

ideas on

INTELLECTUAL PROPERTY LAW

Current issues on patents, trademarks and copyrights

Know the Limits To Business Method Patents

Before computers, the Patent and Trademark Office (PTO) routinely denied all applications for patents on business methods. It considered these methods to be more mental than technological, and therefore not within the intent of the patent statute.

But computers automated many business methods, giving them a more technological flavor, and the PTO's attitude changed accordingly. Nevertheless, a Board of Patent Appeals and Interferences (Board) decision shows that a residue of the former attitude remains.

The Application

In *Ex parte Bowman*, an inventor sought a patent for "a method of evaluating an

intangible asset." According to the patent application, the method comprised the following steps:

1. *Determining first and second variables related to the value of an intangible asset,*
2. *Establishing a series of performance criteria statements probative of the value of the first and second variables,*
3. *Scoring each of the performance criteria statements,*
4. *Summing the scores to generate first and second total scores based on the extent to which individual statements accurately describe the intangible asset,*

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5. *Transforming the physical media into a chart having an axis relating to each variable,*
6. *Physically plotting a point on the chart, the point being located at coordinates corresponding to the first and second total scores, respectively; and*
7. *Using the chart in making at least one decision regarding the intangible asset's value.*

The Rejection

The Patent Examiner rejected the application on several grounds, including failure to come within the patent statute's scope because the patent claims were based on nothing more than a human making mental calculations and manually plotting the results on a chart. The applicant then appealed to the Board (an administrative tribunal within the PTO), arguing the method of creating a chart and plotting a point on it is physical and has real-world value. The applicant also claimed the process created a physical transformation outside of a computer and represented a practical application in the technological arts.

But the Board agreed with the Examiner's rejection, reiterating the claimed invention was nothing more than an abstract idea because it was not tied to any technological art,

environment or machine. The Board reasoned that the U.S. Constitution empowers the government to issue patents only for inventions that promote the progress of science and useful arts. The applicant's invention didn't do this and thus didn't fall within the definition of technological arts. The abstract idea, which formed the heart of the invention, didn't become a technological art merely because it transformed media into a chart.

Limited Scope

The scope of this ruling, however, is limited. In its opinion, the Board noted the Patent Examiner's finding that the applicant didn't recite the use of any technology with respect to the claimed invention in either the specification or the claims of the patent application. Therefore this ruling doesn't deal with computers used to automate business methods; it only confirms that the old "pre-computer" rule still stands. ☺

Business Method Patents May Be Held To a Higher Standard

There has been a lot of discussion about the increased number of business method patents granted in recent years, such as the Amazon.com "one click" patent. This discussion has not been confined to patent professionals, but has spread to industry and even the popular press.

For example, the "Cash Management Account" patent granted to Merrill Lynch received considerable publicity a few years ago. Critics have lambasted the Patent and Trademark Office for allowing patents on allegedly obvious methods, and legislation has been proposed to establish a higher threshold for patentability of such inventions.

Winning the Battle, but Losing the War

Electronic Republication Raises Copyright Issue

When an author writes an article and grants permission for its publication in a newspaper, how far does that permission extend? In particular, does it extend to republication in electronic media? The correct answer depends on the specific permission granted, as *The New York Times* recently discovered.

Round 1

Jonathan Tasini and other freelance writers wrote articles and gave *The New York Times* permission to publish them in the newspaper's daily print editions. The newspaper later included the articles as part of republication in various electronic media, such as the Internet and CD-ROM, without seeking additional permission. The newspaper thought that, in granting permission to use the articles in the daily print edition, the authors also had implicitly given permission to include them in any electronic republication. Tasini and the other authors disagreed, sued *The New York Times* for copyright infringement, and won after battling the paper all the way to the U.S. Supreme Court.

But what happened next triggered a new lawsuit. *The New York Times* reacted to the Supreme Court's decision by announcing it would remove each freelance article from the electronic media unless the article's author executed a release of all copyright infringement claims related to the republication. If an author refused to sign the release, the republished version of the newspaper would be

incomplete, the author would not receive any further payments and the author's work would slip into electronic oblivion. If the author agreed to sign, the article would remain part of the republished version of the newspaper and the author's place in electronic history would be preserved, but he or she still wouldn't receive any further payment.

