

A Sleeping Tiger? Business Method Patent Protection for Franchise Systems

GREGORY ROSENBLATT, CHRISTINA K. PETERSON, AND JODY LYNN DEStEFANIS

Recent developments in U.S. patent law, spurred in part by the growing market potential of the Internet, have widened the application of business method patents. In 1998, in *State Street Bank & Trust Co. v. Signature Financial Group*,¹ the Federal Circuit dispelled a long-standing misconception that business methods were mere abstract ideas and thus unpatentable. In the wake of *State Street*, many companies have been successful in using business method patents to protect how they operate their businesses.² For example, just as the Christmas shopping season was getting under way, Amazon.com, which had obtained a business method patent on its “one-click” method of ordering, was able to enjoin the operation of a similar website by BarnesandNoble.com.³ Walker Digital obtained a patent for an online reverse auction that became the business model for Priceline.com. As of June 2002, Priceline.com had a market capitalization of about \$900 million.⁴ The experience of Amazon.com and Walker Digital and the growth of business method patents generally suggest that business method patents can be an integral part of a franchisor’s franchise system and a significant asset for building and protecting its brand equity.

To be successful, virtually all franchisors boast of a unique and proprietary business system but relatively few seek patent protection. Franchisors have obtained less than 0.2 percent of the nearly 2,000 business method patents issued since January 2000. This article

Gregory Rosenblatt is a partner in the New Haven, Connecticut, office of Wiggin & Dana LLP. Christina K. Peterson is an associate in the Philadelphia, Pennsylvania, office of Wiggin & Dana LLP. Jody Lynn DeStefanis is an intellectual property attorney with the Schlumberger-Doll Research Division of Schlumberger Technology Corporation in Ridgefield, Connecticut.



Gregory Rosenblatt



Christina K. Peterson



Jody Lynn DeStefanis

explores the benefits and detriments of business method patents to a franchise system and provides practical advice for developing and implementing patent savvy policies.

Relationship to Other Forms of IP Protection

Patent protection is just one means of intellectual property protection available to franchisors. In most instances, patent protection supplements rather than supplants other forms of intellectual property protection although issuance of a patent for a method of doing business would obviously destroy any claim of trade secret protection for anything disclosed in the patent.⁵

The protections available for the franchisor’s trademarks, often considered to be the cornerstone of any franchise system, are no more or less available if the franchisor has obtained a patent for its business methods. Similarly, the franchisor’s trade dress, which can include the distinctive design, layout, and overall look of a franchised business, may be protectible under the Lanham Act and state unfair competition laws. Business method patents offer no protection for the franchisor’s trademarks and trade dress, but may strengthen the protection for the methods of doing business with which the franchisor’s trademarks and trade dress are associated.

The franchisor’s methods of doing business are often reflected in written form, including the franchisor’s operations manual, other manuals, and training materials. If so, these materials may be eligible for copyright protection. Copyright law protects “original works of authorship fixed in any tangible medium of expression,”⁶ such as writings and software. However, copyright law protects the author against only unauthorized copying of an original work.⁷ It provides no protection against independent creation. Nor does copyright law protect ideas; it protects only the original expression of an idea.

In contrast, a patent is a government-granted monopoly that allows the patent holder to exclude others from making, selling, offering for sale, or using the patented invention.⁸ There are three basic types of patents: plant, design, and utility. Business method patents are a type of utility patent. In the United States, the Patent & Trademark Office (PTO) oversees the examination of patent applications and the issuance of patents. Equivalent national and regional agencies perform these duties in other countries. To be patentable, an invention must meet three statutory requirements: it must be useful, novel, and “unobvious.”⁹ The U.S. Supreme Court has broadly interpreted the “new and useful”¹⁰ requirement to “include anything under the sun that is made by man.”¹¹

Business method patents cover a method or certain aspects of operating a business.¹² In *State Street*,¹³ the court held that a business method can meet the patentability requirements of 35 U.S.C. § 101 so long as the method pro-

duces a “useful, concrete and tangible result.”¹⁴ Certain operations or processes, such as mathematical operations or abstract ideas that have no claimed practical application, are not patentable.¹⁵ For example, in *In re Schrader*,¹⁶ the Federal Circuit held that a method of conducting a real estate bidding process was a “mere manipulation of an abstract idea” and therefore was not patentable.¹⁷

