

**BUSINESS METHOD PATENTS IN THE UNITED STATES: A JUDICIAL  
HISTORY & PROSECUTION PRACTICE**

by Miku H. Mehta<sup>1</sup> and Laura Moskowitz<sup>2</sup>

The role of business methods in patent law has evolved tremendously over the past century. This article summarizes the judicial history of business method patents and provides an in-depth analysis of prosecution practice. As a backdrop to that analysis, we provide a brief overview of the history of business method patents.

The basis for the determination of statutory subject matter can be found in 35 U.S.C., section 101, which states that:

“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.”

While the foregoing statute provides the basic definition of statutory subject matter, it is very general. As a result, the details of the specific technologies that could be considered to fall within this category were open to interpretation by the courts and the U.S. Patent and Trademark Office (USPTO). Section I of this paper examines how the definition of statutory subject matter has evolved, with a focus on software and business method patents.

***I. Expansion of 35 U.S.C. § 101***

***A. Business Method Exemption Doctrine***

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<sup>1</sup> Miku H. Mehta is a patent attorney and has been an Associate in the Washington, D.C. office of SUGHRUE MION, PLLC since July 2000. Mr. Mehta is currently on secondment at NGB Corporation in Tokyo, Japan.

<sup>2</sup> Laura Moskowitz is a patent attorney, and has been an Associate in the Washington, D.C. office of SUGHRUE MION, PLLC since September, 2003 and was a Summer Associate in 2002.

Historically, business methods were not regarded as patentable subject matter by the USPTO. The USPTO broached the subject of whether business methods should be patentable subject matter as early as 1869, when it was determined that methods of book-keeping should not be considered patentable subject matter, and were “contrary to the spirit of the patent law construed by the Office for years”.<sup>3</sup> Additionally, the patentability of business methods was discussed in 1883 in *United States Credit System Co. v. American Credit Indemnity Co.*<sup>4</sup> In that case, the Second Circuit affirmed that a method of “transacting common business” did not constitute patentable subject matter.

In the 1908 case of *Hotel Security Checking Co. v. Lorraine*,<sup>5</sup> the Second Circuit held that a book-keeping system designed to prevent embezzlement by waiters, as a system of transacting business, was invalid due to a lack of novelty. However, in dicta, the court also stated that any business method *per se* was unpatentable.<sup>6</sup> Based on this dicta, the so-called “business method exception doctrine” developed, under which business methods were not considered patentable subject matter.

As a result, business methods that might have otherwise been patentable subject matter were not disclosed to the public. It is likely that in most cases, these business methods were kept in-house as trade secrets,<sup>7</sup> the result of which was that these business methods never entered the

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<sup>3</sup> *Ex parte Abraham*, 1869 C.D. 59.

<sup>4</sup> 53 F. 818, 819 (S.D.N.Y.), *aff’d* at 59 F. 139 (2<sup>nd</sup> Cir. 1883).

<sup>5</sup> 160 F.147 (2d Cir. 1908).

<sup>6</sup> *Id.*

<sup>7</sup> “‘Trade secret’ means information, including a formula, pattern, compilation, program device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from no being generally known to, and not being readily ascertainable by proper means by, other persons who can

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public domain. The business method exception doctrine continued over the years, and was cited by the Board of Patent Appeals and Interferences in *In re Schrader*, in which the Board's invalidation of a patent under 35 U.S.C. § 101 was upheld by the Federal Circuit as recently as 1994.<sup>8</sup> However, it should be noted that the Federal Circuit's majority opinion did not mention the business method exception, and only referred to the mathematical algorithm exception to 35 U.S.C. 101.<sup>9</sup>

***B. General Expansion of 35 U.S.C. § 101 during the 1980s***

The scope of 35 U.S.C. § 101 remained relatively unchanged in the decades following *Hotel Security Checking Co.* In numerous cases, business methods were determined to be non-statutory subject matter, and also held unpatentable.<sup>10</sup> However, it should also be noted that the labeling of business methods as non-statutory subject matter was dicta in many of these cases, and the holding of non-patentability often relied on prior art to reject the patent on the ground of lack of novelty or obviousness.

