

# FULL DISCLOSURE

## Patent Prosecution Update

**August 2011**

### **Business Methods in 2011: Business as Usual?**

*by Erika Harmon Arner*

One year ago, the United States Supreme Court ruled that business methods cannot be categorically excluded from patenting in its landmark *Bilski v. Kappos* decision. Since then, the United States Patent and Trademark Office (USPTO) has continued to receive new applications for business method inventions and to issue business method patents. At its recent Business Methods Partnership Meeting, the USPTO provided an update on business method patenting and discussed best practices for protecting business-related innovations. [More](#)

### **Crafting Preambles to Side-Step Joint Infringement Issues**

Generally, a claim's preamble does not limit the scope of the claim. However, a preamble can limit claim scope when it breathes life and meaning into the claim. For example, a preamble may limit the claim scope when it provides antecedent support to recitations in the main body of the claim.

Patent drafters that effectively craft a preamble, even in claims where the preamble is limiting, can assist in overcoming later potential joint infringement issues. Infringement of a patented method requires that a single entity perform all the steps of the method. See *McKesson Techs., Inc. v. Epic Sys. Corp.*, No. 2010-1291 (Fed. Cir. Apr. 12, 2011). [More](#)

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## **Business Methods in 2011: Business as Usual?**

*by Erika Harmon Arner*

(cont'd)

### **What is a business method?**

While there is no single definition of a “business method,” many consider business methods to include inventions that fall into class 705 of the USPTO patent classification system. Class 705 is defined as “Data processing: Financial, Business Practice, Management, or Cost/Price Determination.” While recognizing class 705 as the primary home of business method patents, the USPTO notes that business methods may also be classified elsewhere in the USPTO, such as with gaming or teaching methods.

### **Who gets business method patents?**

From 2006 through 2010, eighteen companies received 66 or more patents in class 705. These companies include large computer companies like IBM and Microsoft; financial institutions such as JP Morgan, Chase Bank, and American Express; business consulting firms such as Accenture; and e-commerce companies like eBay and Amazon. After a dip in 2002, the USPTO has seen a steady increase in the number of business method patent applications being filed, with nearly 18,000 filed in 2010.

### **How does the USPTO handle all that work?**

As filings have increased, so has the number of patent examiners working on business methods at the USPTO. In the last ten years, the number of examiners in the group responsible for examining business method applications has more than quadrupled to nearly 325. The examining group responsible for business method patents is divided into workgroups including business cryptography, e-shopping, health care/insurance, business processing, incentive programs/coupons, and finance/banking. The business method examiners at the USPTO have a wide range of educational backgrounds, including many with law degrees or masters in business administration. Some have work experience in related fields such as insurance, software development, marketing, and real estate.

### **How hard is it to get a business method patent?**

In 2001, fewer than 500 patents issued in class 705, compared with over 3,500 in 2010. In addition to the increase in application filings, the allowance rate of business method patents has risen, reaching a high of 23.5% in 2010. While this rate has been slowly increasing, it remains significantly lower than the USPTO-wide allowance rate of 47%. In addition to a lower allowance rate, business method patent applicants also face a longer pendency than applicants in other technology areas. As of mid-year 2011, a business method patent applicant waits an average of 28.9 months to begin examination, compared

with 26.5 months across all technologies. Likewise, from filing to final disposition takes an average of 42.3 months for business method applicants, compared with USPTO-wide overall pendency of 33.9 months. While business method applicants generally face a longer prosecution period, the USPTO has been making progress to reduce its backlog and improve efficiency during prosecution.

### **What is being done to increase quality of business method patents?**

Getting the best prior art before examiners is one way the USPTO can improve patent quality. The business methods examining group has actively sought input from industry to build its collection of prior art. Organizations have provided databases, books, technical reports, conference proceedings, and web-based resources to assist examiners in finding the best prior art. Many resources are available on the business method section of the USPTO website, located at <http://www.uspto.gov/patents/resources/methods/index.jsp>.