Certain business methods used in existing and contemplated franchise systems, such as ways of cooking hamburgers, baking bread, providing cleaning services, or painting automobiles, are potentially patentable. For example, in April 2000, the PTO issued a patent on a “Method of Providing and Maintaining Clean and Sanitary Bedspreads in Hotels.”¹⁸ In September 2001, the PTO issued a patent directed to a “Railroad Theme Restaurant and Food Delivery System and Method of Making Same.”¹⁹ The claims of this patent cover a restaurant food delivery system, complete with locomotive cars and a train track running between a kitchen area and the patron seating area, as well as a means for receiving and delivering customer orders. These particular patents were not issued to franchisors. However, similar systems and business methods may be employed by existing hotel and restaurant franchisors that can also benefit from the protection of business method patents.

In fact, there are franchisors that hold and have held patents used in their franchise systems. For example, Sylvan Learning Systems, Inc. (System for the Administration of Remotely Proctored, Secure Examinations and Methods Therefor), Bandag Incorporated (Method and Apparatus for Analyzing Shearogram Images by Animation), and McDonald’s Corporation (Automated Beverage System)²⁰ all have obtained patents related to processes used in their franchise systems.

Critics of the strength of business method patents argue that many of the business method patents issued to date are barred by prior art considerations under 35 U.S.C. § 102. The PTO focuses its patentability review on issued patents. As a result, critics contend, the examiners very likely have not considered the entire library of white papers, brochures, and other secondary sources that may predate consideration of the patent application.²¹ A patent issued by the PTO is accorded a statutory presumption of validity. Any of these nonpatent publications, however, may affect the validity and, therefore, the enforceability of the issued patent.

This criticism has in large part been directed to business method patents issued for Internet-implemented applications. Because of this controversy, on March 29, 2000, the PTO announced a plan to improve the quality of review of business method patents.²² To address concerns that examiners are not thoroughly considering all relevant sources, the PTO plans to include a second level of review of all allowed appli-

cations in technology class 705 (covering business method patents), expanded search criteria, and additional examiner training.²³ In addition, the plan will expand the size of the sample, subject to quality review by the Office of Patent Quality Review.²⁴

The PTO’s increased scrutiny of business method patent applications could mean a lengthy application process for a franchisor.²⁵ Last year, 10,000 business method patent applications were filed.²⁶ Slightly more than 400 business method patents issued in 2001, compared to almost 900 the preceding year.²⁷ Last year, on average, it took a patent examiner 23.5 months to issue the first set of comments on business method patent applications, almost nine months longer than the PTO average.²⁸ For business method patents, it took an average of 28.5 months to reach conclusion (i.e., issuance or abandonment) compared to the 25.6 months average for other types of patent applications.²⁹ As discussed more fully below, the time that it takes to process a business method application may affect a franchisor’s decision to pursue patent protection.

Benefits of Business Method Patents

Business method patents offer a franchisor another means to safeguard the proprietary parts of its system. Patents can pick up where trademark and copyright protection leaves off.

Only the franchisor owning the patent and its authorized franchisees are permitted to use the patented method. As a result, the franchisor has a significant advantage over its competitors. The duration of a patent is twenty years from the earliest effective filing date. Until the patent expires, competitors cannot copy a franchisor’s unique, patented business method. The potential for significant increases in the franchisor’s market share is obvious. Consumers preferring a franchisor’s services or the product generated by its patented method will patronize the franchisor or its franchisees rather than other businesses offering similar services or products.

A franchisor may use a patent to assist in defining its system. The business method patent will likely cover an integral part of the franchisor’s business and the franchisor can design its system around one or more patented processes. For example, if a franchisor held the railroad restaurant patent discussed above, it could incorporate other elements in its system to enhance the overall theme of the business such as uniforms, menus, menu items, and décor. The patent’s claims and specifications, which describe the process, can also assist the franchisor in drafting its operations manual to set forth clearly how a franchisee is to comply with the requirements of the franchised system. The patent claims and specifications may also assist a franchisor in developing its training classes to teach its franchisees the method. A franchisor must

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design its training classes to teach franchisees each aspect of the patented method.