As the pace of technological advances increased, the question of whether subject matter previously not considered patentable should be reconsidered cropped up in the context of various technologies. As a result of patent applications generated based on these advances in technology, U.S. courts gradually expanded the scope of patentable subject matter. During the 1980s, a

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obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.” Uniform Trade Secrets Act, § 1(4) (National Conference of Commissioners on Uniform State Laws, 1985).

<sup>8</sup> *In re Schrader*, 22 F.3d 290 (Fed. Cir. 1994).

<sup>9</sup> *Id.*

<sup>10</sup> *Beraidini v. Tocci*, 190 F. 329 (S.D.N.Y. 1911), *aff'd at* 200 F. 1021 (2<sup>nd</sup> Cir. 1912); *In re Wait*, 73 F.2d 982 (C.C.P.A. 1934); *In re Sterling*, 70 F.2d 910 (C.C.P.A. 1934); *In re Patton*, 127 F.2d 324 (C.C.P.A. 1942); *Loew's Drive-In Theaters, Inc. v. Park-In Theaters, Inc.*, 174 F.2d 547 (1st Cir. 1949); *In re*

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number of significant judicial decisions resulted in a general expansion of statutory patentable subject matter.

In 1981, the U.S. Supreme Court cited in *Diamond v. Chakrabarty*<sup>11</sup> with approval for support of the legislative history of the enactment of §101, stating that “anything under the sun made by man” is patentable subject matter. The Court held that living organisms could be considered patentable subject matter. In *Arrhythmia*,<sup>12</sup> the Federal Circuit held that a medical monitoring device attached to an analysis unit was patentable subject matter,<sup>13</sup> thus further expanding the scope of patentable subject matter.<sup>14</sup> However, there was no decision in either of these cases of whether business methods should be patentable subject matter.

In addition to the biotechnology and medical areas, the scope of patentable subject matter also expanded in other directions during the 1980s. For example, the U.S. Supreme Court held in *Diamond v. Diehr*<sup>15</sup> that an application of a mathematical algorithm to a new and useful application is not barred under 35 U.S.C. § 101. More specifically, the claimed invention held patentable was directed to a process of curing rubber with a computerized numerical controller. The *Diehr* Court also held that post-computing operation on physical subject matter using a

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*Chatfield*, 545 F.2d 152 (C.C.P.A. 1976).

<sup>11</sup> 447 U.S. 303 (1980).

<sup>12</sup> *Arrhythmia Research Tech. v. Corazonix Corp.*, 958 F.2d 1053 (Fed. Cir. 1992).

<sup>13</sup> *Id.*

<sup>14</sup> This device would probably not have previously been considered patentable subject matter.

<sup>15</sup> 450 U.S. 175 (1981).

general purpose computer falls within the scope of 35 U.S.C. § 101. However, the Court cautioned that a mathematical algorithm, in isolation, is not patentable.<sup>16</sup>

In 1983, the business method exemption doctrine was revised in *Paine, Webber*.<sup>17</sup> The U.S. District Court of Delaware held that the patent in question included business method claims and should not be invalidated based on defendants' allegation that the patent is a familiar business system. More specifically, the court held that the business method would be unpatentable if done by hand, but valid in this instance because a computer is used to effectuate the business activity, the invention was patentable.<sup>18</sup>

### ***C. Expansion during the 1990s***

In the 1980s the judiciary widened the scope of patentable subject matter tremendously. However, much of the resulting case law did not directly apply to business methods, in the absence of computers, as patentable subject matter. As described above, *Diamond v. Diehr* held that a mathematical algorithm in conjunction with a general purpose computer is patentable subject matter, but did not discuss business methods in the absence of a general purpose computer. However, a new series of cases during the 1990s resulted in business method patents being recognized as patentable subject matter under 35 U.S.C. § 101.

#### **i. Article of Manufacture**

In the mid-1990s, three Federal Circuit cases related to computer software resulted in the further expansion of patentable subject matter. First in, *In re Alappat*, the Federal Circuit held

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<sup>16</sup> *Id.*

<sup>17</sup> *Paine, Webber, Jackson & Curtis, Inc. v. Merrill Lynch, Pierce, Fenner & Smith, Inc.*, 546 F.Supp. 1358 (D. Del. 1983).