Thus, Tasini and the others had won a Pyrrhic victory: They were right on the law, but in the long run they were no better off economically. They had won nothing but a choice between having their writings preserved or deleted, and either way they wouldn't receive any more money.

Tasini and the other authors won after battling the paper all the way to the U.S. Supreme Court. But what happened next triggered a new lawsuit.

Round 2

Tasini refused to take this counterpunch lying down. He sued the newspaper again in federal court, this time seeking a declaratory judgment that the newspaper's proposed release was unlawful and unenforceable. But he never got to present his case because the

court ruled for *The New York Times* on two threshold grounds.

First, the court ruled Tasini had no standing to bring the suit, because he had not signed the release and had no intention of signing it in the future. Therefore he was in no position to be harmed by it. The proper plaintiffs to bring this claim would be other authors who had signed, or at least intended to sign, the release. And Tasini had no authority to sue on their behalf.

Second, even if Tasini had standing to bring the suit, bringing it in a federal court was a mistake because there was no federal jurisdiction. A copyright claim would have established federal jurisdiction, because the copyright law is a federal statute. But the newspaper was no longer publishing any of Tasini's articles, so he no longer had an outstanding claim for copyright infringement against the paper. And without a copyright claim, the case presented no other basis for being in federal court. Tasini would have to find some state-law theory to hang his hat on.

In fact, he had alleged four state-law theories. But because the federal claim had been dismissed at a threshold stage of the litigation, the federal court was



not obligated to retain jurisdiction over the state-law claims. It exercised its discretion to dismiss them, leaving Tasini the option of starting over in state court, where he would most likely run into the standing problem again.

Split Decision

Although the authors theoretically won the right to control their copyrighted material beyond the printed page, *The New York Times* eliminated the economic benefit of doing so. Whether Tasini or another author will step back into the ring against the *Times* to appeal this decision or otherwise challenge the proposed release remains to be seen. ☉

Maybe There's Hope After All

Rep. John Conyers (D-Mich) is introducing a bill into the Congress (the Freelance Writers and Artists Protection Act of 2002) that would exempt freelance writers from antitrust liability if they bargain collectively with their publishers. Such collective bargaining might give those writers the bargaining power they need to make the publishers include the freelance writers' works in any electronic republication on a royalty-paying basis. Jonathan Tasini, who turns out to be the president of the National Writers Union, has issued a press release announcing his approval of the Conyers proposal.

When Miracles Collide

Reverse Confusion May Hinder Big-Name Trademarks

Few companies are as well known to both genders as Victoria's Secret. But that fame proved to be something of a disadvantage in a particular type of trademark case known as "reverse confusion."

A Trademark Miracle

Among Victoria's leading trademarks is "The Miracle Bra." A & H Sportswear, quite successful in its own right but lesser known, has its own trademark, "Miraclesuit," for women's swimsuits. As long as Victoria's Secret stuck to lingerie, the parties lived in peace. But when Victoria's Secret began selling women's swimsuits under its "Miracle Bra" mark, A & H started what became a prolonged litigation.

After several appeals and remands to the trial court, the final ruling was Victoria's use of its "Miracle Bra" mark was not likely to confuse the buying public into thinking Victoria's lingerie came from A & H. In addition, the court held the same was true even as to Victoria's use of the "Miracle Bra" mark on its new swimsuit line. Likelihood of confusion is the traditional test for trademark infringement, so the court's ruling meant that there was no traditional infringement, or "direct confusion," as to either lingerie or swimsuits.

Traditional Infringement Vs. Reverse Confusion

But the case didn't end there. After the trial court disposed of the direct confusion issues in favor of the defendant, Victoria's Secret, it turned to the reverse confusion aspect of the litigation.

In recent years, trademark law has recognized a different form of infringement, usually referred to as "reverse confusion." In a traditional trademark infringement case, the defendant is usually lesser known than the plaintiff, and is accused of selling its product under a copycat trademark likely to confuse the buying public into believing erroneously that the defendant's product comes from the plaintiff.

But in a reverse confusion case, the defendant is *better* known than the plaintiff, so the defendant's use of a confusingly similar trademark leads potential buyers to believe erroneously the plaintiff's product comes from the defendant. Some may even believe the plaintiff is infringing the defendant's trademark rights, when in fact the opposite may be true.

Some buyers may even believe the plaintiff is infringing the defendant's trademark rights, when in fact the opposite may be true.

