BUSINESS METHOD PATENTS: CHAOS AT THE USPTO OR BUSINESS AS USUAL?

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Among other technological advances, the explosion of the Internet and the development of highly sophisticated computer programs have revolutionized the way people do business and the tools they use to maintain a competitive advantage in the marketplace. As these technologies evolve and are incorporated into the fabric of American business, businesses are increasingly seeking legal protection in the form of recently recognized business method patents for these innovations. Both Congress and the United States Patent and Trademark Office (USPTO), together charged with legislating for and overseeing the issuance of business method patents, have taken some steps towards crafting a system which administers the issuance of business method patents in a uniform, consistent, and expeditious fashion. Unfortunately, the steps already taken may not be sufficient to alleviate the burdens business method patents have placed on the system. This note suggests several additional measures the USPTO can implement to ensure that business method patents are thoroughly examined and rightfully issued, thus reinforcing the integrity of the patent system.

I. INTRODUCTION

Recent advances in technology have revolutionized the way people do business in the global marketplace. In particular, the continued growth of the Internet as well as the increased sophistication of today's software applications, have caused a paradigm shift in the way businesses are running. Today's savvy businesses are updating their business models and reforming their methods of doing business to maintain a competitive advantage in the marketplace. In the wake of these changes, businesses are continually looking for increased protection of their seemingly innovative business methods. One place to which these businesses are increasingly turning for protection is the United States Patent and Trademark Office ("USPTO").

Since the Court of Appeals for the Federal Circuit validated business method patents in State Street Bank & Trust Co. v. Signature

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companies have been flocking to the USPTO to patent their business methods. By reaffirming its State Street decision in AT&T Corp. v. Excel Communications, Inc., the Federal Circuit seemingly put to rest the argument that business method patents are not proper statutory subject matter for patents under § 101 of the 1952 Patent Act. These decisions have established the patent system as a viable means for protecting business methods. Unfortunately, the courts and companies are moving much faster than Congress and the USPTO when dealing with business method patents.

As a result of the State Street and AT&T decisions, the USPTO has been flooded with business method patent applications that it is ill equipped to handle. Over 40,000 business method and software patents have been issued in the United States and thousands more are being issued every year. The USPTO has experienced a number of problems dealing with the examination of business method patents, ranging from inadequate prior art searching techniques to examiners inexperienced in business methods. These difficulties have invariably led to the issuance of questionable, if not invalid, business method patents. In response to these problems, the USPTO has taken a number of affirmative steps to increase its ability to handle business method patents. Furthermore, Congress has begun passing new legislation to remedy some of the problems associated with business method patents in the USPTO. However, these steps alone may not be adequate to remedy the problems resulting from the increasing filings of business method patent applications.

This note argues that further steps are required to ensure that business method patents are thoroughly examined and rightfully issued. This note suggests two possible additions to the current and proposed methods of dealing with business method patents. The first addition is requiring a mandatory prior art search, limited in scope, required of the applicant for a business method patent. The second addition is a central forum or database where interested parties or individuals may submit business method prior art for examiners to use in their examinations. Part II of this note first examines the history and evolution of business method patents and the courts' initial rejection of business methods as patentable subject matter. Part II then discusses the impact of the State

1. 149 F.3d 1368 (Fed. Cir. 1998).
2. 172 F.3d 1352 (Fed. Cir. 1999).
6. Id. at 41.
Street and AT&T decisions, the Federal Circuit's modern jurisprudence on the patentability of business method patents. Part III of this note then examines the current practices and initiatives of the USPTO regarding examination of business method patents as well as relevant legislation dealing with the issue. Part III further explains some of the problems with these current practices and why the actions of the USPTO and Congress alone are insufficient remedies to the problems of examining business method patents. Part IV then discusses two additional measures that may be taken to remedy some of the problems discussed in Part III and help examiners at the USPTO more effectively handle business method patents.

