



By Andrew W. Erlewein

# Protecting Key Business Methods with Patents

The opportunity to patent a successful business method could very well be the “pot of gold” for many companies that are currently using state-of-the-art business methods in their everyday operations. After all, what could be more of a custom fit for a company than to secure a monopoly on an existing effective process that needs no further research or development? A business method patent may provide the opportunity for increased profits, increased success, and an effective defense to competitors’ threats.

The problem facing today’s corporations, however, is preparation and awareness. The bottom line is that many companies are unaware of the world of patent protection for business methods. Companies may be unaware that they are sitting on both a goldmine and a strong sword to ward off potential infringement lawsuits. In today’s fast-paced competitive business environment, attorneys dealing with intellectual property need to be aware of the trends within their industries and take steps to capitalize on the opportunities that may exist for their companies or clients.

### State Street Bank Catapults Patent Protection for Business Methods

Before 1998, it was widely accepted that patents were not available for business methodology. Instead, people accepted the notion that patents were available primarily for technological innovations. However, in *State Street Bank & Trust v Signature Financial Group, Inc.*<sup>1</sup> a landmark patent case, the court held that unique business methodology is a proper subject matter for U.S. patent protection, drastically altering the scope of patent law. Immediately following this groundbreaking decision, an enormous spike in applications for business method patent protection occurred in nearly every industry. The court in *State Street* stated that claims drawn to a method of doing business should not be categorized as a business method, but rather, should be treated as any other patent process.<sup>2</sup>

This case initiated a movement for companies to examine their business practices to obtain patent protection and allowed companies to patent business methods to make money through

licensing agreements. Post *State Street*, aggressive patent holders gained a competitive edge over their rivals by attacking any companies employing similar business methods with infringement suits. As a result, the business method patent has become an extremely valuable tool, often the difference between a company’s success and failure.

### Awareness as the Key to Success

Counsel working with companies that have simplified otherwise complex business procedures or that have unique methods in a competitive industry can create opportunities for clients if steps are taken to protect those business methods. By employing various strategies to safeguard these methods, counsel can help their client limit financial hardship and missed opportunities. However, for counsel, the critical factor involved in these opportunities is understanding that business methods can be patented and taking the necessary steps to implement a system to identify potential patents available to each company. Attorneys, whether inside or outside counsel, have a challenge in this regard, because often the detail surrounding the unique aspects of a company process or procedure is known only by the front-line managers in a company. Often, this is not an area that requires attorney involvement. For example, attorneys may work on contracts but not get the details that surround the actual business methods that could be protected by filing for a patent. Therefore, it falls to the skill of the attorney to try to ferret out potential business method patent candidates.

This lack of awareness not only exposes the company to the danger of losing an opportunity to develop moneymaking patent protection for its unique business methods, it also increases the risk that someone else will patent an identical business method first. This is a problem for two major reasons. First of all, it could expose the company to a patent licensing fee for an effective business method that the company has already been using, but failed to patent. The second danger is that a competitor could obtain a patent of a business method currently used by the company and either force them to stop using the method or enmesh them in expensive litigation over patent infringement.

#### FAST FACTS:

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Companies willing to move forward and become intellectual property pioneers have a unique opportunity to protect what may prove to be their most valuable assets—their business methods.



## Taking Advantage of Business Method Patents

In recent years, the number of business method patent infringement lawsuits has increased drastically, as many patent holders have come out of the woodwork to either obtain an injunction or reach a licensing agreement with their competitors. This has forced forward-thinking companies to go on the offensive and develop their own effective patent portfolios. One example of this is American Express. As a company, American Express found itself on the defensive end of several infringement allegations shortly after the *State Street* decision.<sup>3</sup> In response, Tracey Thomas, the first intellectual property counsel for American Express, encouraged the company to develop and implement a business method portfolio to ward off potential lawsuits and produce revenue through licensing agreements.<sup>4</sup> In a short period of time, by taking an aggressive stance on protecting its business processes, American Express increased its business method patents by over five times the amount that it had at the time of *State Street*.<sup>5</sup> Following in the footsteps of holders of a number of key business method patents, including those obtained by Priceline.com, Amazon.com, IBM, and Double-Click Inc.,<sup>6</sup> American Express took advantage of the opportunities presented by the holding in *State Street*.

