Business Method Patents Gone Wild: Narrowing State Street Bank and Shifting to a European Perspective

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NOTES

BUSINESS METHOD PATENTS GONE WILD: NARROWING STATE STREET BANK AND SHIFTING TO A EUROPEAN PERSPECTIVE

Alexandra Wilson*

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* J.D. University of Florida, Levin College of Law, 2007. I would like to thank my mother for her unconditional love, guidance, and support in all of my endeavors.
I. INTRODUCTION

In 1998, the Federal Circuit made a landmark decision in State Street Bank & Trust Co. v. Signature Financial Co. publicly allowing what was at one time an “exception” to patentable subject matter under 35 U.S.C. § 101—business method patents. The U.S. Patent and Trademark Office (PTO) was flooded with applications for the new “business method patent,” an overwhelming number of which were related to Internet business methods, including online algorithmic-type processes and applications.

Business method patents are currently undefined by statute and include a variety of subject matter ranging from a “Pay Per Wash Laundry System” to extremely complex software patents for “Public Key Encryption (SSL).” Often defined using common sense, one author succinctly stated that a “business method” is “any new, non-obvious and useful process by which a company does business, whether or not the process is technical.” While business method patents are available for an extensive array of “business methods,” the majority of the patents issued today are for Internet and software related inventions.

Following the State Street decision, a great debate arose between those who supported the newly patentable “business methods” and those who staunchly opposed the new class. Asserting a variety of reflective arguments, mainly related to the new and non-obvious requirements of 35 U.S.C. §§ 102 and 103 and to economic costs and benefits of this new

1. 149 F.3d 1368 (Fed. Cir. 1998).
2. See id. at 1375.
allowance, both sides made their voices heard through literature and before Congress. Responding to the uproar, the PTO created a new class, 705, for business method patents, and set out new requirements for evaluating this class of patents, including expanding prior art searches to include non-patent art as well as a secondary review to help eliminate frivolous patents. However, such actions did not calm the resounding criticisms from the legal community. In 2001, fuel was added to the critics’ fire when the district court granted a preliminary injunction against Barnesandnoble.com to discontinue use of their “Express lane” shopping function, which was claimed to be infringing on Amazon.com’s “1-Click” patent. While the Federal Circuit did not uphold the preliminary injunction, it stated that there was likely infringement on the part of Barnesandnoble.com. A dispute arose in the patent community over whether patents like Amazon.com’s should be valid under the standards of novelty and non-obviousness.

Such disputes continue today with no definite end in sight. In 2005, a bill was presented to Congress that, as proposed, would remove the “business method” language and implications from 35 U.S.C. § 273, which was created as part of the American Inventors Protection Act of 1999 and

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14. See Amazon.com, Inc. v. Barnesandnoble.com, Inc., 239 F.3d 1343, 1366 (Fed. Cir. 2001); see also infra text accompanying notes 88-89.


provides a defense for individuals who had been using systems that would qualify as business methods at least one year prior to the invention sought to be patented. However, past proposed business method patent reform bills have been opposed and have not successfully made their way through Congress.

Business methods may be fully capable of functioning as patentable subject matter under the standards of 35 U.S.C. § 101 20(b), a point which this Note will not attempt to dispute. However, the number of applications for business method patents has been overwhelming to the patent system, presenting claims that often do not support the goals and values underlying Article I, section 8, clause 8 of the U.S. Constitution.

In this Note, the author will discuss the history of the “business method” patent and the evolution of case law resulting in the Federal Circuit’s decision in State Street. Further analysis of subsequent case law and proposed reform leads to the proposition that the standard for issuing business method patents definitely needs narrowing, potentially through a categorical exclusion and additional standards of non-obviousness under section 103. By tailoring the American patent system to reflect more similarly that of Europe, business method patents would be more limited, disallowed categorically by statute, and bound by an additional non-


It shall a defense to an action for infringement under section 271 of this title with respect to any subject matter that would otherwise infringe one or more claims for a method in the patent being asserted against a person, if such person had, acting in good faith, actually reduced the subject matter to practice at least 1 year before the effective filing date of such patent, and commercially used the subject matter before the effective filing date of such patent.

Id.; see also 35 U.S.C. § 273(a)(3) (stating “the term ‘method’ means a method of doing or conducting business.”).


21. See U.S. CONST. art. 1, § 8, cl. 8. (“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”).

22. See supra text accompanying note 1.


24. See European Patent Convention arts. 52-57 [hereinafter EPC].

25. See id. art. 52(2)(c).
obvious requirement related to technicality. However, the patent would issue when examiners could determine it sufficiently meets the new and non-obvious standard and sufficiently promotes innovation.

II. HISTORY OF BUSINESS METHOD PATENTS

The founding fathers, in creating Article I, section 8, clause 8 of the U.S. Constitution, expressed the belief that in order "[t]o promote the Progress of Science and the useful Arts," it would be beneficial to "secur[e] for limited Times to . . . Inventors the exclusive Rights to their . . . Discoveries." Against a background of rebellion from governmentally supported monopolies created when the English crown reinforced the granting of "exclusive rights to engage in ordinary business activities," it can be assumed that the initial drafters of the Patent Act of 1790 did not intend for business methods to be included in the interpretation of the statute's language. However, in 1799, the first "business method" financial patent was presumably granted for a method "Detecting Counterfeit Notes."

In 1908, the Circuit Court of Appeals for the Second Circuit got a chance to evaluate a patent for a "method of and means for cash-registering and account-checking." In Hotel Security Checking Co. v. Hotel Security Checking Co. v.


29. Gladstone, supra note 4, at 222 (citations omitted) (discussing the language, legislative history, and societal concerns present during the time period when the U.S. Constitution was created and how such was considered in establishing the boundaries of patentable subject matter).

30. 1 Stat. 109. The Patent Act of 1790 is, along with Article 1, section 8, clause 8 of the U.S. Constitution, the foundation of the patenting rights in the United States. The Patent Act of 1790 designated as patentable subject matter "any useful art, manufacture, engine, machine, or device, or any improvement therein not before known or used." Id. § 1.

31. See USPTO White Paper, supra note 11 (presenting a brief history of the U.S. Patent System and business method patents). Unfortunately, little is known about the actual patent itself. "All details of Mr. Perkins [sic] invention, which we presume was a device or process in the printing art, were lost in the great Patent Office fire of 1836. We only know of its existence from other sources." Id.

32. Hotel Sec. Checking Co. v. Lorraine Co., 160 F. 467 (2d Cir. 1908) (citations omitted).
Lorraine Co., the court looked at the novelty and "invention" criteria, stating that "[a] system of transacting business disconnected from the means for carrying out the system is not, within the most liberal interpretation of the term, an art. . . . 'No mere abstraction, no idea, however brilliant, can be the subject of a patent irrespective of the means designed to give it effect.'" While the circuit court abstained from deciding whether such "art" was patentable in this case, it was clear that the court's primary focus was on novelty and evidence of actual "invention" rather than suggested ideas regarding the use of already existing materials. Additionally, the Manual of Patent Examining Procedure (prior to revision in 1996) states, "though seemingly within the category of process or method, a method of doing business can be rejected as not being within the statutory classes."

