

(Just enough) Intellectual Property Law

BUSINESS METHOD PATENTS, TRADEMARKS, COPYRIGHTS AND TRADE SECRETS

**Addendum to: “Business Method Patents - love ‘em or hate ‘em
They are here to stay !”**

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This outline provides, in a question and answer format, (1) a brief introduction to patents (including “business method patents”), trademarks, copyrights, and trade secrets, and (2) a preliminary explanation of how mortgage companies can establish, protect, and preserve these valuable types of intellectual property.¹ In light of the recent focus in courtrooms and by the press on business process patents, and the conclusion by many that such patents may profoundly affect the financial services industry, generally, and mortgage bankers in particular, this topic is explained somewhat more fully.

I. PATENTS

Q: What Is a Patent?

A: A patent for an invention is the grant, by the United States Patent and Trademark Office (the “USPTO”), of a property right to the inventor. The term of a new patent is generally 20 years after the date on which the application for the patent was filed in the United States (or, in certain special cases, after the date an earlier related application was filed, subject to the payment of maintenance fees). It is important to note that United States patent grants are

¹ Please note that (i) a detailed discussion of any of these matters is beyond the scope of this Addendum, and (ii) the materials herein are intended to provide a summary only, and should not be relied upon without first seeking qualified legal counsel.

effective only within the United States, U.S. territories, and U.S. possessions. Under certain circumstances, extensions of the term of a patent may be available.

The right conferred by the grant of a patent is, in the language of the statute and of the grant itself, “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. Strangely, what is granted is not the right to *make, use, offer for sale, sell or import* the invention, but rather the right to **exclude** others from making, using, offering for sale, selling or importing the invention. Once a patent is issued, the holder of the patent must enforce the patent (without assistance from the USPTO).

Q: What Kinds of Patents Are There?

A: Historically, there were three types of patents:

(1) Utility patents, which may be granted to anyone who invents or discovers any new and useful process, machine, article of manufacture, or composition of matter, or any new and useful improvement thereof; this includes BUSINESS METHOD PATENTS, where are a mere extension of traditional patents.

(2) Design patents, which may be granted to anyone who invents a new, original, and ornamental design for an article of manufacture; and

(3) Plant patents, which may be granted to anyone who invents or discovers and asexually reproduces any distinct and new variety of plant.

In recent years, another type of patent called a “**business process patent**” (which is a type of process patent that falls under category (1) above) has come into existence. As more fully discussed below, this type of patent may have far-reaching implications for the mortgage banking industry.

Q: What is the Source of Patent Law?

A: The Constitution of the United States grants Congress the power to enact laws relating to patents; Article I, section 8, states that “Congress shall have power . . . to 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.” Under this power, Congress has from time to time enacted various laws relating to patents (the first patent law was enacted in 1790). The patent laws underwent a general revision in the early 1950s, which laws were codified in Title 35 of the United States Code. Additionally, on November 29, 1999, Congress enacted the American Inventors Protection Act of 1999 (AIPA), which further revised the patent laws (see Public Law 106-113, 113 Stat. 1501 (1999)).

The patent laws specify the subject matter for which patents may be obtained, as well as the conditions for patentability. The law establishes the United States Patent and Trademark Office

to administer the laws relating to the granting of patents and contains various other provisions relating to patents.

Q: What Kinds of Inventions Can Be Patented?

A: 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; until recently, a “process” was understood primarily to include industrial or technical processes. (As shall be discussed in greater detail below, in recent years, “business processes” are now also patentable.) The term “manufacture” refers to articles that are made, and includes all manufactured articles. The term “composition of matter” relates to chemical compositions and may include both mixtures of ingredients and new chemical compounds. These subject matter classes collectively include practically everything that is made or manufactured, as well as the underlying processes.

Q: What is Considered “Useful” Under Patent Law?

A: Patent law specifies that the subject matter of a patent must be “useful.” The term “useful” in this connection is generally understood to refer to the requirement that the subject matter have a useful and practical purpose; it also includes the concept of “operativeness;” that is, a machine that will not operate to perform the intended purpose would not be called “useful,” and therefore would not be granted a patent. Interpretations of patent law by the courts have defined the limits of the field of subject matter that can be patented; therefore, it has been held that the laws of nature, physical phenomena, and abstract ideas are not patentable subject matter. The courts have also held that a patent cannot be obtained upon a mere idea or suggestion.

Q: What Additional Requirements Are There for Obtaining Patents?

A: For an invention to be patentable, it must be “new,” and “unobvious” as defined in the patent law. Such law provides that an invention cannot be patented if: “(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 application for patent in the United States....”. These are known as “bar” dates because they bar patentability and cannot be overcome without a private bill of Congress. (Does your client know 26 Senators and 218 Representatives?)