II. BACKGROUND

A. Sources of Patent Protection

The United States Constitution states that "Congress shall have the power . . . 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."9 In interpreting this Constitutional language, Congress has deemed patent protection available to "[w]hoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof. . . ."10 Congress has clearly limited patentable subject matter to the types of inventions listed in 35 U.S.C. § 101. However, courts have had to define what types of inventions fit within § 101 and, conversely, what is not statutory subject matter.11 This task has not always been easy or clear-cut, particularly in today's rapidly changing and high-tech environment. Recently, courts have been wrestling with the question of business method patents as statutory subject matter.12 While the validity of business method patents has received much judicial notice recently, the foundation and evolution of business method patents dates back to the late 1880s.13

B. Early History of Business Method Patents

Automated financial/management business data processing method patents, the predecessor of today's modern business method patents,
date back as far as the late 1800s. In fact, as early as January 1889, automated financial and management business data processing method patents were beginning to be issued. On January 8, 1889, three method and apparatus patents were issued to Herman Hollerith and the Tabulating Machine Company for automated tabulating and compiling of statistical information. In 1924 Thomas J. Watson, Sr. changed the name of the Tabulating Machine Company to International Business Machine Corporation ("IBM"). "The development of today's business [patents] follows an unbroken evolutionary path back to simple manually operated mechanical registering devices." While computers and other electrical devices of today have replaced these early systems, the business method claim format has been used in various forms for over a hundred years. Modern business method patents may be "defined as a U.S. utility patent whose subject matter, or the nature of the invention for which a patent has been granted, 'is a method of doing or conducting business.'"

C. Initial Judicial Rejection of Business Method Patents

Prior to the State Street decision, a judicially created "business method exception" to patentability seemed to prohibit inventors from patenting methods of doing business. Business methods claimed by the courts to be within this business method exception included bookkeeping systems and drive-in movie theaters. However, these decisions were not very clear in their reasoning and have been sharply criticized. The Second Circuit's 1908 decision in Hotel Security Checking Co. v. Lorraine Co. is widely considered the "genesis of the business method exception." In the Hotel Security case, the court held that a patent on a "method of and means for cash-registering and account-checking" was invalid. In dicta, the court said, "[a] system of transacting business disconnected from the means for carrying out the system is not, within the most liberal interpretation of the term, [patentable subject matter]."

14. Id.
15. Id.
16. Id.
17. Id.
18. Id.
19. Id.
20. Id.
22. See Loew's Drive-In Theaters, Inc. v. Park-In Theaters, Inc., 174 F.2d 547 (1st Cir. 1949).
24. 160 F. 467 (2d Cir. 1908).
27. Id.
The courts’ creation of a business method exception to patentability was subsequently criticized by a number of scholars and judges. Judge Newman in her dissent in *In re Schrader*, noted that the court’s decision in *Hotel Security* was based on obviousness as opposed to not being statutory subject matter. Furthermore, since the creation of the business method exception, “no [appellate] court majority has ever held that [an otherwise patentable invention] was per se unpatentable simply because the method was directed to a way to conduct business.”

Neither the Federal Circuit nor the Court of Claims for Patent Appeals has ever invoked the business method exception to invalidate a patent. Despite this criticism, the USPTO adopted the business method exception and used it to reject patent applications dealing with business methods. Despite the unsure standing and harsh criticism of the business method patent exception, companies chose not to attempt to patent their business methods, but instead opted for other protection such as trade secret protection for their business methods. The business method exceptions remained intact at the USPTO and in the case law until the Federal Circuit’s decision in *State Street*.

### D. Modern Acceptance of Business Method Patents

In *Diamond v. Chakrabarty*, the Supreme Court stated that “anything under the sun that is made by man” should be patentable. However, the Court has recognized that certain exceptions did exist. For example, “laws of nature, natural phenomena, and abstract ideas” were not patentable. In addition to these exceptions, federal courts had also recognized a mathematical algorithm exception, as well as the business method exception. While earlier cases broadly construed these exceptions to invalidate patents, the courts began to narrow these exceptions in favor of patentability. The Federal Circuit in *In re Allapat* held for the first time that a software program was patentable subject matter as long as it produced “a useful, concrete and tangible result.” The Federal Circuit’s narrowing of exceptions to patentability,
and particularly the business method exception, was fully and clearly expressed in its State Street decision.

