forth in Title 35 §§102, 103, 112, paragraph 2.[20]

In addressing the district court's reliance on the "business method" exception to statutory subject matter, the Federal Circuit stated that this exception was "ill-conceived" and that it therefore "laid to rest" the exception.[21] The Federal Circuit concluded as follows:

> Today, we hold that the transformation of data, representing discrete dollar amounts, by a machine through a series of mathematical calculations into a final share price, constitutes a practical application of a mathematical algorithm, formula or calculation because it produces 'a useful, concrete and tangible result'—a final share price momentarily fixed for recording and reporting purposes.[22]

Hence, in the United States, it is clear that pure business methods are patentable. But this is not the case in Europe and elsewhere. For instance, Article 52 of the European Patent Convention expressly excludes business methods as patentable subject matter, unless it includes a "technical solution" to a problem. Hence, it is likely going to be difficult to get a patent on a pure business method in Europe. Japan is following Europe's lead, as are many other countries.[23] Following the further developments in this area can help applicants to draft applications that pass muster under these restrictive views about patentable subject matter.

Competitors Outside the U.S.

The nature of the Internet creates another issue for a fledgling start-up attempting to enforce its intellectual property. From an end user's perspective, a server can be located outside the United States just as easily as it is in the United States. Is it then necessary to get patents in every country for a particular business method, at a cost of hundreds of thousands of dollars? First, not every country has a patent system. Second, some major patent authorities, such as Japan and the European Patent Office, do not believe that a pure business method is patentable under their current laws. So how useful is a U.S. patent alone in preventing others from using the business method abroad and diverting U.S. customers from your client? The answer is surprising.

Although the law of direct infringement under 35 U. S. C. § 271(a) only grants a U.S. patent owner the right to exclude others from making, using, offering for sale, selling or importing an invention *within the United States,* certain foreign activities may still expose an accused infringer of a business method patent to liability under the U.S. patent laws. For example, 35 U.S.C. § 271(g) (enacted by the "Process Patent Amendments Act") may provide a business method patent owner with a potent weapon to enforce exclusivity rights against potential infringers that attempt to avoid infringement by conducting some of the required patented business method claim steps outside the United States. In a scenario where an accused e-commerce system performs some steps of a business method patent claim within the United States but performs other steps of the patent claim outside the United States, subsection (g) of 35 U.S.C. § 271 may provide the necessary enforcement remedy for a business method patent owner where legal territorial limits might otherwise restrict liability under § 271(a).

The Process Patent Amendments Act (codified as §271(g)) created a cause of action for a patent owner against the importation into the United States, or offer for sale, sale or use within the United States, of a product made by a process covered by a U.S. process patent. In enacting 35 U.S.C. § 271(g), Congress provided a remedy for domestic patent owners in industries that were heavily dependent on process patent protection, such as biotechnology and pharmaceutical companies, against foreign manufacturers that imported products into the United States after using a patented process abroad.[24] Because there is no language in the statute or its legislative history that limits application of 35 U.S.C. § 271(g) to particular types of products, the statute should be applicable against foreign infringement of patented business methods or processes where the end products made by the business method are (i) imported into the United States, or (ii) offered for sale, sold or used within the United States.[25]

Therefore, by having a U.S. patent, your start-up client may possibly exclude access to information resulting from a patented method of doing business in the U.S. market. Distribution of information that is the "product" of a process or method claim on the Internet (even from a server outside the United States) may well constitute infringement of a U.S. patent.

Under 35 U.S.C. § 271(g), however, two important exceptions exist that could relieve a potential accused infringer from liability. In particular, "[a] product which is made by a patented process will . . . not be considered to be so made after: It is materially changed by subsequent processes; or it becomes a trivial and nonessential component of another product."[26] Although the terms "materially changed" and "trivial and nonessential component" have not been tested frequently in the courts, the legislative history of § 271(g) indicates that a case-by-case analysis under the totality of the facts and circumstances is necessary to determine whether a product falls within the exception provisions of § 271(g).[27]

Notwithstanding these statutory interpretation issues, however, it is clear that § 271(g) applies even when the majority of process steps of an accused system are completed outside the United States and the resulting product is then imported, offered for sale, sold or used within the United States.[28] More importantly, liability under § 271(g) is not limited merely to acts of importation but also applies to anyone who offers to sell, sells, or uses within the United States a product that is made by a process patented in the United States.[29]

Accordingly, in the case of a business method patent claim where the accused system performs some of the patented steps within the United States but performs other steps of the patent claim outside the United States, infringement may be established under 35 U.S.C. § 271(g), irrespective of where the process steps take place, as long as the end product imported into the United States or offered for sale, sold or used within the United States has not been "materially changed" or has not become "a trivial and nonessential component of another product".

Defenses to a Charge of Infringement

Traditional defenses to a charge of patent infringement are noninfringement, invalidity and unenforceability. There is also a new limited "prior use" defense for business method patents.