Business method patents are technically "process" patents. By their nature, process patents encompass "methods" for purposes of classification as patentable subject matter under 35 U.S.C. § 101. Section 101 allows patents for "any new and useful process." Statutorily defined, a "process" is a "process, art or method, and includes a new use of a known process, machine, manufacture, composition of matter, or material." Initially, process method patents required an end product with a physical result. Many courts also read into the requirement that a "physical step" be taken to reach such an end result. However, the court in In Re Muskgrave allowed for mental steps to qualify as patentable subject matter if they are necessary to carry out the claimed process. The Muskgrave court stated, "[a]ll that is necessary, in our view, to make a sequence of operational steps a statutory 'process' within 35 U.S.C. § 101 is that it be in the technological arts so as to be in consonance with the Constitutional purpose to promote the progress of 'useful arts.'" Expanding upon that notion, the court in AT&T Corp. v. Excel Comm. Corp., did away with the "physical transformation" as a mandatory requirement, stating physical

33. Id. at 469 (citations omitted).
34. See id. at 470.
35. Gladstone, supra note 4, at 228 (quoting Manual of Patenting Examination and Procedure (MPEP) 706.03(a) 1994).
41. Id. at 893.
42. Id.
43. 172 F.3d 1352 (Fed. Cir. 1999).
transformation "is not an invariable requirement, but merely one example of how a mathematical algorithm may bring about a useful application."

Addressing the non-patentable concept of mathematical algorithms, or "a procedure for solving a given type of mathematical problem," in the computer realm of business method patents, the Court in Parker v. Flook evaluated a patent for "a Method for Updating Alarm Limits." While the Court ultimately held that, in light of the facts, case precedent and the current interpretation of 35 U.S.C. § 101, the invention was not patentable, the Court noted that the computer-software industry was rather new and unaddressed by Congress. The Court, with an eye toward the future, stated in dicta:

The youth of the industry may explain the complete absence of precedent supporting patentability. Neither the dearth of precedent, nor this decision, should therefore be interpreted as reflecting a judgment that patent protection of certain novel and useful computer programs will not promote the progress of science and the useful arts, or that such protection is undesirable as a matter of policy.

44. Id. at 1355.
46. 437 U.S. 584 (1978).
47. Id. at 585.
48. See id. at 594. The method in the patent application, "a Method for Updating Alarm Limits," consists of three steps: an initial step which merely measures the present value of the process variable (e.g., the temperature); an intermediate step which uses an algorithm to calculate an updated alarm-limit value; and a final step in which the actual alarm limit is adjusted to the updated value. The only difference between the conventional methods of changing alarm limits and that described in the respondent's application rests in the second step—the mathematical algorithm or formula.

Id. at 585-86. The patent examiner rejected the claim partly because the only difference between the invention and the prior art lay in the mathematical formula. Id. at 587. The Supreme Court held that in light of the prior art and known processes in the field, and the fact that the invention was merely a method of calculating using a mathematical formula, the invention was not patentable. See id. at 594-95.

49. See id. at 595.
50. Id.
In *In Re Alappat*, the Federal Circuit, relying on the U.S. Supreme Court’s precedent for excluding mathematical algorithms, asserted that such exclusion did not apply to algorithms as a class. Rather, it applied only to "abstract ideas" not yet reduced to practical application. Hence, the court further acknowledged the potential for a growing class of computer-related patents. It stated that a "computer operating pursuant to software *may* represent patentable subject matter, provided, of course, that the claimed subject matter meets all of the other requirements of Title 35."

As mathematical algorithms were patented more frequently with the initial caveat that a "transformation or conversion of subject matter representative of or constituting physical activity or objects" occurs, and the modified requirement that such algorithm be applied in a "useful" way, the realm of method patents started expanding. Further, when the court in *State Street* held that the standard of patentability was the production of a "useful concrete tangible result," the scope of "method," especially "business method," patents expanded exponentially. With regard to "business methods," the court in *State Street Bank* essentially opened to door to a "method" free-for-all with its negligence in specifying the scope of what "pure" business method might entail, and by failing to address the novelty and non-obviousness requirements for such a class entirely. However, courts still note that "method claims divorced from any recitation of a specific apparatus or piece of machinery which can be used to carry out the method—[have] long been regarded as deeply problematic," and recognize that the potential abstract nature of method patents was a "stumbling block" for the development of software and business method patentability. Such cases have set the stage for the 1998 decision in *State Street Bank & Trust v. Signature Financial Co.*

51. 33 F.3d 1526 (Fed. Cir. 1994).
52. See id. at 1543.
53. Id. at 1545.
54. See *In re Schrader*, 22 F.3d 290, 294 (Fed. Cir. 1994) (emphasis omitted).
56. Id. at 1373 (citation omitted).
58. See generally *State St. Bank*, 149 F.3d. at 1368.
60. Id. at *5.
61. See supra text accompanying note 1.
The cases reveal a growing tendency to place subject matter that is continually inching closer to "abstract ideas" in the realm of practical application, thereby promoting that which was an exception—business method patents.

III. State Street Bank & Trust Co. v. Signature Financial Co.

Historically seen as an exception to 35 U.S.C. § 101, business method patents continued to be excluded from statutory subject matter even after the initial rise in the patenting of questionable mathematical algorithmic-type processes inherent in computer software. In 1996, the PTO issued guidelines for the evaluation of computer-related inventions, stating, "office personnel have had difficulty in properly treating claims directed to methods of doing business. Claims should not be categorized as methods of doing business. Instead, such claims should be treated like any other process claims." Such language, while directed toward methods of doing business, arguably should not be read, as some suggest, as precursory support for issuing patents on business methods. Rather, the statement functions as a more narrow acknowledgment by the PTO that trying to gain patentability by simply illustrating a business method was not sufficient, but rather such applications should continue to be evaluated for merit, as had been done historically, taking into account the requirements of sections 101, 102 and 103. Regardless of the PTO's intention in issuing its guidelines in 1996, the Federal Circuit changed the course for business method patents in State Street.

62. The U.S. Patent and Trademark Organization (USPTO) is a Federal Agency in the Department of Commerce. U.S. Patent and Trademark Office, Our Business: An Introduction to the USPTO, available at http://www.uspto.gov/web/menu/intro.html (last visited Feb. 19, 2007). The primary role of the USPTO is "to promote the progress of science and the useful arts by securing for limited times to inventors the exclusive right to their respective discoveries," as provided in Article 1, section 8, clause 8 of the U.S. Constitution. Id.


