

BUSINESS METHOD PATENT UPDATE – PART 1

By Dale L. Carlson & Michael K. Kinney

Overview:

Business method patents have generated considerable public controversy in the last couple of years. This controversy has resulted from substantial coverage in the popular press of the grant of certain “high profile” business method patents, such as Amazon.com’s “one click” method patent. Congress, the Courts, and the Patent Office have each played a role in responding to the firestorm of calls for reform surrounding this controversy.

On the judicial front, last year the Federal Circuit found substantial issues relating to the novelty and nonobviousness of the “one click” patent. On March 6, 2002, the *Wall Street Journal* announced that a settlement was reached between Amazon.com and Barnes & Noble.com in the litigation.

On the Patent Office front, last year the PTO published an “Action Plan for Business Method Patents” documenting a renewed effort to assure proper examination of business method patent applications, including the use of a “second set of [Examiner’s] eyes” during the examination process. It is presently unclear whether this business method-specific “enhanced” examination will withstand judicial scrutiny.

On the legislative front, two bills were introduced in the House during the

107th Congress for improving the business method patenting system. After referral to the Subcommittee on Courts, the Internet, and Intellectual Property, no further action has been taken. Nonetheless, it is important to be aware of this legislation since it might be re-introduced during the next Congress. The likelihood of such re-introduction will depend upon the public’s perception of the judicial decisions and Patent Office initiatives. Part 1 of this update addresses the legislation, Part 2 will discuss the Patent Office initiatives, and Part 3 will analyze case law developments.

The Proposed Legislation:

On April 3, 2001 Representatives Howard Berman (D-CA) and Rick Boucher (D-VA) introduced two bills (H.R. 1332 and H.R. 1333) in the House in order “to amend title 35, United States Code, to provide for improvements in the quality of patents on certain inventions.” The bills were referred to the House Committee on the Judiciary, which referred the bills to the Subcommittee on Courts, the Internet and Intellectual Property. To date, the Subcommittee has shown little interest in moving these bills forward. If no action is taken, the bills will die at the end of 107th Congress’ legislative session.

A brief summary of, and commentary on, each of the bills is offered below.

H.R. 1332

H.R. 1332, entitled the “Business Method Patent Improvement Act of 2001” (the Business Method Act), would amend 35 U.S.C. §100 by providing definitions for two new terms, a “business method” and a “business method invention.”

As proposed, a “business method” is defined as:

(1) a method of processing data or performing calculation operations; and which is uniquely designed for or utilized in the practice, administration, or management of an enterprise;

(2) any technique used in athletics, instruction, or personal skills; and

(3) any computer-assisted implementation of a method described in paragraph (1) or a technique described in paragraph (2).

A “business method invention” is defined as any invention which is a business method and which is comprised of any claim that is a business method.

The Business Method Act amends Title 35 of the United States Code by inserting a new “Chapter 32 – Patents On Business Method Inventions” (Chapter 32/BM). Chapter 32/BM includes provisions for publication (with some exceptions) of applications for patents based on business method inventions. The publication provisions are similar to those currently provided under 35 U.S.C. §122¹. However, the

“opt out of publication” opportunity that is currently available under §122, assuming that the applicant certifies that the application has not and will not be filed in another country that requires publication, is NOT available under Chapter 32/BM.

Chapter 32/BM also specifically establishes certain procedural requirements for applications covering business method inventions. Some of these requirements are highlighted below.

Business Method Determinations:

Chapter 32/BM requires the PTO's Director to determine, within 12 months after the first filing date of an application, whether any claim in the application recites a business method invention. If such a business method invention is found, the application is subject to the provisions of Chapter 32/BM. The applicant may respond to the Director's determination by amending or withdrawing the application. No appeal right with respect to the Director's determination is alluded to in the bill.

The Director's determination could be influenced by the applicant's prosecution strategy. Illustratively, a business method concept could be disclosed, but not claimed, in the applicant's U.S. patent application as filed, and then later claimed, thus arguably circumventing the down-side that would otherwise accrue to a business method designation.