<sup>18</sup> *Id.* At 1369.

that the practical application of an otherwise practical mathematical algorithm is patentable subject matter in the context of a machine used to produce a smooth waveform display, as a useful, concrete and tangible result.<sup>19</sup>

Next, the Federal Circuit in *In re Lowry* held that a claim directed to a computer-readable medium is patentable subject matter.<sup>20</sup> As a result, the use of claim preambles such as “A computer readable medium containing a data structure for...” or “A computer readable data transmission medium containing a data structure...” became acceptable. Such claims are often referred to as “Lowry-type claims.”

In the 1995 case, *In re Beauregard*, the Federal Circuit provided that software is patentable subject matter as an article of manufacture.<sup>21</sup> The court held that if a claim includes a computer-readable medium accompanied by instructions for causing a particular operation on a computer, then the claim is considered patentable subject matter as an article of manufacture.<sup>22</sup> Therefore, after *Beauregard*, software could be considered an article of manufacture under § 101 if it met the above-discussed requirements. However, this trio of cases still did not address the specific issue of whether business methods, independent of the computer readable medium or data carrier, should be considered patentable subject matter.

## **ii. Machine**

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<sup>19</sup> 33 F.3d 1526 (Fed. Cir. 1994).

<sup>20</sup> 32 F.3d 1579 (Fed. Cir. 1994).

<sup>21</sup> 53 F.3d 1583 (Fed. Cir. 1995).

<sup>22</sup> *Id.*

The *Beauregard* Court, in failing to use the term “business method” in its discussion of the whether business methods would be uniformly recognized as patentable subject matter. However, in 1998, the Federal Circuit tackled the issue of business method patents head-on in *State Street Bank and Trust v. Signature Financial Group*.<sup>23</sup>

In *State Street*, the Court held that a mathematical algorithm embodying a machine performing a method of doing business and directed to a useful application of the mathematical algorithm is a statutory machine under 35 U.S.C. § 101.<sup>24</sup> The relevant claimed invention was directed to a financial management system with a “hub and spoke” design. In contrast, the court distinguished unpatentable algorithms as those algorithms that are merely abstract ideas constituting disembodied concepts or truths, and lacking the required useful application.<sup>25</sup>

*State Street* signaled the end of the business method exception doctrine. However, the status of business method patents was still not completely resolved, because the relevant patent<sup>26</sup> in *State Street* referred to business methods claimed only as statutory machines.

### **iii. Process**

The claims in question in *State Street* were directed only to a machine. Based on that case, it could still not be definitively concluded whether such protection would extend to business methods as process claims, without any statutory machine. However, the USPTO appears to have

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<sup>23</sup> 148 F.3d 1368 (Fed. Cir. 1998).

<sup>24</sup> *Id.*

<sup>25</sup> *Id.*

<sup>26</sup> U.S. Patent No. 5,193,056

extended such protection to business process claims in 1996, and in 1999 the Federal Circuit held that such methods are statutory.

The 1994 edition of the Manual of Patent Examining Procedures (MPEP) states that methods of doing business are to be considered as non-statutory subject matter.<sup>27</sup> However, this statement was removed from the subsequent edition of the MPEP, which was published in 1996. The later edition states that there is no special category for methods of doing business, and such claims should be examined in the same manner as all other process claims.<sup>28</sup> As a result, it appears that the USPTO had removed the business method exception as early as 1996. This indication is supported by the creation of Class 705 in 1995<sup>29</sup>, which is described *infra*.

In 1999, the Federal Circuit further clarified its position with respect to business method patents in *AT&T v. Excel Comm. Corp.*, holding that a business method is patentable subject matter as a process under 35 U.S.C. § 101.<sup>30</sup> The technology of the claimed invention was a call message recording for telephone systems, involving the manipulation of numbers in a telecommunications system for use in billing.<sup>31</sup> The Court held that a useful, concrete, and tangible result for a practical manner of application that does not pre-empt other uses of a

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<sup>27</sup> MPEP Section 706.03(a), 1994.