68. 149 F.3d 1368 (Fed. Cir. 1998).
The invention at issue in *State Street* was a method relating to investments. Titled the "Hub and Spoke" system, the invention "facilitates a structure whereby mutual funds (Spokes) pool their assets in an investment portfolio (Hub) organized as a partnership." The *State Street* court solely evaluated the patentability of this method under section 101, not addressing the secondary requirements of sections 102 and 103. First, the court evaluated the "mathematical algorithm" exception, stating that "to be patentable an algorithm must be applied in a 'useful' way." With relation to the patentability of the "Hub and Spoke" method as falling within the boundaries of section 101, the court held:

the transformation of data, representing discrete dollar amounts, by a machine through a series of mathematical calculations into a final share price, constitutes a practical application of a mathematical algorithm, formula, or calculation, because it produces a "useful, concrete and tangible result"—a final share price momentarily fixed for recording and reporting purposes.

Additionally, the court noted that a claim should be evaluated with regard to the "essential characteristics of the subject matter, in particular, its practical utility." The court next addressed the business method exception, firmly stating "[w]e take this opportunity to lay this ill-conceived exception to rest.

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69. Id. at 1370.
70. Id. The process allowed for consolidation of, inter alia, the costs of administering the fund combined with the tax advantages of a partnership. In particular, this system provides a means for a daily allocation of assets for two or more Spokes that are invested in the same Hub. The system determines the percentage share that each spoke maintains in the Hub, while taking into consideration daily changes both in the value of the Hub's investment securities and in the concomitant amount of each Spokes assets.
In determining daily changes, the system also allows for the allocation among the Spokes of the Hub's daily income, expenses, and net realized and unrealized gain or loss, calculating each day's total investments based on the concept of a book capital account. This enables the determination of a true asset value of each Spoke and accurate calculation of allocation ratios between or among the spokes.

71. *State St. Bank*, 149 F.3d at 1373.
72. Id.
73. Id. at 1375.
74. Id.
Noting that business methods have long been subject to the same requirements as all other processes and methods, the court pointed to a series of case precedents often referred to as upholding the business method exception, and asserted that such cases turned on implicit mathematical algorithms and a lack of conversion to physical activity or objects, rather than an actual business method claim. The court then invalidated Hotel Security Checking Co. v. Lorraine Co. for an exclusion under the business method exception, stating that the patent there was invalid for lack of novelty and inventive nature. The court concluded, stating “[w]hether the claims are directed to subject matter within § 101 should not turn on whether the claimed subject matter does ‘business’ instead of something else.”

Why the State Street Court chose to open the door to a flood of “business method” patents is unclear. While setting out the test for patentable subject matter as that which produces a “useful, concrete, and tangible result,” the court merely stated that business methods fell into such a category without any further explanation or guidance. The opinion, given by Judge Rich, is unstable in two aspects. First, by limiting the scope of analysis in State Street to a pure section 101 evaluation, the court disregarded the interplay between sections 101, 102, and 103 as an overall analysis to granting a patent. While openly discrediting Hotel Security as the basis of the business method exception, which existed peaceably for nearly a century, Judge Rich failed to acknowledge the implied reasoning of the earlier decisions regarding business methods and why they should not be patented. The circuit court in Hotel Security

75. See id. at 1375-76. Cases previously used for the assertion of the business method exception to patentable subject matter, which the federal court found to be inapplicable as case precedent, include: In re Howard, 394 F.2d 869 (CCPA 1968) which the federal court asserted addressed only issues novelty in finding the subject matter un-patentable; In re Schrader, 22 F.3d 290 (Fed. Cir. 1994) which the federal court declared turned on the mathematical algorithmic exception for non-patentable subject matter; and Hotel Security Checking Co. v. Lorraine, 160 F. 467 (2d. Cir. 1908), the seminal business method patent exception case, which the circuit court also asserts only related to issues of novelty with relation to the patentability of the subject matter at issue. Id.

76. Id. at 1376 (citing Hotel Sec. Checking Co. v. Lorraine, 160 F. 467 (2d Cir. 1908)).

77. Id. The federal court noted that the Hotel Security court was specific in noting that the “fundamental principle of the system is as old as the art of bookkeeping” and if such had not been the case they “would be confronted with the question [sic] whether a new and useful system of cash registering is such an art as is patentable under the statute,” therefore the court reasoned that Hotel Security had been one of novelty rather than one of patentability. Id. (quoting Hotel Sec. Checking Co. v. Lorraine, 160 F. 467, 472 (2d Cir. 1908)).

78. Id. at 1377.

79. See id. at 1373.
justifiably reasoned that "business methods" (as a general class) should be unpatentable based on the lack of inventiveness in using a slightly new device (where the patent was not related to the device) in a slightly new manner, to achieve exactly the same end result of a non-patentable process. Hence, the court hinged its section 101 analysis on a novelty evaluation (i.e., there was no novelty in the actual process), a section 102 requirement.

However, one should note that the "hub and spoke" method at issue in State Street was a method that would likely have been patentable even under the aforementioned Hotel Security standard. The invention was primarily a process, independent of its business relationship, which required a computer program to achieve an end result. The fact that a business method was at issue, in this case, was not per se determinative of the patentable subject matter.

This invention did not merely incorporate a preexisting method used by a business into a new computer medium. Using the computerized accounting system was necessary to calculate the true asset value both quickly and accurately—an element which "given the complexity of the calculations, a computer or equivalent device is a virtual necessity to perform the task." Simply put, a program that allows an individual to

80. See Hotel Sec. Checking Co., 160 F. at 469.

A blank sheet of paper ruled vertically and numbered at the top [claimed as a novel and necessary part of the business method at issue] cannot be the subject of a patent, and, if used in carrying out a method, it can impart no more novelty thereto, than the pen and ink which are also used. In other words, if the "art" described in the specification be old [sic], the claims cannot be upheld because of novelty in the appliances used in carrying it out,—for [sic] the reason there is no novelty.

Id. Such patenting, while questionably allowable, is common today in the Internet e-commerce realm, where companies will use pre-existing technology in an alternative fashion to achieve more efficient or company-specific commercial objectives. See Hill, supra note 15, at 1245 (Discussing "Bad Patents" which are termed as such because "they have the potential to prevent others from using simple ideas."); see also Allison & Tiller, supra note 8, at 993 (noting briefly questions and criticisms regarding the novelty and non-obviousness of the granted Amazon.com "1-Click" patent, which allows more efficient ordering online, and Priceline.com’s reverse-auction patent relating to purchase of airline tickets online).