For a new franchisor, which may not have a widely recognized brand, holding patents will assist it in building its system and attracting franchisees. In selling its franchises, a franchisor can use its patents to demonstrate its unique business format. Prospective franchisees will probably view the franchise fee and continuing royalty fees as a fair exchange for the right to use an exclusively patented system. For a fledgling franchise system, a business method patent lends credence to the business that the franchisor is attempting to sell.

A business method patent can also be valuable to an established franchisor. A common problem for a franchisor is ensuring that franchisees consistently provide a high quality of products or services.³⁰ To maintain trademark protection, the franchisor must monitor the quality of the products or services that its franchisees offer.³¹ The patent claims and specifications can assist the franchisor in establishing standards that operations personnel can monitor during quality assurance reviews and inspections. Patents, therefore, can also give a franchisor more power to enforce franchisee compliance with system standards. If a quality assurance inspection reveals that a franchisee is deviating from the prescribed model, this deviation may constitute a breach of both the franchise agreement and the patent license. The franchisor can terminate the franchise agreement for any uncured defaults, and any later practice of the patented method by the terminated franchisee would constitute infringement.

Any party infringing the patented invention may be held liable for the patent owner's lost profits, attorneys' fees, costs, an injunction against continuing the infringing activity, and treble damages.³² Franchisors holding patents have successfully litigated claims of patent infringement against former franchisees and competitors. In *Bandag, Inc. v. Gerrard Tire Co.*,³³ the franchisor-patent holder obtained an injunction against its competitor to halt use of its patented tire retreading method.³⁴ The franchisor also won monetary damages for the patent infringement.³⁵ The *Gerrard Tire* court rejected the defense that the patent was invalid for lacking an inventive step, holding that it was conclusive evidence of the novelty of the patent when "an infringer chooses to imitate rather than innovate."³⁶ Similarly, *Bandag* was successful in enjoining a former franchisee from using its patented tire retreading method after *Bandag's* termination of the franchise agreement for the defendant's failure to pay for materials purchased from *Bandag*.³⁷ The court also awarded compensatory damages for the infringement.³⁸ The threat of treble damages, attorneys' fees, and costs could act as a significant deterrent to willful infringers.

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Thinking Strategically *Creating the Patent Portfolio*

All franchisors should be cognizant of patent requirements when developing new ideas or implementing new operating plans in their franchise systems. As part of this process, franchisors should consult qualified patent counsel to identify patentable methods early in their development to avoid losing an opportunity to pursue patent protection. A patent will not be valid if the method claimed was offered for sale in the United States or publicly disclosed anywhere in the world more than one year before filing the patent application. Typically, disclosure to franchisees on a confidential basis would not be considered public disclosure. However, if a franchisor has licensed and trained franchisees in its proprietary business system, or has itself used the business method, that may bar it from obtaining a patent unless the patent application has been filed within one year of the licensing, training, or use.

Patent protection may not be available for an established franchisor that has not made any recent improvements to its system. The novelty requirement, however, does not bar patent protection on new aspects of a long-existing system. New twists on an old theme may result in patentable business methods. An established franchisor may obtain patent protection, however limited, on features of its franchise system that were not previously disclosed or implemented. An established franchisor should therefore explore patentability upon the identification of improvements to its business system.