Public Participation in Examination:

Chapter 32/BM provides any party an opportunity to: (1) submit to the Director for the record prior art (including evidence of knowledge or use, or public use or sale, under §102); (2) file a protest; or (3) petition the

Director to conduct a proceeding to determine whether the invention was known or used, or was in public use, or on sale (under §102), or is obvious (under §103).

The third party protest right is essentially unavailable under the current language of §122² since that language necessitates the applicant's written consent before a protest or other form of pre-issuance opposition can be initiated.

Opposition Procedures:

Chapter 32/BM provides opposition procedures under which any person may file a request for an opposition to a patent on a business method invention on the basis of §§101, 102, 103, or 112 of Title 35. These opposition procedures are substantially similar to those proposed in H.R. 1333, which are outlined below.

Burden of Proof:

Chapter 32/BM provides that, in the case of reexamination, interference, opposition, or other legal challenge (including a civil action) to a patent (or an application for a patent) on a business method invention, the party producing evidence of invalidity, or ineligibility for patent protection shall have the burden of showing that invalidity or ineligibility by a preponderance of the evidence.

Nonobviousness:

The Business Method Act would also amend 35 U.S.C. §103 to add a presumption of obviousness for certain aspects of business method inventions. Under the proposed provisions, a business method invention is presumed obvious if the only significant difference between the combined teachings of the prior art and the claimed invention is

that the claimed invention is appropriate for use with a computer technology. Exceptions to the presumption are provided if the application of the computer technology is novel, or the computer technology itself is novel and not the subject of another patent or patent application.

An applicant or patentee may rebut the presumption of obviousness upon a showing by a preponderance of the evidence that the invention is not obvious to persons of ordinary skill in the relevant areas of art. "Relevant areas of art" is defined as including the field of the business method and the field of the computer implementation.

This proposal in the bill embodies one answer to the calls for reform alluded to in the *Overview* above.

Disclosure of Pre-filing Search:

The Business Method Act requires that the Director of the PTO publish notice of rulemaking proceedings in order to amend the PTO rules to require expanded disclosure by an applicant for a patent on a business method invention. More specifically, the applicant must disclose in the application the extent to which the applicant searched the prior art to meet the requirements of title 35, United States Code. The Business Method Act requires the PTO to impose appropriate penalties for failure to comply with the pre-filing search disclosure requirement.

H.R.1333

H.R.1333, entitled the "Patent Improvement Act of 2001" (the Improvement Act), would amend title 35, United States Code, by inserting a new Chapter 32 – Opposition Procedures (Chapter 32/OP). These opposition procedures would assist in harmonizing

the U.S. patent law with the laws of Europe and Japan where such a protocol has been in existence for many years. The opposition procedures proposals apparently attempt to address perceived shortcomings associated with the U.S.'s *ex parte* and *inter partes* reexamination systems.

Administrative Opposition Panel:

The Improvement Act requires the Director establish an Administrative Opposition Panel (the Panel) not later than 1 year after enactment. The Panel is to comprise at least 18 administrative opposition judges, each having competent legal knowledge and scientific ability. Patent Examiners may be assigned to assist the Panel in opposition proceedings.

Opposition Procedures:

Request:

Under the provisions of Chapter 32/OP, any person may file a request for an opposition to a patent on the basis of sections 101, 102, 103, or 112 of Title 35. A request is valid if it: (1) is made no later than 9 months after the date of issuance of the patent; (2) is made in writing; (3) includes payment of an opposition fee; and (4) sets forth in detail the basis on which the opposition is requested.

When opposition to a patent is requested, the opposition fee is \$200 if opposition is based on prior art citations or obviousness and \$5,000 if the opposition is based on any other basis. If an opposition to an invention claimed in an application is requested (under H.R. 1332) and is based on 35 U.S.C. §102 grounds, the opposition fee is \$35.

Within 60 days after receiving a valid request, the Director must issue an

order granting the request for an opposition proceeding³.

Proceeding:

The patent owner may file a reply to the grounds for the request for opposition. The patent owner's reply may amend the patent for consideration during the opposition proceeding. The amendment to the patent may propose to revise a patent claim(s) or propose a new claim(s). At anytime during the opposition proceeding, the patent owner may propose amendments. However, amendments may not enlarge the scope of a revised or new claim. The patent owner's reply must be served on the third party requester, who may file and have considered in the opposition a reply to the patent owner's statement.