In its 1998 decision, State Street Bank & Trust Co. v. Signature Financial Group, Inc., the Federal Circuit laid the "ill-conceived [business method] exception to rest." The patented invention in State Street was a computer program, essentially a data processing system that organized mutual funds into an investment portfolio in order to gain investment and tax advantages for mutual fund managers. The plaintiffs in State Street attempted to invalidate the patent on two theories: the mathematical algorithm exception and the business method exception. While the court held that the patent did not fall within the mathematical algorithm exception since it produced "a useful, concrete and tangible result," it also held that no business method exception even existed. The Federal Circuit stated that the business method exception may have arisen out of the "requirement for invention" which was eliminated by § 103 of the 1952 Patent Act. The court concluded that business method patents should be "subject to the same legal requirements for patentability as applied to any other process or method."

The Federal Circuit reaffirmed its State Street decision in AT&T Corp. v. Excel Communications, Inc. In AT&T, the court upheld a patent that was directed to a "method that facilitated allocation of telephone service fees among a number of different carriers, allowing computers to generate bills easily and accurately." In an effort to "make [its] understanding of the scope of § 101 responsive to the needs of the modern world," the court affirmed its reassessment of the mathematical algorithm exception, and its rejection of the business method exception in State Street. Thus, while some commentators have questioned even the value of business method patents, it appears from the court's recent jurisprudence that business method patents are here to stay.

40. 149 F.3d 1368 (Fed. Cir. 1998).
41. Id. at 1375.
42. U.S. Pat. No. 5,193,056.
44. Id. at 1373.
45. Id. at 1375.
46. Id.
47. Id.
48. 172 F.3d 1352 (Fed. Cir. 1999).
50. AT&T, 172 F.3d at 1356.
III. THE USPTO AND CONGRESS' REACTION TO BUSINESS METHOD PATENTS

A. Impact of State Street on Companies

Prior to State Street, companies in the business sector that had not patented their business methods rightfully believed that business methods were not patentable subject matter. Instead, companies practicing novel business methods typically relied on trade secret protection for their business methods. However, in light of State Street, companies are beginning to realize that business method patents are becoming a vital resource both as a potential revenue source and as a defensive tool against potential infringement suits.

Many companies prefer patent protection to trade secret protection for a number of reasons. First, while patent protection lasts only for a limited term, 20 years from filing the patent, the protection a patent offers is much stronger than the protection a trade secret offers. For example, patent protection prevents any competitor from making, using, offering to sell, or selling the patented invention in the United States. Thus, patent protection prevents competitors from "reverse engineering" the patented process to figure out how it works and then using the patented process. Trade secret protection on the other hand, does not protect against "reverse engineering." Once a competitor figures out how the secret process or method works, the competitor may begin to use the process without restriction. Thus, companies, who often have regular turnover of workers, may be very hesitant to disclose their secret methods to their workers for fear of the secret "leaking" out. With patent protection however, this is not an issue.

Another reason companies may prefer patents over trade secrets to protect their business methods is that patent law typically imposes much stiffer penalties on patent infringers than trade secret law provides against those who violate trade secrets. In addition to providing for injunctions and damages, patent law also allows for treble damages and attorney's fees in exceptional cases. Because of the strong protection of patent rights and the stiff penalties for patent infringement, patentees of useful business method patents may be able to require other companies who intend to use the patented business method to pay licensing fees to avoid suit.

53. Id.
Very often, licensing of useful patents may generate significant income for the patentee.\textsuperscript{56} On the other hand, companies who do not acquire patents on their novel business methods may be sued for infringement if another company gets a patent on the same method. Thus, companies are now flooding the USPTO with business method applications for both offensive and defensive purposes. As an offensive resource, companies obtaining business method patents are often interested in potentially forcing other companies to license their valuable business methods. Furthermore, as a defensive resource, companies are also accumulating patents to prevent competitors from obtaining a business method patent first and forcing the company to license or risk being sued.\textsuperscript{57} As a result of these motives, the number of business method patents doubled from 1,300 to over 2,600 between 1998 and 1999.\textsuperscript{58} In 2000, the USPTO projects receiving over 7,500 applications for business method patents and issuing over 1,000 by the end of the year.\textsuperscript{59}