<sup>28</sup> Examination Guidelines, 61 Fed. Reg. 7478, 7479 (1996).

<sup>29</sup> Class 705 Application Filing and Patents Issued Data, last viewed at <http://www.uspto.gov/web/menu/pbmethod/applicationfiling.htm> on January 7, 2004.

<sup>30</sup> 172 F.3d 1352 (Fed. Cir. 1999).

<sup>31</sup> *Id.*

mathematical principle is patentable subject matter, and no physical limitations or transformations are required for a patentability determination under 35 U.S.C. § 101.<sup>32</sup>

As a result of the *AT&T* and *State Street* cases and the expansion of patentable subject matter to include business method patents, business methods are currently recognized and examined by the USPTO as patentable subject matter.<sup>33</sup> The USPTO provides a very detailed discussion of these cases, and states that business process claims should be handled like other process claims.<sup>34</sup> MPEP 2106 also provides guidelines for examination of business method claims in the context of software applications.<sup>35</sup>

Often, it appears that the USPTO has granted patents in areas where there is no apparent technical effect (e.g., use of computer) in the invention. Some of these patents include, for example, a method of drafting a patent application,<sup>36</sup> a method of putting a golf ball,<sup>37</sup> and a method of reserving a restroom<sup>38</sup>. Subsequently, other patents have become the subject of litigation, as patent owners asserted their rights on these patents.<sup>39</sup>

## ***II. Prosecution Strategies before USPTO***

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<sup>32</sup> *Id.*

<sup>33</sup> M.P.E.P. § 2106, 8<sup>th</sup> edition, rev. Feb. 2003..

<sup>34</sup> *Id.*

<sup>35</sup> *Id.*

<sup>36</sup> U.S. Patent No. 6,049,947.

<sup>37</sup> U.S. Patent No. 5,913,738.

<sup>38</sup> U.S. Patent No. 6,329,919.

<sup>39</sup> U.S. Patent Nos. 5,960,411, 5,794,207, and 6,157,946.

As a result of the judicial and legislative changes, the USPTO was required to treat business method patent applications as statutory under 35 U.S.C. § 101. As noted above, the USPTO has placed business method technology in Class 705. However, because USPTO did not previously consider business methods to be statutory subject matter, the traditional patentability search information used for other established classes, such as U.S. and foreign patents, was not available. As a result, initial examinations sometimes resulted in searches and patent examinations that were perceived to be of questionable quality.

As noted above, the USPTO initially granted broad patents for business methods. As a result, there was a media outcry.<sup>40</sup> Congress proposed additional changes to the law that would have defined, limited and changed the scope of a business method.<sup>41</sup> The USPTO announced an Action Plan on March 29, 2000, to improve the quality of examination in the technologies related to business methods.<sup>42</sup>

The specific recommendations in the Action Plan included plans to formalize a customer partnership relationship with the software, e-commerce, and Internet industry and enhance quality management in the patent application process.<sup>43</sup> Since the Action Plan, the USPTO has provided applicants and Examiners with additional resources to assist in application preparation

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<sup>40</sup> Sullivan, Jennifer, "Net Overloads U.S. Patent Agency," *Wired*, May 4, 1999, visited at <http://www.wired.com/news/politics/0,1283,19473,00.html> on January 5, 2004.

<sup>41</sup> H.R.5364, "Business Method Patent Improvement Act of 2000," introduced by Reps. Boucher and Berman on October 3, 2000; reintroduced as H.R. 1332, "Business Method Patent Improvement Act of 2001," introduced by Reps. Boucher and Berman on April 3, 2001. At the time of this article, the subject matter of these proposals had not become law.

<sup>42</sup> USPTO Press Release #00-22, March 30, 2000, visited at <http://www.uspto.gov/web/offices/com/sol/actionplan.html> and <http://www.uspto.gov/web/offices/com/speeches/00-22.htm> on January 5, 2004.