Examiners in the business methods group also participate in the USPTO's Patent Examiner Technical Training Program to connect examiners with industry experts to learn more about state-of-the-art technology, prior art, and industry standards. The USPTO invites industry participation in this training program, where topics have included cloud computing, social networking, electronic payment systems, and Internet commerce. Interested parties can obtain more information and volunteer to participate at <http://www.uspto.gov/patents/pettp.jsp>.

### **What are some best practices to apply for business method patents?**

The USPTO's current guidelines encourage applicants to avoid claiming general concepts, such as basic economic practices or theories, basic legal theories, mathematical algorithms, mental activities, and human behavior. Instead, applicants are encouraged to craft claims that capture the practical application of any underlying abstract ideas, such as the use of a machine or apparatus to implement the steps of a claimed process. However, simple automation of a manual activity is typically found to be obvious, according to the USPTO. The USPTO also advises applicants who wish to protect business methods using computer-readable media claims to make clear that the media are "non-transitory" to avoid a rejection for nonstatutory subject matter.

Additionally, the mere presence of a machine will not ensure subject matter eligibility. For example, a claim may not meet the threshold requirements of 35 U.S.C. § 101 if a machine appears in a method claim but does not limit the method according to certain claim interpretation principles. Instances in which the inclusion of a machine may not limit the method claim include: if the recitation of the machine appears only in the preamble, if the recitation of the machine appears only in expressions of intent or purpose of the positively recited action, or if the recitation of the machine appears only in optional language.

The incorporation of a machine into the claims must be more than nominally, insignificantly, or tangentially related to the execution of the claimed method. For example, in a method claim that only utilizes a machine in a data-gathering step, the machine may not be more than tangentially related to the method claim. Thus, such a method claim might not be directed to patentable subject matter.

### **What's next for business method patents?**

The USPTO has not yet updated its year-old interim guidelines, issued just after the *Bilski* decision. Instead, the USPTO is waiting for guidance from the Federal Circuit, which is currently considering several cases involving business method patents. Decisions in these cases will likely issue in the next six to nine months, so new guidance from the USPTO may come sometime in 2012. The USPTO is also

closely watching the currently pending patent reform legislation, which includes a proposed provision for challenging business method patents. If the legislation passes, the USPTO could be issuing additional rules and procedures for business method patent challenges within the next year.

*Erika Arner is a recognized expert in the area of business method patents and patent-eligibility jurisprudence. She represented the petitioners before the United States Supreme Court in *Bilski v. Kappos*, coauthoring the successful petition for certiorari and the petitioners' briefs to the Court. She has also advised clients on issues related to patentable subject matter before the U.S. Court of Appeals for the Federal Circuit, U.S. district courts, and the United States Patent and Trademark Office.*

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## **Crafting Preambles to Side-Step Joint Infringement Issues**

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Under this rule, a patent claim requiring the actions of more than one party is infringed only when the accused infringer exercises direction and control over the third party. Notwithstanding this general rule, even if a preamble limits the claim scope by describing the environment in which the claim is performed, an accused infringer that performs only the steps in the body of the claim in the environment recited in the preamble infringes the claim.

A patent drafter can write steps requiring action by a third party in the patent preamble to avoid a potential joint infringement problem. For example, in a recent case decided by the Federal Circuit, *Advanced Software* asserted a method claim against *Fiserv's* check security product that prevents fraud and forgery. The asserted claim contained three main steps: encrypting, printing, and validating. Both the encrypting and printing steps were recited in the claim's preamble, while the validating step was in the body of the claim. Under *McKesson*, *Fiserv* argued that it did not infringe because it only performed one of the three disclosed steps and did not perform the two method steps of the preamble. However, the Federal Circuit found that the steps listed in the preamble of the method claim "define the environment in which an accused infringer must act or describe capabilities that an accused device must have." *Advanced Software Design Corp. v. Fiserv, Inc.*, No. 2009-1585, slip op. at 9 (Fed. Cir. June 2, 2011). The Court found that the preamble's steps, while limiting, need not be performed by the direct infringer. The direct infringer need only perform the method steps in the body of the claim within the environment described by the preamble. Because *Fiserv* validated checks that had been encrypted and printed in accordance with the steps in the preamble, it infringed the asserted claim.

