

2008

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Recommended Citation

Scott D. Locke and William D. Schmidt, *Business Method Patents: The Challenge of Coping With an Ever Changing Standard of Patentability*, 18 Fordham Intell. Prop. Media & Ent. L.J. 1079 (2008).

Available at: <https://ir.lawnet.fordham.edu/iplj/vol18/iss5/2>

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Business Method Patents: The Challenge of Coping with an Ever Changing Standard of Patentability

Scott D. Locke* and William D. Schmidt†

INTRODUCTION

In an era in which intellectual property makes up the lion's share of the value of most technology companies, there are few people who have not heard of "business method patents." Unfortunately, most of these people express some level of disdain for these types of patents, even if they do not know why they dislike business method patents or what these types of patents represent.

The unhappiness has at least four different sources. First, there is an intuition among business persons and the patent bar that too frequently the Patent Office issues business method patents that are of inconsistent quality and inconsistent scope. Second, the courts have provided inconsistent analytic frameworks under which to consider whether business methods patents, as well as other

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patents, contain patentable subject matter. Third, in large part the inventors who receive these patents are not the traditional inventors who tinker in their laboratories or in their garages, and although not necessarily justified, there is an unspoken resentment to giving them the same reward of patent rights as are given to traditional inventors. Fourth, for all of the complaints about these types of patents, Congress and the courts have refused to provide a clear standard of patentability or to define what is within the scope of patentable subject matter.

Overlaying the backdrop of unhappiness is a misconception about what a business method patent is. A business method patent is not a special subset of patents; there are only three types of patents—utility patents,¹ design patents,² and plant patents.³ What is colloquially referred to as a business method patent is merely a utility patent that claims its subject matter in a particular way and/or is related to a particular sets of industries. For example, the phrase has frequently been used to describe patents for which inventors in the financial, e-commerce, marketing, and computer science industries have applied. The claims of these patents are often directed to the movement or processing of information with or without technical devices such as computers.

The Court of Appeals for the Federal Circuit (“CAFC”) has recently answered the outcry of complainants about the quality, nature, and number of business method patents. As discussed in more detail below, in February 2008 the CAFC announced that it would reconsider en banc a number of issues with respect to business methods patents. Two years prior to that, at least three Justices on the Supreme Court sent a signal that they too wanted to weigh in on this issue. This article provides a brief history of the recent developments in business method jurisprudence and provides suggestions on how clients may protect themselves in these times of uncertainty.

¹ 35 U.S.C. §§ 101–57 (2006).

² *Id.* §§ 171–73.

³ *Id.* §§ 161–64.

I. THE RECENT RISE OF THE BUSINESS METHOD PATENT

The uproar about “business methods” is a relatively recent development in the patent law largely because until technology could support the large-scale implementation of inventions that are directed to improved ways of conducting businesses, these types of inventions were not implemented on a wide enough scale to have a significant impact on any one industry. However, with the rise of the Internet and the ever increasingly powerful and affordable computer based technologies, there has been an explosion of opportunities in which to develop inventions with great economic return.

Before addressing the issue surrounding patents for business methods, it is worth expanding on what is meant by a business method patent. Informally, one may group together as business methods any methods that: (1) are not required to be tied to a particular technologic device; (2) may involve steps for moving or processing information and data; and (3) may be able to be performed more efficiently through the use of a computer or other electronic devices. Although claims may be phrased without reference to a particular device, when the claims reference computer hardware, they often refer to generic components such as processors, digital memories and electronic storage devices.

In contrast to the informal way that the public groups together diverse species of patent applications as business method patents, the United States Patent and Trademark Office (“PTO”) groups inventions into formal classes for purposes of assigning patent applications to art units and having the applications examined by qualified examiners. The most common classification for what is referred to as business methods patents is:

Classification 705: DATA PROCESSING:
FINANCIAL, BUSINESS PRACTICE,
MANAGEMENT, OR COST/PRICE
DETERMINATION.

Class Definition: 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.

