Method for Compensating a Manager Eligible for Patent Protection

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According to its 3-2 precedential decision, the Board of Patent Appeals and Interferences (Board) in *Ex parte Lundgren* Appeal No. 2003-2088 (BPAI, September 28, 2005), determined that a claim to a method for compensating a manager responsible for reducing the margin of prices over costs was considered eligible for patent protection. A purpose of the invention is to reduce incentives for industry collusion, or reduce incentives for coordinated special interest lobbying.

The Examiner rejected the claims because they allegedly covered only an economic theory expressed as a mathematical algorithm with no disclosure or suggestion of a computer, an automated means or an apparatus of any kind, and placed the invention and its practical application "outside the technological arts."

The Board—the administrative court within the United States Patent and Trademark Office (USPTO)—reversed the Examiner's rejection and held that there is no separate "technological arts" requirement for patentability. Therefore, the Board considered the process claimed in the patent application as one eligible for patent protection because it provided the "useful, concrete and tangible result" of, for example, reducing collusion.

This case is significant because the Board did not require the claims to include a computer-implemented process. Therefore, in theory, processes for "buying low and selling high" are now considered eligible for patent protection by the USPTO, which has typically rejected such inventions.

Administrative Law Judge (ALJ) Smith dissented. Writing that the "technological arts" question is one of first impression that concerns the scope of the Constitutional requirements for patents, Judge Smith reasoned that the term "process" is so broad that it includes inventions that cover nothing more than human conduct or thought processes that are totally unrelated to any science or technology.

In a 76-page opinion, ALJ Barrett also dissented, arguing that the "useful, concrete and tangible result" test was not the sole test for statutory subject matter. Judge Barrett did not agree with the majority that Section 101 was satisfied by a process performed with human physical actions, or with a combination of mental and physical actions, where the physical actions did not transform physical

subject matter to a different state or thing:

> Arguably any human activity (muscle contraction), neural activity (thoughts, emotions), or endocrine activity (secretion of adrenal glands) involves chemical and physical changes that can be measured and (in theory) controlled or influenced. However, I submit that chemical, electrical, or mechanical transformations taking place by or within a human being are not the type of transformation indicating a process within the "useful arts" of [35 U.S.C.] § 101.

ALJ Barrett added:

> Nonstatutory methods include disembodied plans and schemes: for becoming rich, for a system of government, for the more efficient conduct of business, for a way of giving a discount, for playing games (e.g., bidding in bridge or betting in poker), for budgeting, for marketing products, etc. Not all physical acts perform a statutory transformation, e.g., a method of negotiating a contract, while it might involve physical acts, such as talking and writing, only transforms the rights and obligations of the parties.

From a practical perspective, *Lundgren* does not appear to have affected the patentability of business or financial methods that are implemented using a computer: these types of processes remain eligible for patent protection so long as they are novel and non-obvious. Accordingly, since most business or financial methods require the use of a computer, particularly for large-scale processes, it is unlikely that this decision will change existing practice. However, as a result of *Lundgren*, there is a greater likelihood of infringement, which may result in additional patent challenges in the future.