81. See supra text accompanying note 80.
82. See State St. Bank, 149 F.3d at 1371.
83. Id.
84. Id. "In some instances, a mutual fund administrator is required to calculate the value of the shares to the nearest penny within as little as an hour and half after the market closes." See id. at 1371.
store information in order to make speedy and accurate calculations, such as the one in *State Street*, is not dependent on any business to serve a purpose. The invention in *State Street* of using a computer to implement a business method was not likely implemented to achieve convenience for the business, but rather out of necessity to allow the invented process to function. Therefore, the “hub and spoke” invention would likely fall within the ambit of patentable subject matter independent of its “business method” status and outside of the concerns of *Hotel Security*.

Today, processes articulating a new means of implementing old elements are still best suited to remain in the field of trade secrets, which was created for the very purpose of keeping secret the “best method” of engaging in trade. In trade secret law, novelty and non-obviousness are not requirements for a trade secret existence. The aim of the *Hotel Security* court was likely an attempt to limit the intake of patent applications relating to internal business method processes that would later be denied for lack of novelty or non-obviousness, a logical reason Judge Rich failed to address. As is clear by the number of business method patent applications filed following *State Street*, such flooding of the patent office was a direct result of eliminating the judicially created business method exception.

Judge Rich failed to explain why business methods were not initially allowed or any policy reasons for opening the door for such applications now. Merely bringing doubt to the legitimacy of the relying on the business method exception as a judicially created doctrine by negatively casting past case law insufficiently justifies overturning an exception that was acknowledged for the past ninety years. The court provides no explanation of its reasoning, and simply requires the patent community to acquiesce to the newly articulated standard. Additionally, by failing to engage in further analysis under sections 102 and 103, the court created an overly broad and unnecessary classification, leading only to further confusion with no justifiable end result. If, as Judge Rich succinctly stated, “business methods have been . . . subject to the same legal requirements for patentability as applied to any other process or method,” and patents have been granted when a business method is deserving of a patent, there was no reason for *State Street* to remove the sieve through which business

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86. See generally id. at 474-78, 482-85.
88. State St. Bank, 149 F.3d at 1375.
methods had been sifted and open the door to a future flooded with patent applications and no standards by which to judge them.

IV. CASES FOLLOWING STATE STREET

A. Class 705 and the PTO White Paper of 2000

Following the State Street decision, there was confusion throughout the patent community as to what the actual definition of “business methods” should be. In response to the confusion, while not actually defining the term, the PTO created a Class 705, directed to “Data Processing: Financial, Business Practice, Management, or Cost/Price Determination”89 to deal with the increase of business method patents;90 however, business method patents can clearly fall into other pre-defined categories not directly pertaining to business methods.91 The “class definition” of 705 reads:

This is the generic class for apparatus and corresponding methods for performing data processing operations, in which there is a significant change in the data or for performing calculation operations wherein the apparatus or method is uniquely designed for or utilized in the practice, administration, or management of an enterprise, or in the processing of financial data. This class also provides for apparatus and corresponding methods for performing data processing or calculating operations in which a charge for goods or services is determined.92

While the above class encompasses numerous potential categories of patentable subject matter, the definition of what might reasonably fall into the “business method” category remains unclear. The PTO attempted to provide further explanation in its White Paper in 2000. The PTO stated that the four largest groups of patents in class 705 relate to the following: 1) “Determining Who Your Customers Are, and The Products/Services

90. See, e.g., Allison & Tiller, supra note 8, at 995.
91. See Hall, supra note 57, at 3. An example of such is a patent for teaching music in class 84 which is titled “music” or training system for janitors which is patented under class 434 for “education and demonstration.” See also id. at 25 tbl.3.
92. See supra note 89.
They Need/Want”; 2) “Informing Customers You Exist, Showing Them Your Products & Services, and Getting Them to Purchase”; 3) “Exchanging Money and Credit Before, During, and After the Business Transaction”; and 4) “Tracking Resources, Money, And Products.”93

The PTO White Paper further asserted additional steps Patent Examiners would take to facilitate adequate examination, including training sessions on the evolving methods and devices, as well as a secondary review to “ensure compliance with the mandatory search requirements, clarity and completeness of reasons for allowance, and to determine whether the scope of the claims should be reconsidered.”94 Also discussed was the expansion of prior art searches, including searches of non-patent databases.95 In May 2006, in line with the March 2000 action plan, the PTO held a Business Method’s Partnership Meeting, which was open to the public, to discuss topics such as “hoteling, functional/non-functional descriptive material, [and] new 101 guidelines.”96 Additionally, the PTO provides information pertaining to business method patents in a separate section on its web site devoted solely to “business method” classifications.97 However, while the PTO is taking adequate measures to ensure accurate examination of the “business methods” as patentable subject matter, the remedy to the overabundance of business method patent applications lies within the courts and the legislature.

B. AT&T Corp. v. Excel Comm., Inc. and Amazon.com, Inc. v. Barnesandnoble.com, Inc.

Since the decision in State Street, the courts have been supporting the “legitimacy” of business method patents and upholding such patents against accused infringers. As evidenced by AT&T Corp. v. Excel Comm., Inc.98 and more notably in Amazon.com, Inc. v. Barnesandnoble.com, Inc.99 with the rise in patents, came a rise in accusations of infringement.

93. See USPTO White Paper, supra note 11.
94. See supra text accompanying note 12.
98. 172 F.3d 1352 (Fed. Cir 1999).
99. 239 F.3d 1343 (Fed. Cir. 2001).
Within a year of the *State Street* decision, the Federal Circuit exercised its fresh approach to business method patents and addressed the patentability of a computer program that allowed a specific type of message storage and transfer in *AT&T Corp. v. Excel Comm., Inc.* Noting the *State Street* court’s evaluation of the business method and mathematical algorithm exception in combination with section 101, and the “needs of the modern world,” the court asserted that the computer algorithms at issue were sufficient to constitute patentable subject matter under section 101. While holding that patent claims do not need to result in a physical invention or transformation or be bound by physical limitations, and noting the importance of analyzing the claim as a whole for statutory subject matter purposes, the court again refused to evaluate the patent under sections 102 and 103 standards and instead remanded the case to the district court.

The holding of the *AT&T* court, while acknowledging the *State Street* court’s decision to disregard the business method patents, simply stated that computer software does not necessarily fall into the algorithmic category. Yet again, the court did not address the actual business techniques undertaken or the validity of the invention as new and non-obvious, leaving the patent community still at odds as to what is encompassed by “business methods.”

