

Business Method Patents: *A New Option for Intellectual Property Protection*

Emerging area of patent law could have major impact on existing franchise agreements.

By Mathew Bailey

The business method patent, which confers an exclusive right to exclude others from using, selling, and offering for sale a patented method of conducting business, is a relatively new phenomenon in the area of patent law, which is now poised to join, and potentially, exceed, the traditional intellectual property basis of the franchise arrangement. Franchise arrangements historically have included the right to use the franchisor's name, trademark, and know-how or trade secrets. This emerging area of patent law could destabilize existing franchise arrangements and will certainly affect new ones. Franchise arrangements otherwise based upon business-method trade secrets will transition to a patent basis covering those business methods. Indeed, whereas previous franchisors' patents were limited primarily to product subject matter, such as a salad bar or an open fryer griddle, now a franchisor may seek patent protection for processes such as the unique way a pizza chain makes its multi-layered pizza product, or the computer-based invention underlying that company's web page.

The Emergence of Business Method Patents

Any person who "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," subject to the conditions and requirements of the law. The word "process" is defined by law as a process, act or method. Up until the 1990's, processes for which patents were issued under 35 U.S.C. Section 101 were traditionally those of a chemical nature. Furthermore, if the subject matter sought to be patented related directly or indirectly to a mathematical algorithm, formula, or mental step but did not involve the application of the algorithm, etc., to specific physical elements or processes, it was not patentable.

With the explosion of computer technology, a more recent line of cases held that patent claims involving mathematical and computer-implemented subject matter are permitted under Section 101. Indeed, the Supreme Court concluded that "a claim drawn to subject matter otherwise statutory does not become nonstatutory simply because it uses a mathematical formula, a computer program, or digital computer."

In 1996, the patentability of computer-related inventions was formally acknowledged by the U.S. Patent and Trademark Office (PTO) in changes to the Manual of Patent Examining Procedure and in its guidelines for examining computer-related inventions. These guidelines and the accompanying legal analysis are

designed to provide guidance for examiners and applicants as they attempt to navigate the hazardous trail through the PTO en route to obtaining an issued patent for a software-related (e.g., business method) invention.

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In 1998, in the first case that brought widespread attention to what has become known as business method patents, *State Street Bank & Trust Co. v. Signature Financial Group Inc.*, the Federal Circuit decided that Signature's data processing system was appropriate subject matter for patenting. The Court said that this system is not a mathematical algorithm that is a mere abstract idea, because it produces "a useful, concrete and tangible result"—a share price fixed for recording and reporting purposes. The U.S. Supreme Court declined to review that decision.

In another widely cited opinion, *AT&T Corp. v. Excel Communications, Inc.*, the Federal Circuit ruled that a long-distance telephone call billing method was not an abstract, unpatentable mathematical formula because it produces a useful, concrete, and tangible result. Again, the Supreme Court declined review.

Very recently, the Federal Circuit decided a case involving perhaps the most famous business method patent, in *Amazon.com, Inc. v. Barnesandnoble.com, Inc.* In 1999, the PTO granted a patent to Amazon.com, Inc. for a "One-Click" online ordering system. The patent was severely criticized after the lower court in *Amazon.Com v. Barnesandnoble.com*, awarded Amazon.com a preliminary injunction to prevent Barnesandnoble.com from using a similar system. In its February 14, 2001 opinion, however, the Federal Circuit vacated the injunction, concluding that substantial questions were raised as to the validity of patent, making a preliminary injunction inappropriate.

It is significant to note that no issue was raised by the Federal Circuit regarding whether the subject matter of the Amazon.com patent was of an unpatentable nature, nor was there any mention of the State Street decision. This tends to confirm that the patentability of subject matter of this type is no longer questionable.

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IFA ANNUAL CONVENTION 2002, “Franchising: Fulfilling the Dream” Aims High

Plans are fully underway to surpass this year's rousing Las Vegas convention experience. Organization of the 2002 International Franchise Association's (IFA) annual convention Feb. 9 to 12 in Orlando at The Dolphin. IFA takes seriously its mission to design a program that is tailored to meet the varied needs of executives from the franchise community. Disney World is the perfect setting to show that dreams do come true.

Some of last year's favorites are slated for a return engagement. Sumptuous fare from a number of the trendiest franchise companies in the food and restaurant industries will create the setting for fun-filled networking at the now-traditional Taste of Franchising event.

Another crowd pleaser that is sure to draw excitement-seeking convention goers is Fun and Games night with the exhibitors. The exhibit hall continues to be another of the must-see segments of the convention as this year's 30 percent increase in the number of available booths attests.

Kudos to franchising's top movers and shakers will again illustrate the entrepre-

neurial and motivational drive of trendsetters as they are honored with well-deserved awards for their contributions to the franchising community. These prestigious awards include Hall of Fame, Entrepreneur of the Year, Free Enterprise, Bonny LeVine and Franchisee of the Year.

Panel of the Pros returns with a stellar mix of distinguished franchisors and franchisees, who have built strong brands with innovative leadership and bring a fresh approach to the challenges of the 21st Century global marketplace.

Franchising as a means to control your destiny and achieve small-business ownership continues to inspire and gain the attention of women, minorities and international markets. The Women's Franchise Committee plans to host its leadership conference on Saturday, Feb. 9. The Global Marketing Committee is reprising the acclaimed International Summit on Sunday, Feb. 10. Each year, IFA's annual convention aptly manages to balance fun and on-target educational sessions.

The Monday Super Session, presented by The Disney Institute, will examine quality customer service. The Disney

Institute will show how to achieve true quality service. A short course will include determining the needs, wants, stereotypes and emotions of your customers both internally and externally, how to exceed expectations, the interrelationship of corporate culture and service standards, and techniques for establishing your own service theme.

Tuesday's General Session will include a presentation by the nationally-recognized collegiate organization Students In Free Enterprise (SIFE), who will describe the free enterprise educational programs and projects implemented during 2000-2001 to make a difference in their communities.

And to make the best use of your time at the IFA convention, consider the more than two dozen concurrent educational sessions that are available beginning Sunday, Feb. 10 through Tuesday, Feb. 12. Topics include growing your franchise, marketing in local and urban markets, franchise lead generation, supplier best practices and enhancing franchise relations. ■

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Franchisors and the Business Method Patent - Examples

Although the ability to patent business methods is a recent development, patent protection is not new to franchising. Examples of patents now or once owned by franchisors are plentiful. For example: McDonald's Corporation is the assignee of patents including an "automated beverage system," and "mobile salad bar," and Pizza Hut, Inc. is the assignee of a patent for a "multi-layered pizza product, and method of making."

Now that business methods are fully patentable subject matter, some franchises have begun to benefit. For example, Sylvan Learning Systems, Inc. is the assignee of a patent for a "System for

administration of remotely proctored, secure examinations and methods therefor."

Franchise Implications and Business Tips

Franchise systems should evaluate whether some or all of their business method technologies should be patented. Considerations include novelty of subject matter, investment in underlying technology, effectiveness of trade secret protection, and market value of a federal patent monopoly. In addition, patent issues should be addressed in franchise agreements. For example:

- Include all pending and issued patents in the franchise agreement.
- The franchise agreement should specify to which party any inventions devel-

oped during the course of the franchise relationship shall be assigned.

- Once ownership of these types of inventions has been agreed upon, consider providing incentives for franchisees to develop patentable inventions.

One should look to the rapid expansion of the patenting of business methods to impact franchise relationships by providing a new option for intellectual property protection. Thoughtful parties to the franchise relationship should consider whether or not the subject matter underlying the franchise relationship is appropriate for patent protection. ■

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