Therefore, if the invention has been described in a printed publication anywhere in the world, or if it was known or used by others in this country before the date that the applicant made his or her invention, a patent will not be available. Likewise, if the invention has been described in a printed publication anywhere, or was in public use or on sale in the United States more than one year before the date on which an application for a patent is filed, a patent cannot be obtained. In this connection, it does not matter when the invention was made, or whether the printed

publication or public use was by the inventor himself or herself (or by someone else). If the inventor describes the invention in a printed publication or uses the invention publicly, or places it on sale, he or she must apply for a patent before one year has elapsed, or any right to a patent will be lost. In many countries outside of the United State, however, the inventor must file on the date of public use or disclosure in order to preserve patent rights in such countries.

The subject matter sought to be patented must also be sufficiently different from what has been used or described before that it may be said to be “nonobvious” to a person of ordinary skill in the area of technology related to the invention. For example, mere changes in size or color are usually not patentable. The Patent Office is entitled to combine the teaching of several prior patents and/or common knowledge to assert that the idea is obvious. Most issues over patentability are related to this question of “obviousness”.

II. BUSINESS METHOD PATENTS

Q: What is a “Business Method Patent?”

A. A Business Method patent is no different than any other utility patent form and examination. What is new, is a broadening of whether the method had to be an industrial (vs. commercial method) or whether it had to be embodied in a machine or software code. The answer to both is: no.

Under long-standing patent law, any process that satisfied certain threshold requirements theoretically was patentable. Courts and legislators were reluctant, however, to extend patent protection to processes that were carried out with computers (apparently due to a concern that to provide such protection would inhibit important developments in a nascent industry). Stated differently, until 1998, a business method involving computers was considered to be an idea, and business methods as ideas were not patentable. In July, 1998, the U.S. Court of Appeals for the Federal Circuit did away with that interpretation of the U.S. patent law. The case, *State Street v. Signature Financial*,² legitimized the patentability of software that Signature Financial had written to enable it to administer mutual funds more efficiently. The software merely embodied a business process. The court’s language was broad enough, however, to embrace any business process (as long as it was new and “nonobvious,” and had a “useful, concrete, and tangible result”).

Congress has done nothing to restrict in any meaningful way the *State Street* interpretation. Other courts have followed the *State Street* rationale; as a result, business processes carried out through technological means (including through the use of computers or communications facilities) are now all potentially patentable. Despite much criticism from

² *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998); this case is generally regarded as the seminal business process patent case.

pundits and industry watchdogs,³ the courts have unequivocally discarded the so-called “business methods” exception to patentability.

Q: What Is Required for a “Business Method Patent?”

A: For a process to be patentable, such process must carry out specific operations in the real world (as opposed to processes that are defined only conceptually). It is also necessary that the result be “useful.” These requirements are generally straightforward conditions to satisfy in the context of electronic commerce. As with all other patents, an invention involving a “business process” must be novel, non-obvious, described in writing in an “enabling” manner, and clearly and distinctly claimed.

Q. Can an Inventor Rely on a Business Plan to Provide the Details of a Business Method Patent?

A. Generally, no; Patent disclosures are complex and must meet several other sufficiency requirements to be valid. Sufficient detail must be provided in a written description in order to enable a person of “ordinary skill” in the field of the invention to implement the invention based exclusively on reading the disclosure, without “undue experimentation.” This usually requires a substantial amount of detailed disclosure, far exceeding the information contained in a typical business plan. The invention, however, is not required to have been fully implemented before a patent application can be submitted. If an adequate written description can be prepared, and if it can be shown (at least theoretically) that the design will actually work, it does not matter whether the invention has in fact actually been built. Note: although a filing date will almost always be granted, it may be revoked and considered defective if the disclosure is not up to standard. The problem is that by the time one recognizes that the application is faulty, it is almost always too late to correct it because the “bars” to filing mentioned above.

Q. What Does a Business Method Patent Do For the Holder?

A. A business method patent (and patents, generally) does not actually confer to the holder the right to do anything. Instead, once the patent is issued, it confers to the holder the right to exclude others from “making, using, selling or offering for sale” the rights claimed in the patent, for the term of the patent (as indicated above, this is usually a nonrenewable term of 20 years measured from the filing date of the initial patent application). The holder of a patent can

³ Perhaps the most common criticism is this: prior to the *State Street* decision, many businesses protected their business methods as trade secrets. These companies are now precluded from seeking patent protection on any secret methods that have been in commercial use for more than one year. A competitor that later independently invents any such business method may be able to patent it, which could lead to the result of the prior trade secret owner having to pay the subsequent patent owner a royalty to continue to use his own earlier-developed trade secret; this is a result that seems unfair to many. See the discussion in the text below regarding the “prior user” defense to patent infringement.

also, in many cases, license the patent for royalties. These rights are generally accompanied by the ability to obtain an injunction against the use of the patent, or to sue for damages for infringement (including up to treble damages in cases of “willful” infringement).