Prior user rights were enacted as part of the American Inventors' Protection Act in 2000.[30] Although there is no case law interpreting this provision, it appears from the plain language of § 273 and §271(g) that, while it can be an infringement to import a product that is made by a business process patented in the United States, it is, nevertheless, not a defense that the business method of producing that product was in practice outside the United States more than one year before the effective filing date of the patent.

There are other limitations on the prior user rights. For example, a person who abandoned the commercial use of the subject matter may not rely on the activities performed before the date of such abandonment in establishing a defense.[31] Also, as a personal defense, "prior use" rights may not be conveyed to another except for the good faith assignment or transfer of the entire enterprise and, in such a case, the defense is limited to the sites where the subject matter was in use at the time of the transfer.[32] It is not a general license to

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all claims, but just to those business method claims.[33] If the defense is unsuccessful, and the person asserting the defense is unable to demonstrate a reasonable basis for asserting the defense, the court shall find the case exceptional for the purpose of awarding attorney's fees.[34] Finally, under § 273, the party asserting the defense must prove the elements of the defense by clear and convincing evidence.[35]

Conclusion

In addition to copyright, trade secret and trademark protections, a novel, non-obvious business model or method can still be protected by a U.S. patent. Further, even if patent protection is not available outside the U.S. for a global business method, a U.S. patent may still provide valuable protection to your client's innovation and U.S. market share.

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Endnotes

1 17 U.S.C. 102(a) (2000).

2 17 U.S.C. § 102(b) (2000).

3 17 U.S.C. § 102(a) (2000).

4 *See generally Nimmer on Copyright* §7.07 (Matthew Bender 2000).

5 *See generally Nimmer on Copyright* §2.04[C] (Matthew Bender 2000).

6 *See generally Nimmer on Copyright* §12.01[A]. *See also* http://www.loc.gov/copyright/ (providing general information and forms).

7 *See generally Milgrim on Trade Secrets*, §3.01 (Matthew Bender 2001).

8 *See generally Milgrim on Trade Secrets,* §1.05 (Matthew Bender 2001).

9 15 U.S.C. § 1127 (2000).

10 35 U.S.C. § 271 (2000).

11 149 F.3d 1368, 47 USPQ2d 1596 (Fed. Cir. 1998).

12 35 U.S.C. §§ 102, 103 and 112, second paragraph.

13 Business methods still experiencing substantial growth—a report of fiscal year 2001 statistics found at www.uspto.gov.

14 73 F. Supp.2d. 1228, 53 USPQ2d, 1115 (W.D. Wash. 1990).

15 U.S. Patent No. 5,960,411.

16 *Amazon.com, Inc. v. BarnesandNoble.com, Inc.,* 239 F.3d 1343, 57 USPQ 2d 1747 (Fed. Cir. 2001).

17 447 U. S. 303, 308-309, 206 USPQ 93, 197 (1980).

18 *Hotel Security Checking Co. v. Lorraine Co.,* 160 F. 467 (2d Cir. 1908).

19 *State Street Bank & Trust Co. v. Signature Financial Group, Inc.,* 149 F.3d 1368, 47 U.S.P.Q. 1596 (Fed. Cir. 1998).

20 *Id.*

21 *Id.*

22 *Id.*

23 JPO Web site.

24 *See Hughes Aircraft Co. v. Nat'l Semiconductor Corp.,* 857 F. Supp. 691, 698-99 (N.D. Cal. 1994).

25 *See generally* Timothy F. Myers, Note, *The Impact of E-Commerce on the Laws of Nations Article: Foreign Infringement of Business Method Patents,* 7 WILLIAMETTE J. INT'L L. & DISPUTE RES. 101 (2000) (analyzing the degree of protection provided by the Process Patent Amendment Act when steps of a patented process for a business method are partially or fully performed outside the United States).

26 *See* 35 U.S.C. § 271(g) (2000).

27 *See Eli Lilly and Co. v. American Cyanimid Co.,* 82 F.3d 1568, 1581 (Fed. Cir. 1996) (Rader, J., concurring) (concluding that Congress intended that courts use a flexible standard which is appropriate to the competitive circumstances in judging the commercial viability); *Bio-Technology General Corp. v. Genentech, Inc.,* 80 F. 3d 1553, 1561 (Fed. Cir. 1996) (recognizing Congress intended the Courts to resolve the question of proximity to the product of the patented process on a case-by-case basis").

28 *See Avery Dennison Corp. v. UCB Films PLC,* Case. No. 95-C-6351, 1997 U.S. Dist. LEXIS 16535, *6-7 (E.D. 111. Oct. 17, 1997) (holding that 271(g) makes no distinction as to where the steps are performed and "is only concerned with the importation, sale or use of the end product" which is made by a process patented in the United States).

29 *See id.* at 7 n.2 (explaining that 271(g) is not limited to imported goods because the plain language of the statute extends liability to "whoever . . . imports . . . or offers to sell, sells or uses" the infringing product).

30 35 U.S.C. §273 (2000).

31 *Id.*

32 *Id.*

33 *Id.*

34 *Id.*

35 *Id.*