Patent versus Trade Secret

Depending on the proprietary components of the franchisor's system, different methods of protection may be warranted. A franchisor should consider whether seeking patent protection is the optimal method of protecting its business system. Not all ideas should be patented; some are better kept as trade secrets. Traditionally, franchisors have chosen trade secret protection to safeguard their franchise systems. There are advantages and disadvantages to each method of protection. Patents last for twenty years from the earliest effective filing date. In contrast, trade secret protection is potentially infinite in duration, as long as a franchisor maintains adequate security. If a third party independently develops the same idea, however, it may seek and obtain patent protection and potentially bar the franchisor from protecting its trade secret.³⁹

The scope of what may be considered a trade secret is very broad. Most states adopt the *Restatement of Torts* definition or a version of the Uniform Trade Secrets Act (UTSA). The *Restatement of Torts* defines a trade secret as "any formula, pattern, device or compilation of information that is used in one's business, and which gives him an advantage over com-

petitors who [do] not know or use it.”⁴⁰ Under the *Restatement* definition, a trade secret must be a “process or device for continuous use in the operation of the business” and not a single or discrete activity in the operation of a business.⁴¹

The UTSA defines a trade secret as

information, including a formula, pattern, compilation, program, device, method, technique or process that . . . derives independent economic value, actual or potential, from not being generally known to, and not being generally ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and . . . is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.⁴²

Under both the *Restatement* and the UTSA, to be protectible the trade secret must not be generally known or ascertainable and must be kept confidential. In addition to being protected indefinitely as long as confidentiality is maintained,⁴³ trade secrets are not subject to the novelty and nonobviousness requirements of a patent.⁴⁴ By maintaining trade secret protection instead of pursuing a patent, a franchisor avoids the cost of applying for the patent and the waiting time pending the PTO’s review of the application. To be entitled to continuing protection, however, the holder of a trade secret must undertake significant steps to maintain the confidentiality of its secrets. If for any reason the trade secret becomes publicly disclosed, trade secret protection is lost. Trade secret protection is also limited in that a holder of a trade secret cannot prevent a third party from using a trade secret if the third party independently develops or reverse engineers the method.⁴⁵ In contrast, a patent holder can exclude anyone from practicing the invention regardless of whether the other party independently developed the process.⁴⁶

A franchisor does not have to treat patents and trade secrets as mutually exclusive. There may be certain components of a franchise system that are better suited for protection as a trade secret rather than a patent. For example, there are certain proprietary items that may not meet the patentability requirements, such as customer lists or recipes. Also, because the newness requirement may bar an established franchisor from obtaining a patent on a system or method that has been in use for a long time, trade secret protection may be the only alternative. For other proprietary components, patents may be more desirable. Business methods incorporating proprietary software, such as point-of-purchase software, may be best protected by a patent,⁴⁷ because a franchisor relying on trade secret protection runs the risk of a court holding that an alleged trade secret does not qualify as one.⁴⁸ Because of the potential benefits of business process patents, a franchisor should examine its system to determine whether it should seek a patent covering any of its business methods or part of its business methods.

Franchise Agreement Considerations

A franchisor is required to disclose in Item 14 of its Uniform Franchise Offering Circular information related to patents or copyrights that is material to the franchise, including the duration of the patents or copyrights. Because of issues specific to patents, a franchisor should include appropriate provisions in its franchise agreements⁴⁹ listing all pending and issued patents⁵⁰ and requiring the franchisee to operate in strict accordance with the methods. Franchisees should also be required to use all later-issued patents in accordance with the franchisor’s specifications.⁵¹

A franchisor should also establish and enforce development and collaboration policies.⁵² The franchisee should be required to disclose all improvements to the franchise system and assign the improvements to the franchisor.⁵³ In addition, franchisees should be required to use employment agreements providing that any improvements developed by their employees related to franchise be assigned to the franchisor. In doing so, a franchisor can maintain control over developments to its system and determine whether to seek additional patent protection for any improvements.

To encourage franchisees to disclose improvements, a franchisor can establish an incentive program to reward franchisees for their contributions.⁵⁴ Such a program may range from local recognition to monetary awards upon the issuance of a patent. Franchisees will then have an incentive to improve the method for the benefit of the franchisor and its system. A franchisee’s deviation from the patented method, however, may conflict with the franchisee’s obligation to practice the patented method in accordance with the franchisor’s specifications. The language of the franchise agreement should provide a franchisor with the discretion to determine whether a franchisee’s deviation from the patent is permissible as an improvement to the system or grounds for default.