B. Impact of State Street at the USPTO

In 1994, the Manual of Patent Examining Procedure ("MPEP") read "[t]hough seemingly within the category of process or method, a method of doing business can be rejected as not being within the statutory classes."\textsuperscript{60} In 1996, this language was deleted from the MPEP. Furthermore, the U.S. Patent and Trademark 1996 Examination Guidelines now read, "[o]ffice 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."\textsuperscript{61} While the USPTO has adjusted its examination procedures in response to the \textit{State Street} decision validating business method patents, a number of problems have arisen with the new examining procedures, which has led to the issuance of questionable patents.\textsuperscript{62}

One problem that has hampered the USPTO's ability to effectively examine business method patent applications is the lack of business method prior art available to examiners.\textsuperscript{63} Prior to the \textit{State Street} decision, companies rightfully believed that business methods were not patentable subject matter. Thus, companies often practiced their business methods as trade secrets that they did not attempt to patent or

\textsuperscript{57} Id. at 1504.
\textsuperscript{60} Manual of Patent Examining Procedures, § 706.03(a) (1994).
\textsuperscript{62} See Lemley, \textit{supra} note 56.
\textsuperscript{63} Toren, \textit{supra} note 5, at 41; Dreyfuss, \textit{supra} note 51, at 269
disclose to the public. Additionally, business methods or software inventions are not often published in scholarly journals or trade publications, as are advances in engineering or biotechnology.\footnote{64}{Toren, supra note 5, at 41.} Therefore, prior art publications are also often difficult for examiners at the USPTO to find.

Not having relevant prior art before examiners has led to issuance of undeniably weak business method patents.\footnote{65}{Id. at 40.} Without prior art references, examiners have been unable to reject business method patent applications even though the claimed invention was very broad and not novel. Rejections to business method patents under § 102 are particularly rare.\footnote{66}{Margo A. Bagley, Internet Business Model Patents: Obvious by Analogy, 7 MICH. TELECOMM. & TECH. L. REV. 253, 263 (2001).} In order for an examiner to reject claims of a patent under § 102, the claim must be “anticipated” by the prior art.\footnote{67}{Id. at 264.} That is, each and every element in the proposed claim must be found in a single prior art reference.\footnote{68}{See In re Paulson, 30 F.3d 1475, 1478-79 (Fed. Cir. 1994).} Considering the relatively recent acceptance of business method patents, finding anticipating references is often very difficult.\footnote{69}{Bagley, supra note 66, at 264.} Thus, invalid patents that should not have been issued are now being enforced against competitors in litigation.

Another problem at the USPTO that has increased the difficulty in examining business method patent applications is the lack of examiners with backgrounds in business and business methods. Typically, examiners have expertise in technical fields such as engineering or biotechnology; however, they often lack business backgrounds and knowledge. The USPTO has been slow to hire examiners with business backgrounds despite the large increase in business method patent applications.\footnote{70}{Toren, supra note 5, at 41.} Yet these examiners, lacking backgrounds in business and knowledge about business methods, are determining the novelty and nonobviousness of business method applications.\footnote{71}{Id.} Thus, patents that would be obvious to an examiner with knowledge of business methods, even without prior art references, are being issued by often under-qualified examiners.

As a result of these problems with the examination of business method patents at the USPTO, as discussed above, invalid business method patents have been issued. The issuance of these patents has resulted in increased litigation over these patents as well as increased uncertainty in the patent system.

In acknowledging the problems discussed above, the USPTO has taken a number of affirmative steps to increase its capacity and capability to examine business method patents. The USPTO takes patent subject
matter classification very seriously. When a patent application first reaches the USPTO, it is classified into the class or subclass determined by the U.S. Patent Classification System ("USPC"), to embrace the subject matter of the patent application. Patents are classified by the USPTO in order to ease storage and retrieval. The USPC provides "an exhaustive categorization of all patentable subject matter that facilitates PTO examiner searches for domestic patent prior art by providing for the storage and retrieval of every U.S. patent document that a patent examiner needs to review when examining patent applications."

Traditionally, business methods have been scattered among numerous patent classifications. However, in 1997, the USPTO created examination Class 705 – Modern Business Data Processing. Class 705 is a collection of over 20 financial and data management processing areas. The examiners of Class 705 are responsible for examining business method patent applications. It is estimated that filings in Class 705 have increased 700% since the State Street decision. In response to the increased number of business method patents and the new subject matter of business methods, the USPTO has both hired more examiners in Class 705 and transferred examiners with appropriate backgrounds from other areas. Class 705 now includes 38 examiners, many of whom have both MBAs and work experience in the business world.