Perhaps the most publicized business method patent decision after *State Street* was *Amazon.com v Barnesandnoble.com*.<sup>7</sup> Amazon.com sought to preclude Barnesandnoble.com from using a one-click process for ordering online merchandise that was patented by Amazon.com. Although this decision was subsequently vacated because the validity of the patent itself was called into question, the lower court granted Amazon.com an injunction for the 1999 Christmas season, which substantially affected Barnesandnoble.com's online business performance. This lawsuit gave Amazon.com a great competitive edge over a rival business during the holiday season. At the same time, Barnesandnoble.com learned the hard way that in the new age of business method patents, preparation and awareness are key.

## What Can Be Done to Protect the Company?

Inside and outside counsel, after identifying a process that may warrant protection, should embark on a systematic intellectual property protection plan for the company. The primary concern is whether the process is unique enough to be afforded patent protection, so that no other company can move in and steal the methodology. No standard evaluation procedure or guaranteed system will work for every company. Indeed, the manners in which businesses implement their own systems for identifying potential patents will be as diverse as corporate America itself.

Working with management, counsel can assist the company by examining unique processes that might be subject to protection, and documenting them to apply for patents. This will help avoid competitor infringement, demands by competitors for licensing fees, or threats that could force the company to change its operating procedures. Attorneys must take an aggressive stance and

promote the idea of patenting business methods to the rest of the company. The role of counsel, in this sense, may become more that of a salesperson than an attorney. After all, Thomas admitted he spent his first two years at American Express "selling patents into the [corporate] culture."<sup>8</sup> However, given the laundry list of successful businesses that have obtained valuable business method patents, the idea should not be too hard to sell.

When counsel implement a comprehensive system that identifies the potential methods to be patented, they can then effectively document the company's new innovations. Development needs to be documented in a meticulous manner to obtain the patents themselves and to defend against an attack by a third party claiming an infringement of its own patent.<sup>9</sup> By documenting and dating company innovations, the company can protect itself from potential patent infringement claims. Implementing these sorts of procedures can also protect valuable business processes, increase revenue through subsequent licensing agreements, and propel a company into an industry leader.

## Conclusion

Companies willing to move forward and become intellectual property pioneers have a unique opportunity to protect what may prove to be their most valuable assets—their business methods. The mere awareness of the patent protection opportunity for business methods may be the determining factor between success and failure for corporations seeking a competitive edge within their industries. ■



*Andrew W. Erlewein earned his J.D. from Michigan State University College of Law in May 2006. His focus of study was corporate law and litigation, with a special interest in the corporate counsel and intellectual property areas. He is an active member of the State Bar of Michigan and currently working as an associate attorney at Hyman Lippitt P.C., in Birmingham, Michigan, where he is a member of the litigation group.*

## FOOTNOTES

1. *State Street Bank & Trust v Signature Financial Group, Inc.*, 149 F3d 1368 (Fed Cir 1998), cert den, 525 US 1093 (1999).
2. *Id.*
3. Loomis, Tamara, *Express Route*, IP Law & Business, August 2005.
4. *Id.*
5. Garretson, Rob, "Trolling For Dollars," *CIO Insight*, December 5, 2005, available at <<http://www.cioinsight.com/article2/0,1397,1902227,00.asp>> [accessed November 17, 2006].
6. Jaglom, Andrea, *Internet Distribution, E-Commerce, and Other Computer Related Issues: Current developments in liability on-line, business method patents and software distribution, licensing and copyright questions*, American Law Institute-American Bar Association Continuing Legal Education, SK068 ALI-ABA 573, 630 (2005).
7. *Amazon.com v Barnesandnoble.com*, 73 F Supp 2d 1228; 53 USPQ2d 1115 (WD WA 1999).
8. Loomis, *supra* n 1.
9. Garretson, *supra* n 2.