Potential Patent Detriments

Monitoring the Patent Portfolio

Franchise systems, like most businesses, may be fine-tuned and altered as they evolve. Franchise systems are also vulnerable to market changes and trends that may affect the way the businesses are operated. Accordingly, after a patent application is filed, a franchisor may make improvements to its franchise system that are not included in the original patent application. To be certain that the franchise system is adequately protected, a franchisor must identify which improvements should be the basis of additional patent applications.

In addition, pending patent applications and issued patents may not cover changes in the current franchise system and the modifications should be covered by new patent applications. The prosecution of a patent application and the mainte-

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nance of issued patents can be costly. As a result, great care should be taken to assess the value of pending and issued patents to determine their contribution to the overall franchise system. Weak and obsolete patents and patent applications should be abandoned. However, since pending patent applications may be valuable as a priority document for later-filed patent applications, care should be taken to ensure that their abandonment does not negatively affect the franchisor's ability to pursue additional patent applications. To ensure adequate review of the patent portfolio, a franchisor should regularly monitor the market to review its competition as well as its franchisees and compare their activities to the breadth of pending and issued patents.

Patent Application Publication

A significant drawback of using patents to protect a franchise system is the implication for a franchisor if the PTO ultimately determines that a business method is not patentable. The PTO recently adopted the American Inventors Protection Act.⁵⁵ Its provisions include a requirement that patent applications be published eighteen months after the filing of the patent application. Publication may be avoided, however, if a franchisor does not intend to franchise abroad because publication is not required if the applicant agrees not to apply for patent protection outside the United States. Otherwise, published patent applications that do not mature into issued patents are publicly available and their contents become part of the public domain. In other words, if a published application does not mature into a patent, the disclosed method will not be eligible for trade secret protection and may be practiced by anyone. These are important implications for a franchisor that previously had been successful in licensing its system. Because the information concerning the business methods becomes publicly available, existing franchisees may argue that there is no proprietary "system" and, therefore, no consideration for the continuing royalty fees.

Patent Misuse

Another drawback to obtaining patent protection is that the protection is limited to a specific period of time. The nonrenewable term of a patent is typically twenty years running from the date that an application for the patent is filed.⁵⁶ After the patent expires, anyone, including a franchisor's former franchisees and competitors, is free to use the method without the franchisor's permission. The duration and scope of the patent give rise to additional considerations for a franchisor whose franchise agreements extend beyond the life of the patent. Patent misuse is a defense to an infringement action that may act as a complete bar to the franchisor's claims.⁵⁷ Any attempt by a patent holder to extend the scope

or duration of a patent may constitute patent misuse. For example, if a patent holder extends the duration of the patent by exercising exclusive rights beyond the life of the patent, this may be considered patent misuse.⁵⁸ Patent misuse may also occur if a patent holder attempts to expand a patent to cover items not part of the patent.

To avoid having a claim barred by the defense of patent misuse, a franchisor must make appropriate adjustments to its franchise agreement to reconcile any difference in the term of the patent and the term of the franchise agreement. With respect to any patent that expires during the term of a franchise agreement, patent misuse may occur if the royalty fee remains unchanged following expiration of the patent.⁵⁹ The doctrine of patent misuse prohibits a patent owner from extending a patent-based royalty beyond expiration of the patent.⁶⁰ Every franchisor licenses other intellectual property, including its trademarks, in addition to any patent rights that it may license. Courts have held that an agreement imposing an unchanged royalty after the expiration of a patent was unenforceable because the continuing royalty was considered to be an attempt by the patent holder to extend the life of the patent.⁶¹ If a franchisor has expiring patents, instead of imposing a static royalty, it should consider reducing the amount of the royalty payment by an amount attributable to the value of the patent rights.⁶² In doing so, a franchisor should fairly attribute a proportionate

value of the patent and not intentionally undervalue its patent in order to obtain a higher percentage of royalties for the life of the franchise agreement.⁶³

The scope and terms of covenants not to compete must also be considered. If a franchisor attempts to enforce patent rights in a covenant not to compete

past the term of the patent or has a covenant drafted broadly to extend to activities not covered by the patent, a franchisee may successfully assert the defense of patent misuse and invalidate the covenant.⁶⁴ Just as royalties must be limited to the life of the patent, a franchisor may not extend the life of a patent through the term of a noncompetition covenant. If the patent expires during the term of the covenant not to compete, the covenant can be viewed by courts as an impermissible attempt by the franchisor to extend the patent term. Likewise, in order to avoid a claim of patent misuse, the covenant should be drafted to address only those activities related to the patented method.