Even worse, the better known infringer may attempt to overwhelm the plaintiff's mark with superior advertising and promotion until the lesser known plaintiff is no longer identified with its own trademark. As a result, the plaintiff may lose its trademark, its product

identity, and control over its goodwill and reputation. This can devastate the smaller company.

Back to the Miracle Case

With respect to reverse confusion, the trial court again ruled in favor of Victoria's Secret insofar as its lingerie was concerned. It held Victoria's sales of lingerie under the "Miracle Bra" mark were not likely to cause the buying public to believe A & H's swimsuits came from Victoria's Secret.



But when the trial court looked at Victoria's new line of swimsuits from a reverse confusion perspective, A & H finally tasted victory. The court ruled sales of swimsuits under the "Miracle Bra" mark by the more famous Victoria's Secret *would* likely cause potential buyers to believe erroneously that A & H's lesser known "Miraclesuit" swimsuits actually came from Victoria's Secret.

Moreover, the court found this to be true even though Victoria's Secret had been voluntarily using the following disclaimer on its swimsuit labels: "The Miracle Bra Swimwear Collection is exclusive to Victoria's Secret and not associated with MIRACLESUIT..." The court thought this helped somewhat to avoid reverse confusion, but not enough to avoid liability.

However, the court also found this was not a case where the better known defendant had utterly destroyed the lesser known plaintiff's mark by superior advertising and promotion. A & H, though lesser known, was too successful a company for such a catastrophic result.

Nevertheless, reverse confusion was found likely in the swimsuit market because:

- ◎ *The parties' marks were very similar in sight and sound,*
- ◎ *The disclaimer was not very effective,*
- ◎ *The parties' products were both swimsuits, and*
- ◎ *The products were marketed to the same groups of people through similar channels of trade.*

Accordingly, the court ruled in favor of A & H, and enjoined Victoria's use of "The Miracle Bra" on swimsuits.

Reverse or Forward, It's Still Confusion

Thus, a claim for reverse confusion may be as successful as a claim for direct confusion. Just because a bigger company has a more recognizable brand name doesn't mean a smaller company can't win the fight. Either way — win or lose — it's still confusion. ◎

Is It Impossible To Attempt To Steal a Trade Secret?

In 1996, the U.S. Congress passed the Economic Espionage Act, which criminalizes the theft of trade secrets in interstate commerce. Many of the reported cases arising out of government enforcement of this criminal statute involve “sting” operations in which authorities catch the defendant in the act of receiving information that he or she believes contains genuine trade secrets, but which in reality do not.

Why don't the authorities use real trade secrets in such enforcement operations? For starters, the company from which the defendant is attempting to steal trade secrets may be understandably reluctant to put its real trade secrets in the defendant's hands. And, because that company's cooperation is usually necessary, the enforcement agency will typically agree to this sort of subterfuge so as not to discourage the company from helping. But the subterfuge raises the question of whether the defendant has actually committed a crime if the stolen material isn't really stolen (it was given voluntarily) and isn't really a trade secret.

Trade Secret or Subterfuge?

This issue was pivotal in the recent case of *United States v. Yang*. Yang was videotaped in a hotel room accepting what he was told was confidential information concerning a competitor's products and overseas operations. Yang was then apprehended and charged with attempt to steal and conspiracy to steal trade

secrets. At his trial Yang's lawyers argued it was “impossible” for Yang to have committed a crime if in fact the material he obtained was not a real trade secret. However, he was convicted on both charges, which he then appealed.

The appellate court stated Yang's argument might well have succeeded if he had been convicted of a *completed* theft of trade secrets. But he had been convicted only of attempt to steal and conspiracy to steal trade secrets. The appellate court ruled impossibility wasn't a defense to charges of attempt and conspiracy. All that was required for these offenses was the *intent* to commit the theft, and the commission of an overt act constituting a substantial step toward that end.

Here, Yang had intended to receive trade secrets, and the events that occurred in the hotel room constituted an overt act toward the realization of that intent. That was enough to satisfy the legal requirements of an attempt and a conspiracy to commit theft of trade secrets. The conviction was affirmed on appeal.

Attempt vs. Completion

Thus, the impossibility defense is apparently not valid when applied to cases involving only an attempt to steal and conspiracy to steal trade secrets. Whether impossibility will work as a defense to a conviction for *actual theft* of trade secrets was not addressed. ☉

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