Two years later, in 2001, the court dealt with what was clearly a software business method patent in *Amazon.com, Inc. v. Barnesandnoble.com, Inc.* Amazon.com patented a “1-Click” shopping device, the ‘411 patent, which was for “a method and system for ‘single-action’ ordering of items in a client/server environment.” Amazon.com sued Barnesandnoble.com for infringement of the “1-Click” patent by Barnesandnoble.com’s “Express Lane” shopping feature, which essentially

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100. *AT&T*, 172 F.3d at 1354.
101. See id. at 1356.
102. See id. at 1361.
103. See id. at 1358-60.
104. See id. at 1357.
105. *AT&T*, 172 F.3d at 1361. The court restated the “useful, concrete, and tangible result” test articulated in *State Street* as an important part of a section 101 analysis, and remanded due in part to the district court’s use of an incorrect test. *Id.*
106. 239 F.3d 1343 (Fed. Cir. 2001).
107. *Id.* at 1347. Amazon’s patent “describes a method and system in which a consumer can complete a purchase order for an item via an electronic network using only a ‘single action,’ such as the click of a computer mouse button on the client computer system.” *Id.*
allowed customers to purchase products in a single step. The district court entered a preliminary injunction against Barnesandnoble.com. In response, Barnesandnoble.com asserted that the district court did not construe the claims properly to determine the underlying validity of the “1-Click” patent. Looking at prior art references offered by Barnesandnoble.com to show that the “1-Click” patent was not new and non-obvious as required under sections 102 and 103, the court reversed the preliminary injunction. The court noted that while Amazon.com would likely succeed on the infringement claim, Barnesandnoble.com raised sufficient questions as to the validity. Unfortunately, the trial court was unable to evaluate the validity of the patent because the parties settled prior to the date of trial.

C. American Inventors Protection Act

In anticipation of cases like Amazon.com, Congress passed the American Inventors Protection Act of 1999 (AIPA) to benefit inventors who, prior to the allowance of patenting “business methods,” had protected their methods as trade secrets. Inventors went from successful entrepreneurs to patent infringers almost overnight, unrightfully so when such inventors had been the first to invent in an era in which patenting business methods technically was not allowed. Responding to the problem, Congress passed the AIPA on November 29, 1999, later codified as 35 U.S.C. § 273, which provided a “[d]efense to infringement based on [being the] earlier inventor.”

Unlike other countries, the American patent system is devoid of a “prior user right,” which protects prior secret users from being sued for

108. Id. at 1346-47, 1350. Barnesandnoble.com’s “Express Lane thus presents a product page that contains the description of the item to be purchased and a ‘description’ of the single action to be taken to effect placement of the order.” Id. at 1350.
109. See id. at 1347.
110. See id. at 1351-52. Barnesandnoble.com claimed that the court construed the claims one way for the infringement analysis and another for the validity challenge. Id. Barnesandnoble.com argued that “under a consistent claim interpretation, its Express Lane feature either does not infringe the [‘]411 patent, or that if the patent is interpreted so as to support the charge of infringement, then the claims of the patent are subject to a severe validity challenge.” Id. at 1352.
111. See Amazon.com, 239 F.3d at 1363-66.
112. Id. at 1366. The court however, made no final determination regarding either issue and remanded the case for further proceedings. See id.
115. See Allison & Tiller, supra note 8, at 1018-19.
infringement by patentees who obtain patents after the secret users have reduced to practice. In contrast, the American system promotes full disclosure in an effort to encourage innovation at a more rapid pace, thereby denying all rights to secret users until those inventors file applications. The reasoning behind the American system is that prior non-secret use or sale, regardless of whether the inventor has patented the material, creates prior art and renders later inventions not novel. In turn, the American system encourages additional invention, hence promoting "the Progress of Science and the useful Arts" as intended by the Constitution. Prior to section 273, the requirement for exclusion of rights to secret prior users, either to assert infringement or defend against infringement, applied across the board regardless of technology or categorical status.

Determining that business methods deserved special treatment, and in light of growing complaints against the PTO's allowance of business methods as patentable subject matter, Congress created a "defensive right for business methods out of the fear that a substantial number of business method patents might have reflected techniques previously developed and practiced in secrecy." The statute reads in pertinent part,

[i]t shall be a defense to an action for infringement . . . for a method in the patent being asserted . . . if such person had, acting in good faith, actually reduced the subject matter to practice at least 1 year before the effective filing date of such patent, and commercially used the subject matter before the effective filing date of such patent.

117. See Allison & Tiller, supra note 8, at 1018-19 (discussing "prior user rights" that exist abroad, the lack of any comparative system in the United States, and the effects of public uses and secret uses for prior art purposes).

118. See 35 U.S.C. §§ 111-115, 122(b) (2006) (Requirements for filing a patent application, i.e., Specifications, Drawings, etc., all of which are disclosed to the public through publication under section 122(b)).

119. See 35 U.S.C. § 102(g)(1). This provision states that in an interference proceedings (i.e., when one inventor claims that he invented prior to another inventor), the invention sought to be patented cannot lose priority based on what has been previously invented but concealed. See id.

120. See Allison & Tiller, supra note 8, at 1018.

121. See supra text accompanying note 21.

122. See Allison & Tiller, supra note 8, at 1019-20.

123. See id. at 1018-19.

However, while requiring that the method be reduced to practice at least one year prior and commercially used, Congress broadly drafted the subject matter included under the statute, defining “method” as a “method of doing or conducting business.”

Criticisms following the State Street decision focused mainly on patentability under section 101. Most literature reflected debate regarding “lack of available computer and Internet-related prior art, inadequate search resources and databases, and the lack of business and Internet-savvy examiners at the PTO,” as well as potential threats to innovation on the Internet and opposition based on the historical significance to the business method exclusion. Realistically, the lack of prior art led to difficulty for patent examiners in determining novelty and non-obviousness. While the PTO extended the scope of prior art to include both patent and non-patent sources, there is very little case law addressing the validity of patents under the section 102 and 103 requirements. Consequently there are few guidelines for evaluating an application for both pure business method patent and, more importantly, a software business method patent. Essentially, State Street opened doors without giving any limitations, guidance or reasoning, other than their rejection of the business methods exception. That exception was but an “ill conceived” notion.

125. 35 U.S.C. § 273 (a)(3) (2006). However, Congress did not make any findings that business methods are practiced in secret more than techniques or processes in other fields. See Allison & Tiller, supra note 8, at 1019.

126. Radhika Tandon, Moving Forward: Patentability of Software and Business Method Patents, 6 INTELL. PROP. L. BULL. 1, 1 (2001) (discussing briefly the debates that arose in the patent community following the decision of the State Street Bank court, and the opposition taken to patenting business methods).

127. Id.

128. See Gladstone, supra note 4, at 22 (asserting that the Constitution was drafted by men who were aware of the abuses of government-sanctioned monopolies as had been granted under the English Crown, which included monopolies based on business methods, and therefore would not have considered such as patentable subject matter); cf. Jeffery Kuester & Lawerence Thompson, Risks Associated with Restricting Business Method and E-Commerce Patents, 17 GA. ST. U. L. REV. 657, 668-69 (2001) (noting briefly that “the patent system is a result of a social policy decision indicating that the benefits of a patent system...are worth the costs to society.”).