Enforcing Patent Rights Through Litigation

A franchisor should take patent litigation costs into account when prosecuting patent applications. Not only may the franchisor be required to sue infringers, it may also find itself defending the validity of its patent against a competitor's attack. The rise in the filing of patent applications and the

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issued patent's grant of a monopoly to the patent holder will probably lead to increasing litigation. As the market share for the patent holder strengthens, it is foreseeable that there will be backlash from competitors.

To establish a patent infringement claim, a franchisor must show by a preponderance of the evidence that every limitation set forth in a claim is found in the accused process exactly or by a substantial equivalent.⁶⁵ In a recent survey⁶⁶ conducted on the estimated litigation costs of bringing a patent infringement suit to conclusion (on a claim where less than \$1 million was at stake), the total estimated cost was \$749,000.⁶⁷ In contrast, the estimated cost of bringing a trade secret misappropriation suit to conclusion was only \$350,000.⁶⁸ As expected, the estimated costs increase substantially as the amount in controversy increases.⁶⁹

A judicial determination of patent validity may also affect the franchisor's right to enforce its other rights under the franchise agreement. In *Span-Deck Inc. v. Fab-Con, Inc.*,⁷⁰ the franchisor sought an injunction and back royalties from its franchisee under a franchise agreement. The franchisee asserted that the subject patent was invalid and ceased paying royalties until the patent validity issue was determined.⁷¹ The franchisor argued that the suspension of all royalties was improper because the franchise agreement licensed other rights, such as trade secrets, in addition to the patent license.⁷² The court held that, because the franchisee's validity challenge was authorized under federal patent law, its suspension of all royalty payments was justified.⁷³ In *Span-Deck*, the franchise agreement emphasized the importance of patent protection and did not allocate the percentage of royalties attributable to other proprietary components. As a result, the court held that the failure to pay royalties was not a breach of the franchise agreement.⁷⁴

Conclusion

For a franchisor, business method patents may be another component of a solid intellectual property portfolio. Because of the potential value that a business method patent can add to a franchisor's system, including competitive advantage and increase in market share, when franchisors develop significant improvements to any aspect of their method of doing business, they should always consider whether the benefits of pursuing a business method patent outweigh the risks.

Endnotes

1. 149 F.3d 1368 (Fed. Cir. 1998).
2. For example, both Amazon.com and Walker Digital have obtained a number of business method patents covering the transactional aspects of their Internet-oriented businesses.
3. *Amazon.com, Inc. v. BarnesandNoble.com, Inc.*, 73 F.2d 1228 (W.D. Wash. 1999). The preliminary injunction, however, was vacated and remanded pursuant to *BarnesandNoble.com, Inc.'s* challenges based on prior art and validity of the patent. *Amazon.com, Inc. v. BarnesandNoble.com, Inc.*, 239 F.3d 1343, 1360 (Fed. Cir. 2001). *BarnesandNoble.com, Inc.* was permitted to continue to use its technology pending further proceedings. In March 2002, the parties settled the lawsuit but did not disclose the terms.
4. U.S. Pat. No. 5,794,207.
5. Trade secret protection varies from state to state. Generally speak-

ing, however, trade secret protection is potentially available for any confidential information—including formulas, methods, and compilations—from which economic value or competitive advantage is derived. If kept confidential, a franchisor's unique business methods may be eligible for trade secret protection, provided that the franchisor develops, implements, and maintains policies to maintain the secrecy of the information.