...

This class additionally provides for subject matter described in the two paragraphs above in combination with cryptographic apparatus or method.⁴

According to the PTO's records, in 2006 there were over 7,485 serialized filings in this class and over 10,015 total applications (including Continued Prosecution Applications and Request for Continued Examination filings).⁵ This is an eight-fold increase in serialized filings since 1997 and a ten-fold increase in total filings since 1997.⁶ Although there were 425,967 utility patent applications filed in 2006,⁷ and thus only about 2.35% were in this class, it is important to note that over the past ten years it has become common to include business method type claims, or at least support for these types of claims in applications that were directed to diverse areas of technology. Thus, as one thinks of business method patents and first looks to e-commerce and the financial industry, one should not forget that a business method patent can arise out of any other industry, e.g., bioinformatics, service industries, marketing industries and distribution channels.

⁴ MANUAL OF PATENT CLASSIFICATION (U.S. Pat. and Trademark Office, June 30, 2000), available at <http://www.uspto.gov/go/taf/def/705.htm>.

⁵ U.S. Pat. and Trademark Office, Class 705 Application Filing and Patents Issued Data, <http://www.uspto.gov/web/menu/pbmethod/applicationfiling.htm> (last visited Mar. 13, 2008).

⁶ *Id.*

⁷ U.S. Pat. and Trademark Office, Reports Available for Viewing, http://www.uspto.gov/web/offices/ac/ido/oeip/taf/reports.htm#by_type (last visited Mar. 13, 2008).

Similarly, one should remember that all utility patents must satisfy the same standards of patentability: utility,⁸ novelty,⁹ non-obviousness,¹⁰ and patentable subject matter.¹¹

With respect to the issue of patentable subject matter the patent code explicitly provides: “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.”¹² Until a decade ago, there was an open issue as to whether “business method patents” satisfied this standard of patentable subject matter.

A. *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*

In 1998, the CAFC issued the first of two seminal decisions that ushered in the recent history of business method patents. In *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*,¹³ under 35 U.S.C. § 101, the CAFC confronted whether the claims at issue fell within two judicially-created exceptions to statutory subject matter: (1) the mathematical algorithm exception and (2) the business method exception.¹⁴

The claims of the patent at issue were challenged as part of a declaratory judgment action.¹⁵ The claims were directed to a data processing system in which mutual funds (spokes) pool their assets in an investment portfolio (hub) organized as a partnership; there was a means for a daily allocation of assets for two or more spokes that were invested in the same hub.¹⁶ It is important to note that when the applicant filed the initial application, the applicant filed

⁸ 35 U.S.C. § 101 (2000).

⁹ *Id.* § 102.

¹⁰ *Id.* § 103.

¹¹ *Id.* § 101.

¹² *Id.*

¹³ 149 F.3d 1368 (Fed. Cir. 1998).

¹⁴ *Id.* at 1372.

¹⁵ *Id.* at 1370; *see also* Data Processing for Hub & Spoke Fin. Servs. Configuration, U.S. Patent No. 5,193,056 (filed Mar. 11, 1991).

¹⁶ *State Street*, 149 F.3d at 1371.

both method and machine claims but during prosecution canceled the method claims.¹⁷

Before confronting the two exceptions to patentable subject matter, the CAFC emphasized that 35 U.S.C. § 101 repeatedly uses the expansive term “any” and inferred that Congress intended for the scope of what is patentable to be broad: “Congress intended § 101 to extend to ‘anything under the sun that is made by man.’ . . . Thus, it is improper to read limitations into § 101 on the subject matter that may be patented where the legislative history indicates that Congress clearly did not intend such limitations”.¹⁸

With respect to the first exception before it, the CAFC noted, “[T]he [Supreme] Court has held that mathematical algorithms are not patentable subject matter to the extent that they are merely abstract ideas.”¹⁹ Nevertheless, the CAFC interpreted this exception narrowly in holding that the transformation of data through a series of calculations resulted in a practical application, a dollar amount, which was not a mere abstract idea.²⁰ The CAFC justified its holding by noting that the algorithm produced “a useful, concrete and tangible result”— a dollar amount (a final share price) momentarily fixed for recording and reporting purposes.²¹

With respect to the issue of whether the claims at issue were unpatentable due to a business method exception to patentability, the CAFC curtly emphasized, “[w]e take this opportunity to lay this ill-conceived exception to rest.”²²

¹⁷ *Id.*

¹⁸ *State Street*, 149 F.3d at 1373 (quoting *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980)).