<sup>43</sup> *Id.*

and prosecution.<sup>44</sup> For example, the USPTO has produced training materials regarding 35 U.S.C. 101, a guide to preparation and prosecution of business method patent applications, and the results of various public forums.<sup>45</sup>

The USPTO has engaged in the further efforts with the business community to attempt to provide a more proper examination of patent applications. Additional guidance was provided on conducting thorough prior art searches, especially non-patent literature (NPL). A paper presented in Fall, 2002 provided further clarification of the prior art to be searched by Examiners, as well as the expanded NPL collections, including electronic publications such as on-line databases or the Internet.<sup>46</sup> Additionally, this paper lists some of the non-USPTO databases available to Examiners.<sup>47</sup>

At the same time that the USPTO was experiencing some confusion and difficulty in properly examining patent applications, large numbers of patent applications were being filed in Class 705. For example, about 2,800 applications were filed in FY 1999, about 7,800 applications in FY 2000, and about 8,700 applications were filed in FY 2001. In FY 2002, the number of applications decreased to about 5,000 applications.<sup>48</sup> In FY 2000, the new patent applications in Class 705 represented 2.6% of all USPTO applications, and the Class 705 patents

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<sup>44</sup> <http://www.uspto.gov/web/menu/pbmethod/>, visited on January 5, 2004.

<sup>45</sup> Id.

<sup>46</sup> “Prior Art in the Field of Business Method Patents – When is an Electronic Document a Printed Publication for Prior Art Purposes?” Presented at AIPLA, Fall 2002 by Wynn W. Coggins, visited at <http://www.uspto.gov/web/menu/pbmethod/aiplafall02paper.htm> on January 5, 2004.

<sup>47</sup> Id.

<sup>48</sup> Update on Business Methods for the Business Methods Partnership Meeting, April 1, 2003, presented by John J. Love of USPTO, p. 1.

granted that year represented about 0.5% of all patent grants.<sup>49</sup> The top assignees for these business method patent applications from 1997-2001 included IBM (455 patents), Pitney-Bowes (113 patents), Fujitsu LTD (72 patents), and NCR Corporation (52 patents).<sup>50</sup>

Due to this activity, the USPTO hired more examiners. While only 17 Examiners examined business method patents in FY 1999, this number was increased to 33 in FY 2000, then 77 in FY 2001, and 125 in FY 2002.<sup>51</sup> Due to the decrease in the number of applications, the number of examiners was decreased to 120 in FY 2003.<sup>52</sup>

Additionally, the USPTO engaged in enhanced technical training in conjunction with industry to better understand and more effectively examine the patent applications. For example, USPTO has worked with Fireman's Fund Insurance with respect to the insurance claims process, and the American Bankers Association with respect to digital signatures. The USPTO has identified additional training needs, and provided additional training to Examiners.<sup>53</sup>

In March 2000, the USPTO instituted a "second pair of eyes" procedure, in which allowances are subjected to an additional layer of review.<sup>54</sup> This program has been expanded in fiscal year 2003.<sup>55</sup> It appears that this procedure was implemented to prevent errors in the improper granting of patents.

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<sup>49</sup> Id.

<sup>50</sup> Id.

<sup>51</sup> Id. at p. 2.

<sup>52</sup> Id. At p. 2

<sup>53</sup> Id. At pp. 2-3.

<sup>54</sup> Visited at <http://www.uspto.gov/web/offices/com/strat21/action/q3p17a.htm> on January 5, 2004.

<sup>55</sup> Id.

The number of examiners increased, and there was pressure within USPTO and from the general public to avoid the questionable issuance of some of the above-noted patents. As a result, the allowance rate plummeted. For example, the allowance rate for business method patents in FY 2000 was 55%.<sup>56</sup> This allowance rate decreased sharply to 45% in FY 2001<sup>57</sup> and then about 30-35% in FY 2002.<sup>58</sup> These allowance rates are very low, compared to the overall USPTO allowance rate, which has been between 65% and 70% over the past decade.<sup>59</sup>

In an unpublished opinion, the Board of Patent Appeals and Interferences held that a method of evaluating an intangible asset by performing various steps of establishing variables, scoring performance criteria statements, and physically plotting a point on a chart failed to recite statutory subject matter because it did not fall in the “technological arts.”<sup>60</sup> Examiners in Class 705 have cited this decision in their rejections, and this appears to be a part of the overall effort to increase scrutiny of the business method patent applications.<sup>61</sup>

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<sup>56</sup> *Day 6: Business Perspectives on Patents: Software and the Internet: Diverse Perspectives on Patents*, available at <http://www.ftc.gov/opp/intellect/020227johnlove.pdf> (visited on January 5, 2004) (briefing by John J. Love, Group Director Technology Center 2100).