6. 17 U.S.C. § 101.
7. 17 U.S.C. § 106.
8. 35 U.S.C. § 271.
9. 35 U.S.C. §§ 101, 102, and 103.
10. 35 U.S.C. § 101.
11. *See* *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980).
12. Business method patents originated as financial patents. The first financial patent issued on March 19, 1799, to Jacob Perkins of Massachusetts and was directed to "Detecting Counterfeit Notes."
13. *State St. Bank & Trust Co. v. Signature Fin. Group*, 149 F.3d 1368 (Fed. Cir. 1998).
14. *Id.*; *see also* John J. Love & Wynn W. Coggins, *Successfully Preparing and Prosecuting a Business Method Patent Application*, AM. INTEL. PROP. LAW ASS'N 5 (2001).
15. Love & Coggins, *supra* note 14, at 8.
16. 22 F.3d 290 (Fed. Cir. 1994).
17. *Id.*; *see also* Love & Coggins, *supra* note 14, at 8. However, Priceline.com successfully obtained patents on its business model that, in part, permits its customers to bid on travel services. In 1999, Priceline.com sued Microsoft for patent infringement, alleging that Microsoft's "name your price" service featured on its Expedia travel website violated its patents. *Priceline.com v. Microsoft, Inc.*, 99-cv-1991 (D. Conn. Oct. 13, 1999).
18. U.S. Pat. No. 6,052,846.
19. U.S. Pat. No. 6,290,025.
20. U.S. Pat. Nos. 5,915,973; 6,219,143; and 6,219,143.
21. Many Internet purists believe that the Internet should be freely available and freely exploitable. In this view, application of the patent system will unduly restrict the Internet's development and growth.
22. *See* www.uspto.gov/web/menu/busmethp/index.html.
23. *See id.*
24. *See id.*; the Office of Patent Quality Review randomly reviews allowed patent applications as part of a quality control effort.
25. The U.S. House of Representatives also addressed the scrutiny of business method patent applications, by a resolution proposing an amendment to the patent statutes. The proposed legislation suggests defining "business method" as "(1) a method of processing data, or performing calculation operations, and which is designed for or utilized in the practice, administration, or management of an enterprise; (2) any technology used in athletics, instruction, or personal skills; and (3) any computer-assisted implementation described in paragraph (1) or a technique described in paragraph (2)." The bill also proposes adding a chapter to 35 U.S.C. specifically related to the examination of business method inventions. The purpose of this proposed bill is to provide a standard for the PTO to ensure that business method patents issuing from the PTO have been adequately examined. H.R. 1332, 107th Cong., 1st Sess. (2001).
26. www.uspto.gov/web/menu/pbmethod/fy2001strport.html.
27. *Id.*
28. *Id.*
29. *Id.*
30. Jerome Gilson, *Franchising and Intellectual Property*, 26 IFA LEGAL SYMPOSIUM, at 3, 16.
31. *Id.*
32. 35 U.S.C. §§ 281, 283–285.
33. No. ST-C-80-3, 1981 U.S. Dist. LEXIS 17779 (W.D.N.C. July 13, 1981).
34. *Id.* at *16.
35. *Id.*
36. *Id.* at *13; *see also* 35 U.S.C. § 282.
37. *Bandag, Inc. v. Lewis General Tires, Inc.*, No. 76-541, 1980 U.S. Dist. LEXIS 16019 (W.D.N.Y. Mar. 24, 1980).

38. *Id.* at *38.
39. See Craig J. Madson & Carol Anne Been, *Patent and Copyright Law Developments: How They May Fundamentally Affect Franchising*, 23 ABA FORUM ON FRANCHISING L/B4 (2000).
40. RESTATEMENT OF TORTS § 757 (1939).
41. *Id.*
42. UNIFORM TRADE SECRETS ACT § 1(4), 14 U.L.A. 437 (1990).
43. The comment to the *Restatement* compares trade secret protection and patent protection:

Indeed, a patent monopoly is granted only upon full disclosure of the subject matter of the patent. The significant difference of fact between trade secrets and processes or devices which are not secret is that knowledge of the latter is available to the copier without the use of improper means to procure it, while knowledge of the former is ordinarily available to him only by the use of such means. . . . The protection afforded by [trade secret protection] is in some respects greater and in some respects less than that affected by the patent law. It is greater in that it is not limited to a fixed number of years and does not require novelty and invention as in the case of patents. It is less in that secrecy of the process and impropriety in the method of procuring the secret are requisite here but not in the case of patents.