¹⁹ *Id.* at 1373.

²⁰ *Id.*

²¹ *Id.*

²² *Id.* at 1375. The CAFC further noted:

Since its inception, “the business method” exception has merely represented the application of some general, but no longer applicable legal principle, perhaps arising out of the “requirement for invention”—which was eliminated by § 103. Since the 1952 Patent Act, business methods have been, and should have been, subject to the same legal requirements for patentability as applied to any other process or method.

Id.

B. AT&T Corp. v. Excel Communications, Inc.

The following year, the CAFC decided the second seminal case, *AT&T Corp. v. Excel Communications, Inc.*²³ The patent at issue in that case was directed to a message recording system for long-distance telephone calls that is enhanced by adding a primary interexchange carrier (“PIC”) indicator, which provides differential billing treatment for subscribers depending upon whether a subscriber calls someone with the same or a different long-distance carrier.²⁴ The system utilized three steps: (1) after the long-distance call is transmitted over the local exchange carrier network to a switch and the local exchange carrier (“LEC”) identifies the PIC, the LEC automatically routes the call to the facilities used by the caller’s PIC; (2) the PIC’s facilities carry the call to the LEC serving the call recipient; and (3) the call recipient’s LEC delivers the call over its local network.²⁵ The invention called for the addition of a data field into a standard message record to indicate whether a call involves a particular PIC.²⁶

As with *State Street*, at issue was whether the claims involved non-statutory subject matter.²⁷ The claims in *AT&T* were directed to processes that use the Boolean principle in order to determine the value of the PIC indicator, which the CAFC considered as statutory subject matter.²⁸ The useful result was described as “facilitat[ing] differential billing of long-distance calls.” Again, the CAFC emphasized that any proscription against mathematical algorithms is narrowly limited to the formulas in the abstract.²⁹ Although the CAFC did not emphasize the distinction, in *AT&T*, unlike in *State Street*, the claims were directed to methods that facilitated billing, which is a type of business method.

In *AT&T*, the CAFC also emphasized: (i) there is no invariable requirement of a physical transformation or conversion of subject

²³ 172 F.3d 1352 (Fed. Cir. 1999).

²⁴ *Id.* at 1353; *see also* Call Message Recording for Tel. Sys., U.S. Patent No. 5,333,184 (filed May 6, 1992).

²⁵ *AT&T*, 172 F.3d at 1354.

²⁶ *Id.*

²⁷ *Id.* at 1355.

²⁸ *Id.* at 1358.

²⁹ *Id.* at 1356.

matter from one state into another; and (ii) producing a number that has specific meaning is a useful, concrete, tangible result.³⁰ Thus, it signaled a willingness to view most inventions related to business practices or processing of information to be potential innovations on which to award patent rights.

State Street and *AT&T* were decided in the middle of the e-commerce boom and most start-up businesses took the cue from the PTO that there was no statutory bar to patentability for e-commerce and information technology businesses and took their cue from Wall Street that in order to get funding they must stake out a patent position.

C. Congress' Implicit Approval of the Business Method Patent

In 1999, Congress implicitly recognized the patentability of business methods by enacting 35 U.S.C. § 273, which provides a defense to infringement if the accused infringer reduced to practice the claimed "method of doing or conducting business" more than one year prior to the effective filing date and began commercially using the claimed method before the effective filing date.³¹ This statute is known as the prior use defense to infringement.³² At that time Congress could have overruled *State Street*, but chose not to do so, and many diverse industries relied on this Congressional inaction as a welcome mat to the Patent Office.