129. See supra text accompanying note 95.

D. Dissolution of the “Technical Arts” Requirement

In 1970, the court in In Re Musgrave\(^\text{131}\) decided that an invention relating to the measurement of seismograms was patentable. The court reversed the Board of Patent Appeals and Interference (Board)'s holding, stating that the process’s “steps were ‘mental’ and rendered the claims non-statutory because they were not physical acts applied to physical things.”\(^\text{132}\) The court, while finding that “mental steps” included in or comprising an invention do not make subject matter non-statutory per se, went on to state, “[a]ll that is necessary, in our view, to make a sequence of operational steps a statutory ‘process’ within 35 U.S.C. § 101 is that it be in the technological arts so as to be in consonance with the Constitutional purpose to promote the progress of ‘useful arts.’”\(^\text{133}\)

Subsequently, in deciding In Re Toma,\(^\text{134}\) the court again acknowledged the existence of the “technological arts” requirement for patentability.\(^\text{135}\)

The “technological arts” requirement was an accepted standard for patentability for twenty-five years. In 1995, the Board, in a 3-2 split, decided Ex Parte Lundgren,\(^\text{136}\) a landmark decision openly abolishing the technological arts requirement.\(^\text{137}\) The Board in Lundgren evaluated an invention for a method of compensating a manager.\(^\text{138}\) While acknowledging that the invention completely lacked a technical aspect, the Board granted the patent, regarding the previously acknowledged “technical arts” requirement as now obsolete.\(^\text{139}\) The court rejected the precedents of Musgrave and Toma on the grounds that they represented rejections based on the “mental steps” doctrine rather than the

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131. 431 F.2d 882 (CCPA 1970).
132. See id. at 892-93.
133. Id. (internal citations omitted).
134. 575 F.2d 872 (CCPA 1978). The invention at issue this case “involve[d] a method of operating a digital computer to translate from a source language, e.g. Russian, to a target natural language, e.g. English.” Id. at 874. The examiner rejected the claims because he was of the opinion that “a computerized method of translating is not, . . . in the ‘technological arts.’” Id. at 877. The court found that such an invention was within the technological arts because it functioned as a method of operating a machine. Id. The court pointed out that the technological arts inquiry must focus on whether the “claimed subject matter is statutory” not on whether the product or prior art is statutory. Id. at 877-78.
135. See id. at 877-78.
137. See id. at *5.
138. Id. at *1. The method set out a number steps relating to choosing a performance standard, measuring actual performance, determining the amount of compensation with regard to such a performance standard, and ending with the step of “transferring compensation to said manager, said transferred compensation having a value related to said managerial compensation amount.” Id.
139. See id. at *5.
"technological arts" test. By holding that "there is currently no judicially recognized separate 'technological arts' test to determine patent eligible subject matter under [§] 101," the court opened the door for a plethora of pure business method patents.

Acknowledging the existence of a technological arts requirement, and the ill-effects of allowing patents without a technological feature, Judge Smith dissented. Evaluating the "technological arts" test as a "more modern term for the reference to 'useful arts' in the Constitution," Judge Smith asserted that applying the test ensures progress of the useful arts by linking inventions with science and technology. He went on to state,

[t]he majority's position that essentially anything that can be claimed as a process is entitled to a patent under 35 U.S.C. [§] 101 opens the floodgate for patents on essentially any activity which can be pursued by human beings without regard to whether those activities have anything to do with the traditional sciences or whether they enhance the technological arts in any manner.

Judge Smith clearly feared frivolous patenting based on the mere notion that something is a process, irrespective of the nature, novelty, and non-obviousness of such process, which is the case in numerous pure business method patents. In closing, he noted that while upholding the examiner's rejection would discredit the validity of previously issued patents, "[i]t cannot possibly be good public policy to continue to issued invalid patents just to be consistent with the past."

140. See id. at *4.
142. Id. (Smith, J., dissenting).
143. Id. at *6. (Smith, J., dissenting).
144. Id. (Smith, J., dissenting).
145. Id. at *7. (Smith, J., dissenting).
146. Lundgren, 2004 W.L. 3561262, at *7 (Smith, J., dissenting).
V. LEGISLATIVE PROPOSALS FOR BUSINESS METHOD PATENT REFORM FOLLOWING STATE STREET

A. Business Method Patents Reform Act of 2000

Looking to clarify the ambiguities and raise the bar for patentability following State Street\textsuperscript{147} and \textit{AT&T},\textsuperscript{148} House Representatives Howard Berman and Rich Boucher introduced into Congress the Business Method Patent Improvement Act of 2000, H.R. 5364.\textsuperscript{149} Section 2 of H.R. 5364 presented a definition of "business method" to be incorporated into section 100 of title 35, stating:

(f) The term "business method" means—
   (1) a method of—
      (A) administering, managing, or otherwise operating an enterprise or organization, including a technique used in doing or conducting business; or
      (B) processing financial data;
      (2) any technique used in athletics, instruction or personal skills; and
      (3) any computer-assisted implementation of a method described in paragraph (1) or a technique described in paragraph (2)

(g) The term "business method invention" means—
   (1) any invention which is a business method (including any software or other apparatus); and
   (2) any invention which is comprised of any claim that is a business method.\textsuperscript{150}

Additionally, the proposed reform included a publication requirement, public participation in submitting prior art references, a post-grant opposition procedure, disclosure by applicants of the extent to which they performed a prior art search, a presumption of obviousness if the "only new feature is computer implementation" and a preponderance of the evidence standard for burden of proof for the challenger of patent validity.\textsuperscript{151}

\textsuperscript{147} See supra text accompanying notes 69-78.
\textsuperscript{148} See supra text accompanying notes 100-05.
\textsuperscript{149} H.R. 5364, 106th Cong. (2000).
\textsuperscript{150} Id.
\textsuperscript{151} See Allison & Tiller, supra note 8, at 1021-22 (discussing H.R. 5364).
While Congress did not pass H.R. 5364, it provided a useful opinion as to what a definition of “business method” might include. Berman and Boucher were not satisfied with Congress’s rejection, however, and, in early 2001, introduced a second, very similar bill directed again toward business method patent reform.


Paralleling many of the provisions in the 2000 bill, the Business Method Reform Act of 2001 also urged for definition and clarity in the evaluation of business method patents, with the additional proposition of giving third parties an opportunity to oppose patents. Congress held oversight hearings regarding the necessity of the legislation for reforming business method patents. Congress’s lack of action is shown by the current unchanged state of the statute.

However, earlier in 2000, the PTO had added class 705 and issued a White Paper regarding business method patents to address the complaints of the patent community without having to resort to legislative amendment. While such actions by the PTO were helpful in evaluating patents, they did little to limit or clarify directly what does and does not fall into the patentable “subject matter” under section 101. Instead, as stated above, the primary focus of the paper was to address what additional measures examiners would take, leaving matters of definition, which would have been somewhat solved by the proposed bill, still open and contentious.