RESTATEMENT OF TORTS § 757, cmt. (a) (1939).

44. See *id.*
- Novelty and invention are not requisite for a trade secret as they are for patentability. These requirements are essential to patentability because a patent protects against unlicensed use of the patented device or process even by one who discovers it properly through independent research. The patent monopoly is a reward to the inventor. But such is not the case with a trade secret. Its protection is not based on a policy of rewarding or otherwise encouraging the development of secret processes or devices. The protection is merely against breach of faith and reprehensible means of learning another's secret.
- Id.*
45. Ronald T. Coleman & Linda K. Stevens, *Trade Secrets and Confidential Information Rights and Remedies*, 23 ABA FORUM ON FRANCHISING W2, at 10 (2000).
46. *Id.*
47. Copyrights are insufficient to protect the method by which computer software implements tasks. Copyright protection does not extend to "any idea, procedure, business, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work." 17 U.S.C. § 102(b).
48. See *I Can't Believe It's Yogurt v. Gunn*, Civil Action No. 94-OK-2109-T, 1997 U.S. Dist. LEXIS 14480 (D. Colo. Apr. 15, 1997) (holding that franchisor's system, including its manuals, did not consti-

- tute trade secret because the components of the system incorporated generally known or readily ascertainable information).
49. Franchise agreements should also be drafted to avoid claims of patent misuse, which is discussed *infra*.
50. *Business Method Patents: A New Option for Intellectual Property Protection*, 33 FRANCHISING WORLD 7, at 54-60 (2001).
51. Kenneth R. Costello, Donald L. Goldman & Janet S. Martin, *Emerging Technology Issues*, 28 IFA LEGAL SYMPOSIUM, at 12.
52. Layne Randolph & Erica Borenstein, *IP Audits for Franchisors*, FRANCHISE TIMES, Feb. 2000, at 39.
53. *Id.*
54. *Business Method Patents*, *supra* note 50, at 54-60.
55. Pub. L. No. 106-113, 113 Stat. 1501.
56. 35 U.S.C. § 154.
57. For a comprehensive treatment of patent misuse and franchise agreement, see Craig J. Madson, *Patent Misuse in Franchise Agreements: A Ripple on the Waters of Franchise Law*, 20 FRANCHISE L.J. 107 (2001).
58. *Id.*
59. *Id.* at 108.
60. *Brulotte v. Thys Co.*, 379 U.S. 29 (1964).
61. *Pitney Bowes, Inc. v. Mestre*, 701 F.2d 1365, 1373 (11th Cir. 1983) (holding that the agreement was unenforceable because the royalty payments remained the same throughout the duration of the agreement even though patents had expired). The court viewed the continuing royalty payments as an effort by the patent holder to extend its patent rights beyond the life of the patent. *Id.*
62. Madson, *supra* note 57, at 109.
63. *Id.*
64. *Id.*
65. *C&F Packing Co., Inc. v. IBP, Inc.*, 916 F. Supp. 735 (N.D. Ill. 1995), citing *Johhston v. IVAC Corp.*, 885 F.2d 1574, 1577 (Fed. Cir. 1989).
66. AM. INTELL. PROP. LAW ASS'N, REPORT OF ECONOMIC SURVEY 2001.
67. *Id.* at 89.
68. *Id.* at 84. These figures, reported by geographic area, are based on the survey respondents from the Philadelphia-Wilmington area. The estimated costs for the same litigation in Washington, D.C., are \$800,000 for a patent infringement suit and \$500,000 for a trade secret misappropriation action. In California, the estimated costs are \$700,000 for a patent infringement suit and \$499,000 for a trade secret misappropriation case.
69. *Id.* at 84-85, 89-90.
70. Bus. Franchise Guide (CCH) ¶ 7837 (8th Cir. May 12, 1982).
71. *Id.* at 13,174.
72. *Id.* at 13,176.
73. *Id.*
74. *Id.*