D. The PTO in 2005

A few years later, as the PTO was becoming inundated with business method patent applications, in *Ex parte Lundgren*,³³ the Board of Patent Appeals and Interferences was asked to address the issue of patentable subject matter: the issues were presented to Administrative Patent Judges ("APJs") Fleming, Harkcom, Hairston, Smith and Barrett.³⁴ APJ Barrett concurred and dissented.³⁵ APJ Smith dissented.³⁶

³⁰ *Id.* at 1358–89.

³¹ 35 U.S.C. §§ 273(a)(3)–(b)(1) (2006).

³² See WEST'S FEDERAL ADMINISTRATIVE PRACTICE § 3957 (3d ed. 2007).

³³ 76 U.S.P.Q.2d 1385 (Bd. Pat. App. Int. 2005).

³⁴ *Id.* at 1385.

³⁵ *Id.*

In the patent application at issue, claim 1 was directed to a method of compensating a manager.³⁷ The Board considered two issues: (1) whether the invention was in the technological arts and directed to patentable subject matter; and (2) whether the claims of transferring compensation to a manager was a practical application that achieves a useful result.³⁸

The Board quoted *AT&T*: “a process claim that applies a mathematical algorithm to ‘produce a useful, concrete, tangible result without pre-empting other uses of the mathematical principle, on its face comfortably falls within the scope of § 101.’”³⁹ It also emphasized that, although there is no computer step, because there is a last step of transferring funds, the claim was directed to patentable subject matter.⁴⁰ It further confronted the issue of whether there is a separate “technological arts” test and rejected that test.⁴¹ Thus, *Ex parte Lundgren* was consistent with both the CAFC’s prior holdings and Congress’ implicit approval that there were few limits to the growing reach of business method patents.

On November 22, 2005, the USPTO, in its interim guidelines,⁴² noted that: (i) statutory subject matter must fall within § 101; and (ii) statutory subject matter cannot fall within an exception, such as laws of nature, natural phenomena, and abstract ideas, but a practical application may be patented. The guidelines explain that a practical application can be identified by the following tests: (i) a physical transformation of an article to a different state or thing; (ii) the production of a useful, concrete and tangible result; and (iii) the subject matter must not preempt every substantial practical application of the nature, natural phenomena or abstract idea.⁴³ By providing these guidelines for consideration, the PTO tried to give

³⁶ *Id.*

³⁷ *Id.*

³⁸ *See id.* at 1386.

³⁹ *Id.* (quoting *AT&T Corp. v. Excel Commc’ns, Inc.*, 172 F.3d 1352, 1358 (Fed. Cir. 1999)).

⁴⁰ *See id.*

⁴¹ *Id.* at 1386–87.

⁴² *See* U.S. Pat. and Trademark Office, OG Notice: 22 Nov. 2005, *available at* <http://www.uspto.gov/web/offices/com/sol/og/2005/week47/patgupa.htm>.

⁴³ *Id.*

Examiners an analytical framework in which to consider the issue of patentable subject matter. As a matter of practicality, the guidelines did little to restrict the scope of patentable subject matter.

E. Complaints from Above and Below

In 2006, both the United States Supreme Court and the Board of Patent Appeals and Interferences began to express their disdain for the developments in the law of what is patentable subject matter, particularly with respect to business method patents.

In *Lab Corp. v. Metabolite*, the Supreme Court was set to weigh in on the issue of patentable subject matter. The claim related whether any test to measure an amino acid in body fluid and using elevated levels as an indication of disease was directed to a natural phenomena.⁴⁴ Unfortunately, before the Court decided the case, it dismissed the writ of *certiorari* on procedural grounds.⁴⁵ However, Justices Breyer, Stevens and Souter were of the view that the issue of patentable subject matter was critically important and wanted to hear the case, expressing particular concern that the “tangible, concrete, useful” test was improper.⁴⁶ That it was these three justices who were critical of the expanding scope of the patent system, does not bode well for patent holders of the broadest business method patents. Patent holders can only expect that the more strict constructionist justices will be even more critical of the current scope of patentable subject matter.