In addition to hiring more qualified examiners, the USPTO has hired additional staff to help examiners search for prior art. The Scientific & Technical Information Center – Electronic Information Center ("EIC") provides search and library support to the examiners. Among the support functions supplied by the EIC is locating non-patent prior art in the literature as well as expanding the prior art database for business method patents.

Furthermore, Patent and Trademark Office Commissioner Q. Todd Dickinson announced that the USPTO would add an additional layer of review for applications seeking protection for electronically based business methods. After the primary examination for all allowed Class 705 applications, a second examiner will review how the application complies with search requirements and whether the scope of claims

73. Id.
74. Id.
75. Id.
76. Id. at 41.
77. USPTO White Paper – Automated Financial or Management Data Processing Methods, supra note 7.
79. Id.
80. Id.
81. Id.
82. Id.
83. Id.
should be reconsidered. This extra step is intended to reduce the number of overly broad business method patents issuing due to an examiner's inexperience in examining business method patents.

More recently, on March 29, 2000, the USPTO issued an action plan as part of their Business Method Patent Initiative. The plan consists of two elements: industry outreach and improving the quality of the patent examination process. As part of the industry outreach, the USPTO proposes to form partnerships with the software, Internet and e-commerce industries to discuss concerns and solutions to common problems. A roundtable discussion held last July brought comments from various members of the community, including the general public.

Perhaps the most drastic step taken by the USPTO against business method patents is the withdrawal of notices of allowance for the patent. While withdrawing notices of allowance is almost unheard of, the USPTO has done so recently on at least two occasions. The withdrawal of these notices of allowance signals only the culmination of more stringent examination of business method patents at the USPTO. By October 23, 2000, 187 of 460 business method applications were given a second review, and 28 of those were reopened for further prosecution. Furthermore, the allowance rate for business method patents has dropped from approximately 56 percent to about 45 percent.

C. Impact of State Street on Congress

In addition to the steps taken by the USPTO to help examiners, Congress has recently begun addressing some of the issues related to the new-found validity of business method patents. On November 29, 1999, President Clinton signed a bill containing the American Inventors Protection Act ("AIPA") of 1999. One important provision of the AIPA is the First Inventor Defense. The First Inventor Defense provides, inter alia, a defense against patent infringement for companies that practiced a business method as a trade secret prior to the State Street decision.

The rationale behind the First Inventor Defense is that patentees of business methods could destroy established businesses if they were the first to obtain a patent even though the business practice had been in use for some time and kept as a trade secret. The defense generally requires

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85. Ryan & Bagby, supra note 78, at 37.
86. See Sandburg, supra note 59.
87. Id. The USPTO withdrew notices of allowance on patents issued to Mercata, Inc., and MobShop. Id.
88. Id.
89. Id.
91. Id. at § 4301, 113 Stat. at 1501A-555 to -556 (to be codified at 35 U.S.C. § 273).
defendants to demonstrate that they reduced the invention to practice at least one year before the effective filing date of the patent, and commercially used the invention in good faith before the effective filing date of the patent. The use of this defense is solely confined to infringement actions involving patented business methods.

It is unclear how effective the First Inventor Defense will be, or if it will be expanded. The passage of the act shows that Congress is aware of the problems inherent with business method patents. It is conceivable that intensified lobbying could lead lawmakers to go beyond the First Inventor Defense and revoke business method patents as patentable subject matter, or place severe limitations on patent eligibility and business method patent terms.

More recently, on October 3, 2000, Representative Howard Berman, D-Calif., and Rick Boucher, D-Va., introduced H.R. 5364 entitled the “Business Method Patent Improvement Act of 2000,” as an amendment to Title 35 of the United States Code. The bill was proposed by opponents of business method patents in an attempt to restrict and lessen their issuance by the USPTO. In addition to more clearly defining what a business method patent is, the bill proposes a number of changes to current patent prosecution procedures when dealing with business method patents.

