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IN THE LAW

INTELLECTUAL PROPERTY

Mind over Matter

ECONOMIST CARL LUNDGREN has performed the patent equivalent of the Hail Mary pass in football. His business method won approval in October from a five-judge Board of Patent Appeals and Interference in a rare precedential decision on a 3-to-2 vote.

The ruling, which reinstated patent protection in the case, is expected to launch a new wave of business method patent applications after years of quiet denials by patent examiners.

The ruling puts patent examiners on notice that they have strayed too far in recent years from the broad language of the U.S. Court of Appeals for the Federal Circuit in its landmark *State Street Bank & Trust Co.* v. *Signature Financial Group, Inc.* That decision was the first to allow patent protection—in that case for computer software coding—for a method of doing business or accomplishing a financial transaction.

A patent board decision removes a key obstacle to business method patents.

With the subsequent rise in litigation asserting rights to new business method patents, the Patent and Trademark Office came under sharp criticism, chiefly by big business, for broad licensing of these patents.

In response, patent examiners began rejecting business method patent applications if the process could be performed without the aid of a machine (i.e., in someone's head). The examiners argued that such methods failed to meet a "technical arts" test.

Lundgren is an economist with the U.S. Department of Labor who also runs his own small business, Valmarpro Forecasting, Inc., in Arlington, Virginia. He developed a method for calculating pay for managers to prevent collusion in oligopolies—industry groups with few competitors—and applied for a patent in 1988.

The trend of denying applications like Lundgren's grew out of a nonprecedential 2001 decision called *Ex parte Bowman*. "*Bowman* represented an attempt by the patent office to respond to severe criticism for issuing overbroad business method patents," says Jeffrey Sullivan, a patent specialist with Houston-based Baker Botts's New York office. Now, he says, anyone with a business method patent claim will immediately rely on *Lundgren* to get around *Bowman*.

Robert Sterne predicts more business method patent applications.

In *Lundgren*, the majority said, "Our determination is that there is currently no judicially recognized separate 'technological arts' test to determine patent eligible subject matter."

"This decision overturns *Bowman*," says Dennis Crouch, a patent attorney with Chicago's McDonnell Boehnen Hulbert & Berghoff. "That puts us back in the broader world of *State Street*."

In his dissenting opinion, Judge Jerry Smith said that he would reject the patent. The mandate of Congress "is that an invention must in some manner be tied to a recognized science or technology in order to promote progress of the useful arts," he wrote. Smith called it "ludicrous" to think that the writers of the Constitution would believe that the concept of compensating executives laid out in Lundgren's application merits a patent.

But Smith's view did not prevail, and the consequences may be significant. "This is going to increase the number of applications filed," predicts Robert Sterne of Sterne, Kessler, Goldstein & Fox, a Washington patent boutique. Sterne says he does not believe that the Supreme Court will take up the issue any time soon—even though it has never ruled on business method patents—because it did not take up the State Street case.

Crouch agrees. It could take four years for litigation stemming from infringement of the few existing business method patents to reach the high court, he says. The patent office cannot appeal on its own to the Federal Circuit, according to a spokeswoman for the office.

Sullivan predicts the patent office will issue new rules that will require some tangible mechanical output by an invention, and not simply patents for a mental process.

As for Lundgren, who has waited more than 17 years for a resolution, things aren't over yet. His patent faces new potential rounds of review to decide if it truly is new and was not obvious.

—PAMELA A. MACLEAN