Further, in 2006 the Board of Patent Appeals and Interference decided *In re Bilski*.⁴⁷ This case was before Administrative Patent Judges Frankfort, McQuade, Barrett, Bahr and Nagumo.⁴⁸ Notably, only Barrett was on the panel for *Lundgren*. The patent application in *Bilski* was directed to a method for managing the consumption risk costs of a commodity sold by a commodity provider at a fixed price.⁴⁹ The Board considered whether the

⁴⁴ *Lab. Corp. of Am. Holdings v. Metabolite Lab., Inc.*, 126 S. Ct. 2921, 2921 (2006).

⁴⁵ *Id.*

⁴⁶ *Id.* at 2928.

⁴⁷ *In re Bilski*, 2006 Pat. App. LEXIS 51 (Mar. 8, 2006).

⁴⁸ *Id.* at *1.

⁴⁹ *Id.*

invention was directed to a statutory process under 35 U.S.C. § 101. After adopting the concurrence in part and dissent in part of *Lundgren*, rather than following the precedent of *State Street* or the majority in *Lundgren*, the Board reasoned that the Constitution places a limit on what is patentable subject matter, and that the phrase “useful arts” as used in the Constitution is the modern equivalent of the technological arts.

The Board also challenged the oft-quoted phrase that Congress intended statutory subject matter to include “anything under the sun [that is] made by man.” This phrase, lifted from S. Rep. No. 1979 reprinted in 1952 U.S. Code Cong. & Admin. News at 2399, reads “[a] person may have ‘invented’ a machine or manufacture which may include anything under the sun made by man, but it is not necessarily patentable under § 101 unless the conditions of the title are fulfilled.”⁵⁰ The Board stated that the sentence does not mention a “process” or a “composition of matter,” and that it is not clear that “anything under the sun made by man” was intended to include every series of acts conceived by man.⁵¹

The Board also limited the *State Street* and *AT&T* test of a useful, concrete and tangible result to claims to machines and machine implemented processes, and questioned whether the useful, concrete and tangible result test is a general test for statutory subject matter.⁵² Finally, the Board not only expressed disagreement with the CAFC, but also rejected the Patent Office’s own interim guidelines.⁵³

⁵⁰ *Id.* at *15.

⁵¹ *Id.* at *16.

⁵² *Id.* at *17.

⁵³ The Board emphasized the following problems with the guidelines: The Board is not bound by the interim guidelines and those guidelines have problems: (i) implicit is a concession that any series of steps is a process and this does not address the case law that not every process in the dictionary sense is a process; (ii) there is no guidance on how to determine whether an invention is to an abstract idea, and the guidelines treat exclusions as exceptions; (iii) the guidelines state that the transformation or reduction of an article to a different state or thing is a statutory practical application, and this perpetuates the misunderstanding that transformation requires a physical transformation, contrary to cases that explain that the subject matter be physical yet intangible e.g., electrical signals; (iv) the guidelines make the “useful, concrete and tangible” result test of *State Street* a general test without addressing the fact that *State Street* was qualified by transformation of data by a machine and that *AT&T* involved machine implemented process claims; and

F. The CAFC Pulls Back (2007–2008)

Amid the growing disfavor of an almost unrestricted scope of patentable subject matter, in a pair of decisions that were issued in September 2007, the CAFC put certain limits on what qualifies as patentable subject matter.