Among the bill’s proposals is a requirement that all business method patent applications be published within eighteen months of filing, and that the applicant disclose the type and extent of prior art search they conducted. The rationale for this publication requirement is that it would permit challengers to the validity of the patent to file an opposition, something U.S. officials have labored to persuade other nations to abandon.

Additionally, the bill would establish a public protest proceeding and a new Administrative Opposition Panel in order to facilitate challenges prior to the issuance of the patent. The Administrative Opposition Panel would be comprised of at least eighteen administrative opposition judges with backgrounds suited to review business method patents. Under the proposed bill, the administrative opposition judges may also be aided in carrying out opposition proceedings by examiners.

92. *Id.* at § 4302, 113 Stat. at 1501A-556 (to be codified at 35 U.S.C. § 273(b)(3)(A)).
93. *Id.*
95. *Id.*
96. *Id.*
102. *Id.*
During the opposition process, the party challenging the business method patent's validity would only have to prove by a preponderance of the evidence that the patent was invalid.\textsuperscript{103} Finally, the legislation would amend Section 103 of Title 35 by creating a presumption of obviousness to a person of ordinary skill in the art where a computer has been used to implement a business method.\textsuperscript{104} The patentee must then rebut the presumption of obviousness by a preponderance of the evidence standard.\textsuperscript{105}

IV. THE EFFECTIVENESS OF THE USPTO AND CONGRESS' ACTIONS

While the USPTO and Congress have taken a number of steps to deal with issues related to business method patents, more is needed. In particular, the current methods and proposed measures either do not address the key problems with current examination practices, or create new problems in themselves. Further changes at both the USPTO and in current legislation are needed to adequately address the problems with business method patents.

To address these problems and reduce the number of questionable business method patents being issued, two simple, cost effective proposals are offered. The first proposal is to help examiners obtain access to the relevant prior art to make their patentability determinations. In order to accomplish this, either USPTO examination procedure or legislation would impose an affirmative burden on applicants to perform a limited mandatory prior art search prior to submitting their applications. The rationale for this requirement is that patentees are often in a better position to know the related prior art in their respective fields than are examiners. By shifting part of the burden of prior art searching to the patentee, more relevant prior art references would likely be discovered and brought to the attention of examiners. This would be one way to ease the workload of the cash-strapped and understaffed USPTO as well as reduce the number of questionable business method patents issued.

The second proposal is to establish a central database where interested parties may submit relevant prior art related to business method patents. Having a central database for parties to submit prior art would be beneficial to examiners, companies, and the public. A central database for prior art submissions would allow examiners to gain access to relevant prior art at no cost and time to the USPTO. By having the relevant prior art, examiners would be able to more thoroughly and accurately examine business method patents for novelty, thus reducing the issuance of bad patents. Reducing the issuance of bad patents benefits both companies who have been practicing the non-novel...
business method, and the public who rightfully believed the business method was in the public domain.

A. Requiring a Mandatory Prior Art Search by the Patentee

The first issue not adequately addressed by the current government initiatives is the lack of business method prior art available to the examiners. By only having some, if any, of the relevant prior art, examiners are letting too many questionable business method patents be issued. Having a large number of bad business method patents issued creates significant problems, from increased litigation to uncertainty in the patent system. Lack of prior art is a particularly troublesome problem for business method patents because until recently, they were thought unpatentable. Therefore, companies have been practicing business methods in secret for years but have never disclosed them. Furthermore, companies that have been practicing these business methods in secret and have thus lost the ability to patent them are not likely to disclose them now. While the USPTO has tried to address these problems by hiring more examiners and support staff to help with searches, these measures alone are not enough.

Very often the staff at the USPTO is overworked and has neither the time nor the resources to conduct a thorough prior art search. Furthermore, the patentee, as a practitioner and innovator in their field is clearly in a better position to know and have access to prior art. Therefore, in order to reduce the number of obvious business method patents being issued, some of the burden of the prior art search must be transferred to the patentee.

Currently, the patentee has a "duty of disclosure" to the USPTO requiring the patentee to disclose all relevant prior art known to them. However, this duty does not go so far as to require the patentee to actually conduct any search of the prior art whatsoever. Thus, in practice, the patentee may often choose not to perform a prior art search because the costs of searching act as a deterrent, or because the patentee does not want to help the USPTO reject his patent application. An affirmative duty on the patentee that goes beyond a "duty of disclosure" would help assure that more of the relevant prior art was disclosed during examination.