C. Patent Reform Act of 2005

Possibly aware that a definition of “business methods” was unlikely ever to be addressed through congressional decision, no further business method patent reform bills were proposed to Congress following the denial

152. H.R. 1332, 107th Cong. (2002). However, the definition in the 2001 Bill, H.R. 1332 “emphasized the inclusion of only software-implemented business methods.” Allison & Tiller, supra note 8, at 1023 (discussing the provisions of H.R. 1332 and criticisms following its introduction).

153. See H.R. 1332, 107th Cong. § 322(b) (2001) (relating to the proposed opposition procedures).

154. See Allison & Tiller, supra note 8, at 1023-24. “Hearings . . . although naturally displaying some of the unease with business methods patents that prompted the bill’s introduction in the first place, also revealed concerns that the question whether an invention can be characterized as a business method would impose unnecessary burdens on the federal judiciary.” Id.

155. See supra note 11; supra text accompanying note 93.

156. See supra text accompanying notes 12 & 94.
of the 2001 bill. However, in 2005, a bill addressed more to patent reform in general was introduced on the house floor—the “Patent Reform Act of 2005,” H.R. 2795. While H.R. 2795 notably proposed to transfer our system to a “first to file” rather than a “first to invent” system, attention was given in part to business method patents. In section 9, an amendment was proposed for section 273 of title 35, the “first inventors defense,” to eliminate the term “method” from section (b)(1) in addition to striking paragraph (3), which further defines method as “a method of doing or conducting business.” The proposal does not evaluate the legitimacy of business method patents, but likely aims to suppress the leeway given to prior secret inventors in light of the expansive amount of time they have had to file since State Street and AT&T were decided in the late 1990s. Unfortunately, H.R. 2795 provides no additional definitions or provisions for section 101 regarding patentable subject matter, possibly because of the lack of success found by such recommendations in the past. Some supporters of business method patents would likely argue that if limiting amendments are necessary for this class of subject matter, such actions are within Congress’s authority. However, Congress’s last decision regarding the necessity of a definition of business methods was in 2001, not long after the State Street decision, when the extent of subject matter and number of patent applications the courts would be faced with in the future was unclear. If a more definite definition of “business methods” was presented today, in light of the evolving technology, especially within the software realm, Congress might find greater legitimacy and necessity in limiting the scope of the class and focusing it toward new inventions that would promote progress.

VI. A EUROPEAN VIEW OF BUSINESS METHOD PATENTS

A polar opposite to the American patenting system, as far as statutory language goes, the European Patent Office (EPO) directly forbids issuing business method patents. Under the European Patent Convention (EPC), patents are granted for “any inventions which are susceptible of industrial application, which are new and which involve an inventive step,” a
standard very similar to that of 35 U.S.C. § 101. Additionally, however, in order to meet EPC patentability requirements, “an invention must be of a technical character to the extent that it must relate to a technical field, must be concerned with a technical problem and must have technical features in terms of which the matter for which protection is sought can be defined in the patent claim.”

Article 52(2) further states, “[t]he following in particular shall not be regarded as inventions within the meaning of paragraph 1: . . . schemes, rules and methods for performing mental acts, playing games or doing business, and programs for computers.” While the EPO categorically disallows business method patents, the reality of its ban is far less clear. The inclusion of business method patents in limited circumstances is based on the language of Article 52(3), which states “[t]he provisions of paragraph 2 shall exclude patentability of the subject-matter or activities referred to in that provision only to the extent which a European patent application or European patent relates to such subject-matter or activities as such.” “As such” has been construed only to exclude pure business method patents, leaving an avenue of patentability for inventions of a technical character even if such invention involves a business method or computer program, as long as the invention meets the requirements of Articles 54 (novelty), 56 (inventive step) and 57 (industrial application).

In terms of patentable subject matter, the European and American systems similarly allow business method patents for software, especially pre-State Street, and distinctly differ on pure nontechnical business methods. However, within the computer realm it is more difficult for business method patents to meet the criteria of Article 56, the European

162. See 35 U.S.C. § 101 (2007) (“Whoever 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 therefor, subject to the conditions and requirements of this title”).
164. EPC art. 52(2).
165. Id. art. 52(3).
166. See Patentability of Methods, supra note 163.
167. See EPC art. 54.
168. See id. art. 56.
169. See id. art. 57.
170. See generally Gladstone, supra note 4, at 226-27; Conley, supra note 27, at 23-27. The EPO does not grant business method patents lacking technical character. See Patentability of Methods, supra note 163.
"inventive step" or non-obviousness requirement.\textsuperscript{171} Computer inventions, which by their nature, control the operation of a computer, cause a technical effect, regardless of whether they involve the computer controlling a secondary device or process or are directly related to the computer's internal functions.\textsuperscript{172} While novelty does not require a technical contribution,\textsuperscript{173} the criteria of non-obviousness is assessed with the technical contribution being a necessity.\textsuperscript{174} As the Commission of the European Communities (Commission) succinctly stated, "[t]he fact that the technical contribution also has to be non-obvious is an important limitation of the patentability of computer-implemented inventions."\textsuperscript{175}

Providing further clarity of the "technical contribution" requirement to non-obviousness, the Commission defined "technical contribution" as "the difference between the technical features of the invention as claimed and the technological state of the art."\textsuperscript{176} The Commission continued, noting "[a] computer-implemented invention which merely automates a known process using well known automation techniques will, in principle, be obvious and therefore cannot, in principle, be considered to involve an inventive step."\textsuperscript{177}

The Commission further discussed general examples of what technical contributions consist of, including "enhanced processing speed," "more

\textsuperscript{171} EPC art. 56.

An invention shall be considered as involving an inventive step if, having regard to the state of the art, it is not obvious to a person skilled in the art. If the state of the art also includes documents within the meaning of Article 54, paragraph 3, these documents are not to be considered in deciding whether there has been an inventive step.

\textit{Id.}


\textsuperscript{173} \textit{Id}. at 4.
\textsuperscript{174} \textit{Id}.
\textsuperscript{175} \textit{Id}.
\textsuperscript{176} \textit{Id}. at 6.
\textsuperscript{177} Commission of the European Communities, \textit{supra} note 172, at 6.
economical use of memory," and "improved user interface." Notably, the Commission addressed the scope of such patents, commenting that when there is a technological contribution on an invention that "comprises a non-technical feature, e.g. a commercial one . . . this commercial feature (business application) should not legally be monopolized by the patent." It is likely the underlying interest of the Commission is to prevent infringement actions against individuals based on the non-technical business methods included as part of the patent for purposes of description. Such a restriction, if adopted in the United States, might diminish the use of patents primarily as licensing tools.

In addition to the EPC regulations, national laws may provide regulations reflecting their own application of patenting procedures and requirements. For example, in the United Kingdom, the patent laws have a parallel regulation that specifically excludes methods for doing business. The German Federal Patent Court, while allowing business methods, implements a "two-step examination for business method patentability including technical character and novelty." Belgium provides business method patents "[w]hen a business method requires for its implementation or even for its conception a use of technical means (in the majority of cases in the area of information technology) which cannot be executed mentally in real time, the method no longer falls in the domain of the excluded methods and can therefor be patented."