Q. What is the “Prior User” Defense to a Claim of Infringement of a Business Method Patent?

A. One of the most controversial issues surrounding business process patents is the claim that a company, accused of infringing a business process patent, was merely continuing activities it had conducted prior to the granting to a competitor of a business process patent in connection with such activities. This in itself is not unusual since no other technologies have prior user right, but since the Patent office lacked the data base to adequately evaluate the prior art for business methods, in 1999 Congress enacted a “prior user” defense to patent infringement; such defense is strictly limited to the field of business method patents. In order to qualify for this defense, the historical practice would have had to include everything claimed in the asserted patent claim, and such practice must date back a year or more before the application for the patent was first filed, as opposed to when it was actually issued (this typically extends the relevant measurement point back at least one or two years). In addition, the party attempting to assert the defense must have made a “commercial use” of the subject matter before the first application filing date for the patent. The right is also non-transferable. Due to these limitations, the “prior user” defense is of limited utility.

Q. Are Business Method Patents on Long-Known Subject Matter Invalid?

A. Many business process patents have been granted covering business processes that have been in existence for many years; many industry critics consider such patents to be invalid. Each United States patent, however, is presumed valid, and can be invalidated only based on “clear and convincing evidence” of invalidity. This is a very high standard of proof, making the proving of invalidity in any given contested case potentially very difficult. If the prior method was practiced in secret by one party, another party, without knowledge of the prior secret use is entitled to a new patent because secret use by another does not destroy the patent right.

Q. What Should a Company Do Upon Receiving a Claim of Infringement?

A. Claims of infringement should be taken seriously. A company infringing a valid patent could be liable for up to three times actual damages if such company is found to be a “willful infringer.” Case law suggests that a fully analytical opinion of counsel regarding the issues of infringement, patent validity and/or patent enforceability may be the best way to protect a company from 3x damages and attorney’s fees. Ignoring a charge of infringement is at one’s extreme peril.

Q. What Else Can Companies Do to Protect Themselves in the New World of Business Method Patents?

A. One thing that companies should perhaps consider is the filing of their own patent applications. There are at least three reasons for this: (i) it allows a company potentially to capitalize on an asset that will otherwise eventually go into the public domain when the subject matter is practiced before a public audience; (ii) they are enforceable ! and (iii) it gives a company something to bargain with besides money in the event a competitor asserts a patent infringement claim. A company may find that it is much more attractive to cross-license than to buy a one-way patent license. In fact, an increasingly common response to this challenge today is for a company to establish and develop its own portfolio of patents.

III. TRADEMARKS AND SERVICEMARKS

Q: What Is a Trademark or Servicemark?

A: A **trademark** is a word, name, symbol, or device that is used in trade with products or goods to indicate the source of the products or goods, and to distinguish them from the products or goods of others. A **servicemark** is the same as a trademark except that it identifies and distinguishes the source of a service rather than a product or good. The terms “**trademark**” and “**mark**” are commonly used to refer to both trademarks and servicemarks.

Trademark rights may generally be used to prevent others from using a confusingly similar mark, but not to prevent others from making the same goods or from selling the same goods or services under a mark that is clearly different. Trademarks that are used in interstate or foreign commerce may be registered with the USPTO.

The first person or company to use a particular mark in commerce generally owns the right to use the mark on goods or services of that type. The owner of a mark can usually prevent other companies or manufacturers from using the same or similar marks in a way that is likely to confuse consumers of those goods or services. Unlike copyrights and patents, which expire after specific periods, trademarks and service marks can last **indefinitely**.

IV. COPYRIGHTS

Q: What Is a Copyright?

A: Copyright is a form of intellectual property protection provided to the authors of “original works of authorship.” Such works may include literary, dramatic, musical, artistic, and certain other intellectual works (both published and unpublished). Copyright law generally gives the owner of copyright the exclusive right to reproduce the copyrighted work, to prepare derivative works, to distribute copies of the copyrighted work, to perform the copyrighted work publicly, or to display the copyrighted work publicly.

The copyright protects the form of expression rather than the actual subject matter of the writing. Therefore, a description of a machine could be copyrighted, but this would only prevent others from copying the description; it would not prevent others from writing a description of their own or from making and using the machine. Copyrights are registered by the Copyright Office of the Library of Congress.

V. TRADE SECRETS

Q: What Is A Trade Secret?

A: A trade secret is a type of intellectual property that can involve any kind of proprietary information that has value to a company and that is not common knowledge. A secret formula, for example, that enables a manufacturer to produce a particular prescription drug may be a trade secret; the specific actions involved in manufacturing the drug, the raw materials or ingredients involved, and the particular techniques used to mix or prepare the all can potentially be considered to be trade secrets. To the extent that the manufacturer takes steps to protect this information, such manufacturer may have a legal claim if someone unlawfully attempts to obtain or use the process. Similarly, a new product may be a trade secret, at least until the product is placed on the market (at which time the manufacturer may have obtained patent protection for the product). Even data concerning a product – such as the results of tests used to determine a particular product’s efficacy and safety – may constitute a trade secret (again, unless and until the information is publicly disclosed).

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