<sup>57</sup> *Id.*

<sup>58</sup> McCullagh, Declan, “Are Patent Methods Patently Absurd?” CNET News.com, October 15, 2002, last visited at <http://zdnet.com.com/2100-1106-962182.html> on January 6, 2004.

<sup>59</sup> “USPTO Data and Calculations,” *The Federal Circuit Bar Journal*, Vol 12, No. 1, at Appendix I, p. 52, August 2002.

<sup>60</sup> *Ex Parte Bowman*, 61 U.S.P.Q.2d 1669 (Bd. Pat. App. Intf. 2001) (unpublished).

<sup>61</sup> This unpublished opinion appears to be consistent with the above-discussed *Paine, Webber* case, but not necessarily with the *State Street* and *AT&T* decisions.

Because of the additional scrutiny given to patent applications in Class 705, it appears that additional time is required to prosecute applications in this technology field. Some practitioners have experienced delays in prosecution.

In addition to the increased scrutiny of patent applications in Class 705, some practitioners have also experienced a more entrenched attitude from the Examiners at the USPTO with respect to examination of applications. For example, sometimes it appears that examiners make frivolous and incorrect rejections, and that the supervisory patent examiners (SPEs) stand by the examiners' rejections.

As a result, there have been a significant number of appeals before the Board of Patent Appeals and Interferences ("Board"). The Board has sided with the appellants (applicants) significantly more often than the across-the-board average for all technology centers. For example, during fiscal year (FY) 2003 for Technology Center 3600 ("TC 3600"), which examines Class 705 patent applications, the Board fully affirmed Examiners in 90 of 444 cases decided, or about 20.2%.<sup>62</sup> This is substantially lower than the USPTO average for all technology centers of 36.7%. Additionally, during the period, the Examiners in TC 3600 were fully reversed in 167 of 342 cases, or about 48.7%, compared with an average reversal rate of about 39.1% for all technology centers.

The Board's statistics for FY 2004 to date are even less encouraging. From October 1, 2003 through October 31, 2004 for TC 3600, the rate of full affirmance for Examiners was

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<sup>62</sup> Fiscal Year 2003 Board of Patent Appeals and Interferences, Ex Parte Appeals, last viewed at <http://www.uspto.gov/web/offices/dcom/bpai/docs/receipts/fy2003.htm> on January 5, 2004.

17.1%, and the full reversal rate was 54.3%. These rates compare with overall Board rates of 34.5% for full affirmance and 43% for full reversal.<sup>63</sup>

Based on these results, the reversal rate for appealed business method patent applications was substantially higher than the USPTO average, and the Examiner affirmance rate was about 50% lower than the USPTO average. One conclusion that could be reasonably drawn from these statistics is that the Examiners in TC 3600 are producing and refusing to withdraw more legally improper rejections than other technology centers. The cause of this behavior could be attributed to the additional political pressure and scrutiny placed on Examiners to maintain a low allowance rate for business method patents.<sup>64</sup>

In conclusion, the USPTO has attempted to implement quality control procedures to improve the quality of allowed patents in TC 3600 (and thus Class 705). However, these efforts appeared to have slowed down the prosecution of applications. The affirmance and reversal rates at the Board, as well as the experience of some practitioners, shows that TC 3600 is not properly interpreting the law, and the examination is being unfairly delayed as a result. The attitude in TC 3600 appears to be one of “reject first, ask questions later.” Therefore, prosecution in this art unit should be avoided if possible.