An administrative opposition judge conducts the opposition proceeding and may consider the patent owner's and third party requester's statements and replies, and any other relevant evidence submitted by the patent owner and the third party requester. The relevant evidence (submitted in accordance with the Federal Rules of Evidence) may include any oral testimony (e.g., exhibits, expert testimony) in direct or cross examination, or in any deposition, affidavit, or other documentary form, whether voluntary or compelled.

Not later than 18 months from the filing of a request for an opposition, the administrative opposition judge must determine the patentability of the subject matter of the patent. The judge's determination is placed in the official record of the patent and provided to the patent owner and third party requester.

Appeal:

Any party to the opposition proceeding may appeal a decision of the Panel to the Board of Patent Appeals and Interferences under 35 U.S.C. §134. With respect to any decision in regard to the patentability of any original, proposed amended or new claim of the patent, judicial review may be sought under 35 U.S.C. §§141 through 145. The patent owner and the third party requester may be a party to an appeal taken by the other.

Certification:

When the time for appeal has expired or any appeal proceeding has terminated, Chapter 32/OP requires the Director publish a certificate canceling any claim of the patent finally determined to be unpatentable, confirming any claim of the patent determined to be patentable, and incorporating in the patent any proposed amended or new claim determined to be patentable.

Under Chapter 32/OP, any proposed, amended, or new claim determined to be patentable and incorporated into a patent following an opposition proceeding shall have the same effect as that specified in 35 U.S.C. §252 for reissued patents.

Effect On Other Proceedings:

Final Decisions:

An opposition to patent claims may not be requested or maintained by a party based on issues raised in a civil action, if a final decision has been entered against the party in the civil action that establishes that the party has not sustained its burden of proving the invalidity of any patent claim. Similarly, a third party requester in an inter partes reexamination proceeding instituted by

the third-party requester may not request or maintain an opposition based on issues raised on any original, proposed amended, or new claim of the patent, if a final decision in the reexamination is favorable to the patentability of such claims. Chapter 32/OP applies these prohibitions against the party, the third party requester and the privies of the party and third party requester.

Chapter 32/OP also states that if a final decision in an opposition proceeding instituted by a third-party requester is favorable to the patentability of any original, proposed amended, or new claim of the patent, then neither the third party requester, nor their privies, may thereafter bring a civil action, request an *inter partes* reexamination of, or an opposition to, such patent claim on the basis of issues which that third party requester (or its privies) raised in such opposition proceeding.

However, these provisions of Chapter 32/OP do not prevent the assertion by a party to a civil action or a third party requester of invalidity based on newly discovered prior art or other evidence, unavailable to that party, the third party requester, and the PTO, at the time of the civil action, inter partes reexamination, or opposition proceeding.

Stay of Litigation:

Once the Director issues an order granting the request for an opposition proceeding with respect to a patent has been issued, any party to the proceeding may obtain a stay of any pending court proceeding (other than an appeal to the Court of Appeals for the Federal Circuit) which involves an issue of patentability of any claims of the patent which are the subject of the opposition proceeding. The court before which such litigation is pending may determine, however, that a

stay would not serve the interests of justice.

Other Proposed Amendments:

Like the Business Method Act (H.R.1332), the Improvement Act includes amendments to 35 U.S.C. §103 to add a presumption of obviousness for inventions if the only significant difference between the combined teachings of the prior art and the claimed invention is that the claimed invention is appropriate for use with a computer technology.

The Improvement Act also includes a requirement that the Director publish notice of rulemaking proceedings to amend the rules of the PTO to require an applicant for a patent to disclose any pre-filing searches.

ENDNOTES

1. The American Inventors Protection Act of 1999 (AIPA) provides for publication of each pending, non-provisional utility application for patent (not subject to a secrecy order under 35 U.S.C. §181) 18 months from the earliest effective filing date.
2. The AIPA added 35 U.S.C. §122(c), which requires the Director to establish procedures ensuring that no pre-issuance protest or opposition is initiated on an application after publication and before a grant of the application without the express written consent of the applicant.
- 3.. Although not recited in the Improvement Act, it is presumed that the Director's order may also deny the request for the opposition proceeding.