178. Id. at 8.
179. See id. "For instance, a computer-backed order tracking process using radio communication for use in a restaurant can be patented if the process is novel and makes a technical contribution, which may lie, e.g., in the speed of the transmission[s]." Id.
180. Conley, supra note 27, at 27.
181. See United Kingdom, Patents Act of 1977, § 1(2)(c), available at http://www.patent.gov.uk/practice-sec-001.pdf (last visited Apr. 24, 2007). "It is hereby declared that the following (among other things) are not inventions for the purposes of this Act, that is to say anything which consists of . . . (c) a scheme, rule or method for performing a mental act, playing a game or doing business, or a program for a computer." Id.
183. See http://www.aippi.org/reports/q158/gr-q158-Belgium-f.htm (scroll down to summary for English) (providing a summary regarding the limited allowance of business method patents in Belgium).
VII. INCORPORATION OF THE EUROPEAN SYSTEM IN AMERICA

Following State Street, the main objection to business method patents was simply that they should not exist. Many critics felt that business methods were clearly outside the subject matter categorized by 35 U.S.C. § 101. Most arguments likely evolved from the notion that "inventions" should relate to scientific developments and, therefore, the documenting of simple processes, such as a method of compensating a manager as seen in Ex Parte Lundgren,\textsuperscript{184} seemed mundane and not within the goals of Article 1, section 8, clause 8 of the Constitution.\textsuperscript{185} Additionally, granting a monopoly on such process did not promote the sciences and useful arts. Such criticisms were well-placed.

The decisions in State Street and Ex Parte Lundgren, essentially opened the door to an infant class of subject matter without child-proofing the system first—thereby leading to a flood of patents and the granting of misplaced monopolies. The issue, however, does not hinge on the premise that they, as a class should never be considered patentable subject matter. With a more structured system, similar to that in the European Union, patents would be granted on a more limited basis in relation to invention, rather than to category.

First, the United States should follow the European approach and implement a categorical exclusion for business method patents, separate from that of computer software. Immediately following State Street patents on business methods rose from around 300 prior to the decision to nearly 3000 in the following year.\textsuperscript{186} However, in 2006, only 20% of business method patents were granted.\textsuperscript{187} This is in part due to the outrage against arbitrary decisions as to what is and is not patentable. The lack of resources and knowledge, while improving, are evidence of the inability to judge properly this still undefined category. Creating a qualified categorical exclusion, much like that in Article 52(1) of the EPC,\textsuperscript{188} and specific narrow definitions, would discourage frivolous patents and patents on processes that are better protected by trade secrets, while still giving patent examiners the ability to grant patents that have met specified criteria.

\textsuperscript{184} See supra text accompanying note 138.
\textsuperscript{185} See supra note 21.
\textsuperscript{186} See supra text accompanying note 87.
\textsuperscript{188} See supra note 161 and accompanying text.
While many individuals may oppose a stricter statutory regulation of business method patents on the grounds that granting more patents promotes greater innovation and such inventors should be rewarded, it is historically clear that limitations on patentable subject matter have always existed. 189 The potential limitations would serve a streamlining function based on the essential “exceptions to the rule.” The new regulations should not be viewed as an attempt to stifle, but rather as an avenue to discourage frivolous and malicious applications.

Current business method patents are being used more and more often as licensing devices, that is, an additional avenue of revenue, either through licensing fees or infringement claims. Initially, prior to the enactment of 35 U.S.C. § 273(b), business method patents could be used offensively against individuals who practiced what once was industry-wide processes by the company who first made it to the PTO. Today, such processes have been developed into licensing devices hoarded by companies, 190 use of which, in turn, have to be paid for by inventors as a basis to begin invention. With a standardized method for examining whether business methods qualify under statutory guidelines, restrictive and abusive uses of patents could be lessened and innovative opportunity increased.

Also, it is important to re-institute the technical arts requirement, as the EPC does, and require the non-obvious element be met within the realm of technical arts. The expanding realm of software patents is allowing business methods that simply involve known uses of a computer in different ways without making any technical contribution. Limiting business method patents to technical aspects of software that are non-obvious aids in evaluating what might be a long-term innovation as opposed to some of the current patents on the software developing at a more rapid pace. Requiring that non-obviousness exists in a technical field might lengthen development there by providing additional prior art and

189. See supra Part II.

An industry has developed in which firms use patents not as a basis for producing and selling goods, but, instead, primarily for obtaining licensing fees. For these firms, an injunction and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent.

Id.; see also Gladstone, supra note 4, at 232-33 (briefly discussing cross licensing, licensing costs, and the new industry “licensing shops”).
knowledge base by which to determine obviousness over a longer time span. This would promote both legitimate validity and successfully serve the goals enumerated in Article 1, Section 8 of the Constitution.\textsuperscript{191}

The importance of promoting a technical non-obviousness requirement has existed in case law dating as far back as \textit{Hotel Security}, in which the court, in dicta, implied its concern about the nature of business methods, due in part to the potential of limiting everyday processes and ideas inherent in the nature of business.\textsuperscript{192} The dissent in \textit{In re Lundgren} voiced similar concerns nearly a decade later when the "technical arts" requirement was rejected as being both nonexistent and unnecessary.\textsuperscript{193} Hence, the importance of "technical arts" has long been established as a base for patenting and, therefore, should apply equally to business method patents, especially when determining whether the inventions should be found obvious.

\section*{VIII. CONCLUSION}

To continue promoting the constitutional values underlying the patenting system and achieving the goals of invention and innovation, business method patents must be issued narrowly. There is currently no statutory language directly relating to business method patents and past attempts to achieve those ends have failed in Congress. With the constantly expanding realm of the Internet and computer software, it is important to enforce limitations so novelty and non-obviousness are ensured and licensing does not get out of hand. Additionally, in narrowing the scope of patentability to include a technical requirement of non-obviousness, business method patents would not potentially encompass simple ideas that belong in the public domain.

Ideally, a statutory ban on "business method" patents as a class, with qualifying exceptions, would lessen the number of patent applications and more readily provide a basis on which to start a search for prior art. However, more importantly, a set definition of what constitutes a "business method" and specific evaluation criteria for novelty and a technical arts requirement for non-obviousness are essential. By creating such standards, not only would the quality of patents increase, but fear of infringement and necessity to purchase numerous licenses would decrease. This would set the stage for a better community in which innovation in the

\textsuperscript{191} See supra text accompanying note 21. \textsuperscript{192} See supra text accompanying note 80. \textsuperscript{193} See supra text accompanying notes 143-54.
arts and sciences would be stimulated and inventions would truly serve the purpose of "promoting the Sciences and Useful Arts."