First, in *In re Comiskey*, the CAFC was presented with an appeal from the Board of Patent Appeals and Interferences involving U.S. Pat. App. 09/461,742 titled “A method for mandatory arbitration resolution regarding one or more unilateral documents.”⁵⁴ Certain claims of this patent application did not require the use of a mechanical device such as a computer, while other claims did require such devices.⁵⁵ The issue before the CAFC was whether claims for mandatory arbitration for unilateral and contractual documents claim statutory subject matter.⁵⁶

Following *State Street* and *AT&T*, the CAFC emphasized: “The Constitution explicitly limited patentability to ‘the national purpose of advancing the useful arts—the process today called technological innovation.’”⁵⁷ From there it affirmatively announced that not every process is patentable and reemphasized that abstract ideas are not patentable.

The court then explained two aspects of the prohibition against the patenting of abstract ideas: (i) if there is no practical application it is not patentable; and (ii) there may be a practical application, only if as employed in the process, it is embodied in, operates on, transforms, or otherwise involves another class of subject matter, such as a machine, manufacture, or composition of matter.⁵⁸

The CAFC also emphasized that a claim that involves both a mental process and one of the other categories of statutory subject

(v) the guidelines attempt to define the terms useful, concrete and tangible but have not cited any support in § 101.

⁵⁴ *In re Comiskey*, 499 F.3d 1365, 1368 (Fed. Cir. 2007).

⁵⁵ *Id.* at 1369.

⁵⁶ *Id.* at 1371.

⁵⁷ *Id.* at 1375 (quoting *Paulik v. Rizkalla*, 760 F.2d 1270, 1276 (Fed. Cir. 1985)). This raises an interesting question as to whether design patents and plant patents are within the scope of patentable subject matter.

⁵⁸ *Id.* at 1376.

matter may be patentable under 35 U.S.C § 101, but mental processes—or processes of human thinking—standing alone are not patentable even if they have practical application. The CAFC further stated, “the present statute does not allow patents to be issued on particular business systems—such as a particular type of arbitration—that depend entirely on the use of mental processes.”⁵⁹

Based on this analysis in *In re Comiskey*, the court concluded that although claims 1 and 32 described an allegedly novel way of requiring and conducting arbitration; they were still unpatentable, but in claims 17 and 46, there was a recitation of the term “module,” and this rendered the claims to be of patentable subject matter.⁶⁰ The court emphasized that “[w]hen an unpatentable mental process is combined with a machine, the combination may produce patentable subject matter . . .”⁶¹ The court also noted that while the mere use of a machine to collect data necessary for application of the mental process may not make the claim patentable subject matter, the claims at issue combined the use of machines with a mental process, and therefore claim patentable subject matter.

In September 2007, the CAFC also decided *In re Nuijten*.⁶² This was not a business method case, but also involved the issue of statutory subject matter. The claims at issue were directed to a signal that has been encoded in a particular manner, by reducing distortion induced by the introduction of watermarks that are not detectable.⁶³ The issue was whether a signal is patentable subject matter.⁶⁴ The court held, “transitory embodiments are not directed to statutory subject matter.”⁶⁵ On February 11, 2008, the CAFC denied the rehearing petition for retrieving;⁶⁶ however, Judges Linn, Newman and Roder suggested that the decision conflicted with Supreme Court precedent in *Diamond v. Chakrabarty*,⁶⁷ that

⁵⁹ *Id.* at 1378.

⁶⁰ *Id.* at 1379.

⁶¹ *Id.*

⁶² *In re Nuijten (Nuijten I)*, 500 F.3d 1346 (Fed. Cir. 2007).

⁶³ *Id.* at 1348.

⁶⁴ *Id.*

⁶⁵ *Id.* at 1353.

⁶⁶ *In re Nuijten (Nuijten II)*, 515 F.3d 1361, 1362 (Fed. Cir. 2008).