Neither is this problem fully addressed by H.R. 5364. While H.R. 5364 has provisions requiring the patentee to disclose the extent of her prior art search, the proposed bill falls short of requiring a prior art

106. Kang & Snyder, supra note 52.
107. Id. at 282.
108. See Toren, supra, note 5.
110. Lemley, supra note 56, at 1499-1500.
As discussed above, the bill seems to recognize the problem created by a lack of prior art and tries to remedy it by requiring patentees to disclose the extent of their prior art search. However, the bill fails to remedy the problem by not actually requiring the patentee to perform any search. Therefore, the bill’s provisions put the examiners at the USPTO in no better position to obtain relevant prior art than they were before. Of course a mandatory prior art search required of the patentee would have to be limited so as not to be cost or time prohibitive of patenting.

While it may be argued that companies would not have an incentive to bring potentially patent-defeating prior art to the examiners’ attention, those companies with truly novel business methods will not have these reservations. In fact, companies that truly do have a novel business method will be motivated to search the prior art thoroughly in order to have a patent that will withstand the increased scrutiny business method patents are beginning to receive in both the courtroom and the court of public opinion.

Another argument is that this proposal creates the danger that applicants will flood the USPTO with references, creating more work for the examiner, who would then have to search for the most relevant references. However, given the lack of prior art actually available, as well as an even lower number of references that are typically pertinent to a single patent application, having a flood of prior art numerous enough to delay the patent examiner is unlikely. Furthermore, for applications where there are a large number of prior art references available, a prior art search, limited in scope, imposed on the patentee as discussed above, would reduce the likelihood of this problem. The mandatory prior art search suggested by the author may be limited in two ways.

First, a limit on the number of prior art references required to be disclosed could be instated. For example, the patentee would only have to disclose a minimum of five relevant pieces of prior art. If the patentee were unable to find five pieces of relevant prior art, they would have to submit a declaration indicating that he performed a search and submit the references that were found.

Second, a cost cap may be placed on the search the patentee is required to perform. For small entities as designated by the USPTO, the search cost could be limited to a maximum of $500. That is, the small entity patentee would only have to spend up to $500 in fees for attorney time, staff time, or in costs to a private search firm, searching for prior art. With typical patents ranging from $5,000 to $15,000 to prosecute, an additional $500 would not be overly burdensome, particularly if the patent is commercially useful. For large entities as designated by the USPTO, the cap may be raised to $1000. Under this system, if patentees are able to find at least five relevant pieces of prior art under the
maximum dollar amount required, they would save the difference. The upper limit on the amount to be spent would be instituted to protect those companies where five related prior art references are not available. The limit on the amount spent would allow for a reasonable prior art search without overburdening the patentee or wasting excessive amounts of time looking for prior art that does not exist.

Placing an affirmative burden to perform a prior art search on the patentee of a business method patent would greatly increase the availability of relevant prior art before the examiner. Patentees are often in a better position to know the prior art and therefore should assist in the search. By limiting the scope of the prior art search by the methods discussed above, the patentee is not unduly burdened and the benefits would far outweigh the costs.

B. Creating a Central Database to Which Interested Third Parties Can Submit Prior Art

Another problem with current practices is the procedure for challenging questionable patents. The current method in place at the USPTO for challenging the validity of issued business method patents, or any patents, is for an opposing party to file a request for reexamination of the patent. However, this process is often very underutilized for a number of reasons. Many companies are not often motivated to be the first to challenge an issued patent. In order to challenge the patent, the competitor must file a formal challenge, which divulges the challenger's identity. By challenging the patent, the patent holder becomes aware of the challenger as a possible user of the patented process, which may lead to an infringement suit against the challenger. The threat of possible litigation often leaves competitors of the patentee to sit back and wait for each other to challenge the patent. This results in invalid patents often going unchallenged and promulgates the number of bad business method patents in use.