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<sup>63</sup> Official Gazette, Vol. 1278, No. 1, January 6, 2004, “Fiscal Year 2004 Board of Patent Appeals and Interferences, Ex Parte Appeals,” last viewed at <http://www.uspto.gov/web/patents/patog/week01/OG/TOC.htm#ref18> on January 7, 2004.

<sup>64</sup> Statement of James E. Rogan, Under Secretary of Commerce for Intellectual Property, and Director of the United States Patent and Trademark Office, before the Subcommittee on Courts, the Internet and Intellectual Property Committee on the Judiciary, U.S. House of Representatives, April 11, 2002, last viewed at <http://www.uspto.gov/web/offices/com/speeches/househrg2002.htm> on January 7, 2004; Statement of Q. Todd Dickinson, Under Secretary of Commerce for Intellectual Property, and Director of the United States Patent and Trademark Office, before the Subcommittee on Courts and Intellectual Property of the Committee on the Judiciary, U.S. House of Representatives, March 9, 2000, last viewed at [http://commdocs.house.gov/committees/judiciary/hju63845.000/hju63845\\_0.HTM](http://commdocs.house.gov/committees/judiciary/hju63845.000/hju63845_0.HTM) on January 7, 2004;

Class 705 may possibly be avoided by drafting the application such that it is classified in a different USPTO Class. Generally, after being filed, patent applications are classified into respective classes and then sent to the appropriate technology center.<sup>65</sup> This process is normally performed prior to full examination of the application on the merits.<sup>66</sup> In order to correctly classify patent applications, the classifiers at USPTO are supposed to perform the classification based on the claims and the field of the invention.<sup>67</sup>

Accordingly, patent applications may be drafted in a manner that directs the claims and field of the invention to an area other than the business method subject matter provided in the definition of Class 705. Such drafting techniques may result in a patent application being classified in an art unit other than Class 705, although this is not necessarily the case. Further, if an Examiner disagrees with the classification, it is possible for the application to be re-classified into Class 705.<sup>68</sup>

In terms of international practice, there are some discrepancies between what is considered allowable subject matter in different countries. For example, Japan appears to generally view software and business methods as patentable subject matter.<sup>69</sup> However, the European Patent Office does not consider methods of doing business to be patentable subject

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<sup>65</sup> MPEP 903; MPEP 903.08(e).

<sup>66</sup> MPEP 903.08(b).

<sup>67</sup> MPEP 903.08(e)(C).

<sup>68</sup> MPEP 903.05; MPEP 903.08.

<sup>69</sup> Report Presented by the Intellectual Property Committee of the Industrial Structure Council, December 2001, last visited on February 24, 2004 at <http://www.deux.jpo.go.jp/cgi/search.cgi?query=%22business+method%22+software&lang=en&root=short>.

matter.<sup>70</sup> Accordingly, there is a question as to whether these differences contradict TRIPS.<sup>71</sup> Practitioners should be careful in the application drafting process to consider international filing possibilities, especially in terms of claim drafting.

### ***III. Conclusion***

The recognized scope of 35 U.S.C. § 101 has evolved to include business methods as patentable subject matter. As a result, the USPTO is examining and granting business method patents. Potential patentees should examine their business practices to determine if pursuing a business method patent is feasible.

Since USPTO has experienced difficulty in successfully prosecuting business method patent applications, Class 705 has become a very difficult technology class in which to prosecute applications expeditiously. Therefore, in addition to having business method claims, it is recommended that claims directed to a technical effect, such as a processor, data carrier, network, or client/server system, be added. Also, drafting the application to avoid classification in Class 705 is also recommended.

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<sup>70</sup> EPC Art. 52(2).

<sup>71</sup> AGREEMENT ON TRADE-RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS, INCLUDING TRADE IN COUNTERFEIT GOODS (TRIPS), Article 27 ( “Subject to the provisions of paragraph 2 and 3, patents shall be available for any inventions, whether products or processes, in all fields of technology, provided that they are new, involve an inventive step and are capable of industrial application...”), last visited at TRIPS is available at: [http://www.wto.org/english/tratop\\_e/trips\\_e/t\\_agm0\\_e.htm](http://www.wto.org/english/tratop_e/trips_e/t_agm0_e.htm). on February 24, 2004.