⁶⁷ 447 U.S. 303 (1980)

except for certain enumerable exceptions, anything under the sun that is made by man is patentable.⁶⁸

Bilski, which as noted above was the Board of Patent Appeals and Interferences' most vocal complaint of the direction of business method patents was also appealed to the CAFC.⁶⁹ Oral argument was made on October 1, 2007.⁷⁰ However, rather than decide the case, on February 15, 2008, the CAFC issued a per curiam opinion on behalf of the eleven circuit judges to consider the following issues:

- (1) Whether claim 1 of the 08/833,892 patent application claims at issue is patent-eligible subject matter under 35 U.S.C. § 101?
- (2) What standard should govern in determining whether a process is patent-eligible subject matter under § 101?
- (3) Whether the claimed subject matter is not patent-eligible because it constitutes an abstract idea or mental process; when does a claim that contains both mental and physical steps create patent-eligible subject matter?
- (4) Whether a method or process must result in a physical transformation of an article or be tied to a machine to be patent-eligible subject matter under § 101?
- (5) Whether it is appropriate to reconsider *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*,⁷¹ and *AT&T Corp. v. Excel Communications, Inc.*,⁷² in this case and, if so, whether those cases should be overruled in any respect?⁷³

*G. The Resurrection of the Non-Obviousness Standard:
35 U.S.C. § 103*

Against this backdrop of a rapidly changing landscape with respect to evaluating whether a claim is directed to patentable

⁶⁸ *Nuijten II*, 515 F.3d at 1362.

⁶⁹ *In re Bilski*, No. 2007-1130, 2008 WL 417680, at *1 (Fed. Cir. Feb. 15, 2008).

⁷⁰ *Id.*

⁷¹ 149 F.3d 1368 (Fed. Cir. 1998).

⁷² 172 F.3d 1352 (Fed. Cir. 1999).

⁷³ *Bilski*, No. 2007-1130, 2008 WL 417680 at *1.

subject matter, in 2007 in the now seminal decision *KSR International v. Teleflex*, the United States Supreme Court revamped the analysis for an inquiry into whether a claim is obvious.⁷⁴

Prior to *KSR*, after an Examiner would combine two or more references to make an obviousness rejection, an applicant would argue that the Examiner did not show where the references teach, suggest or motivate (“TSM”) to combine themselves or whether some other reference taught, suggested or motivated their combination, and if the PTO could not refute this, a patent would often issue, albeit sometimes with the need of a declaration of a person of ordinary skill in the art. In *KSR*, which did not involve a business method patent, the Supreme Court rejected the TSM test, and in essence held that creative people would look to different and diverse areas to combine ideas and doing so would be obvious.⁷⁵

Although the PTO must articulate its reasons, the PTO can now take into account the inferences and creative steps that a person of ordinary skill in the art would employ: “Granting patent protection to advances that would occur in the ordinary course without real innovation retards progress and may, in the case of patents combining previously known elements, deprive inventions of their value or utility.”⁷⁶

KSR is particularly significant for business method patents because many of these patents are based on the contribution of known business or data processes. Thus, under *KSR*, examiners will feel supported in using rejections under 35 U.S.C. §103 for obviousness based on the combinations of previously known elements if those elements do not explicitly suggest being combined.

⁷⁴ 127 S. Ct. 1727 (2007).

⁷⁵ See *id.* at 1742.

⁷⁶ *Id.* at 1741.

CONCLUSION

If two things are clear, they are: (1) currently there is no clear standard of what is patentable subject matter; and (2) what the future will look like with respect to patentable subject matter and business method patents in particular is unclear. Yet, inventors cannot wait for the courts to clarify these issues, and they must proceed with filing their patent applications as the inventions are created. Thus, under the current landscape, when seeking to obtain patent protection for business methods, one should consider linking the business method to machines or physical manifestations, (e.g., machine implemented process of databases), as well as laying the foundation for more general methods. However, an inventor should also be prepared to rebut rejections under 35 U.S.C. § 103 obviousness rejections and under 35 U.S.C. § 112 for being overbroad. It is likely that when the dust settles, Examiners will increasingly turn to these provisions for rejecting business method patent applications.

Additionally, although the CAFC wants to confront the issues of business methods patents head on, it is unlikely that both the PTO and the applicant in *Bilski* will be happy with the outcome. Accordingly, expect the case to be appealed to and heard by the United States Supreme Court.