Congress has stepped in and tried to remedy some of the problems related to challenging patents by introducing H.R. 5364. While its authors intended well, this proposed legislation is an inadequate measure by itself to reduce the number of problems with business method patents. One provision of the bill that may be helpful in reducing the problems inherent with challenging reexamination proceedings is the establishment of new procedures for challenging published applications and issued patents. However, the bill's proposals to create a presumption of obviousness of computer-related business methods and lower the burden of proof for invalidity create many new problems. First, "lowering the burden of proof for showing invalidity of a business method patent from the current clear and convincing evidence standard to the preponderance
of the evidence standard would automatically and unfairly reduce the value of a large number of patents that are clearly valid."\[112\]

Additionally, the proposed changes in the opposition process to issued patents would likely reduce the motivation for reforming the reexamination procedures currently in place at the USPTO.\[113\] Finally, "any legislative tinkering with the obviousness standard for one particular area of patents is bound to be problematic and have ripple effects."\[114\] According to the proposed legislation, a presumption of obviousness during prosecution would be created if prior art "discloses a business method which differs from what is claimed only in that the claim requires a computer technology to implement the practice of the business method invention."\[115\] While this sounds logical, it has been criticized as suggesting that "every computerized implementation of a business method would automatically be presumed obvious, regardless of how inventive any additional computer implementation steps might be."\[116\]

The second proposal to help prevent the issuance of invalid business method patents is to create a central forum or database where individuals can submit business method prior art for examiners to use in their examinations. Such a proposal would allow interested parties to submit relevant prior art during prosecution reducing the need for reexamination of patents or changing the presumptions of validity.

A central database could be constructed and monitored by all interested parties at either the USPTO’s Web site, or by a private Internet company for example. This proposal, made viable by the recent changes in U.S. patent law requiring (with some exceptions) the publication of applications 18 months after filing, would create a thorough peer review mechanism by which the examiners are aided by the collective knowledge of the relevant technology community. The rationale for a central database is that after a business method patent application is published, competitors of the company or the individual filing the patent would be aware of the patent application and begin searching for relevant prior art to mount an opposition to the patent or amend the patent prior to its issuance.

Opponents of the patent could submit relevant prior art directly to the examiner without having to wait for the patent to be issued and either file for reexamination or litigate the matter in the courts. Furthermore, after the prior art was submitted regarding the specific patent it was intended to challenge, it could be catalogued in the general prior art databases available to all examiners for future use. This would greatly accelerate the growth of the business method prior art available to examiners at the USPTO.

112. Kuester, supra note 98.
113. Id.
114. Id.
115. Id.
116. Id.
However, there would need to be some restrictions and regulations placed on the submission of prior art to challenge a patent application. First, there would need to be a verification mechanism in place to assure the USPTO wasn’t flooded with duplicative or frivolous prior art references. This could be easily established by requiring the submitters of the references to look through what has already been posted or cited by the examiner, and then attesting to their submission. That is, there would be no anonymous posting of references. These measures would help ensure that only prior art relevant to the application at hand is submitted.

The creation of a forum for submission of prior art by any interested parties would also augment the patentee’s mandatory submissions as discussed above and greatly help the examiners of business method patents make an informed decision about what patents to issue. This would help reduce the amount of litigation in the courts over errantly issued business method patents. Furthermore, having all relevant prior art available would allow patentees to amend their claims during prosecution in order to have a valid patent issued.

V. Conclusion

Since the validation of business method patentable subject matter, the number of applications for these patents has risen dramatically, causing many unforeseen problems at the USPTO. The lack of prior art references and examiner training has led to the issuance of many invalid business method patents resulting in more patent litigation and greater uncertainty in the patent system.

In order to combat these problems, both the USPTO and Congress have begun to rethink and retool the current methods of dealing with business method patents. While both the current changes in USPTO practices and new legislation are steps in the right direction, more is needed. In order to effectively assist examiners in weeding out bad patents, the burden of prior art searching has to be shared by the patentee. If a patentee wants to obtain a business method patent, they should have to search the prior art, and affirmatively prove to the USPTO that they invented a novel method. The patentee is in a far superior position than the USPTO with respect to both knowledge and resources to find relevant prior art pertaining to business methods.

Furthermore, in order to supplement and enhance this prior art search, interested third parties should be able to submit prior art references to the USPTO and the examiner during prosecution to assist in the determination of the novelty of the proposed business method. These two steps are a cost and resource efficient way of ensuring that invalid business method patents do not continue to be issued.