The *Advanced Software* Court relied on its earlier 2011 decision in *Uniloc USA, Inc. v. Microsoft Corp.* to resolve this joint infringement issue. 632 F.3d 1292 (Fed. Cir. 2011). The asserted claim in *Uniloc* covered a remote registration station that incorporates a "remote licensee unique ID generating means." Microsoft admittedly supplied a remote registration station but did not supply or use the local licensee unique ID generating means. Nonetheless, the Court found that the claim exclusively covered a remote registration station. The portion of the claim discussing the unique ID generating means merely described the environment in which the claimed element must function. Thus, the Court found Microsoft guilty of infringement for supplying a remote registration station for use in the claimed environment.

To avoid potential joint infringement issues, patent drafters should draft method claims to a single entity. The *Advanced Software* case explains that, at least under the facts of that case, only the body of the claim must be drafted to a single entity, while the preamble can describe an environment requiring third

parties to act. For example, a patent drafter can draft a claim such that a single entity can perform all of the method steps in the body of the claim and would likely perform these method steps in an environment described in the preamble. This type of patent drafting can avoid potential joint infringement issues, making it easier for a patentee to enforce its patent rights.

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## Rule Review

This month's "Rule Review" instead focuses on an important part of the Patent Code, 35 U.S.C. § 135(b), and some of the issues that it raises.<sup>1</sup> Part (b) of the section sets forth time limits within which a patent applicant may present claims drawn to subject matter it believes it is entitled to if such claims were previously presented in a patent or application of another. In particular, § 135(b)(1) states that "[a] claim which is the same as, or for the same or substantially the same subject matter as, a claim of an issued patent may not be made in any application unless such a claim is made prior to one year from the date on which the patent was granted." In other words, anyone wishing to obtain a claim to the same subject matter as a claim of an issued patent must do so within one year of that patent's issuance.

Similarly, § 135(b)(2), which addresses published applications, states that "[a] claim which is the same as, or for the same or substantially the same subject matter as, a claim of an application published under section 122(b) of this title may be made in an application filed after the application is published only if the claim is made before 1 year after the date on which the application is published." At first blush, § 135(b)(2) appears to be a logical corollary to § 135(b)(1). However, a careful reading of § 135(b)(2) reveals that its complicated construction presents a number of issues and challenges. For example, although § 135(b)(2) specifically references applications published under § 122(b), which relates to the USPTO's pregrant publication procedure, it is important to remember that publication of a Patent Cooperation Treaty (PCT) application that designates the United States is deemed to be a publication under § 122(b). 35 U.S.C. § 374. Thus, the one-year period referenced in § 135(b)(2) may be tolled from the date of publication of a PCT application, which can occur before the USPTO publishes a corresponding U.S. application.

Another difficulty with § 135(b)(2) arises when a challenger becomes aware of a published application and subsequently files its own application to copy claims and provoke an interference. Under a plain-meaning interpretation of § 135(b)(2), the challenger would need to ensure it presents the copied claims within one year of the date of publication. However, the Board of Patent Appeals and Interferences has twice clarified that § 135(b)(2) does not bar copying claims more than one year after application publication if the copied claims are entitled to the benefit of an earlier filing date under 35 U.S.C. § 120. See *Ding v. Singer*, Interference No. 105,436, Paper No. 56, pp. 8-13 (Bd. Pat. App. & Int. 2007); *Ryan v. Young*, Interference Nos. 105,504 and 105,505, Paper No. 116, p. 25 (Bd. Pat. App. & Int. 2008).

For those entities monitoring application publications of third parties, a plain-meaning interpretation of § 135(b)(2) might present a further challenge when such an entity becomes aware of claims it believes

it is entitled to, but reasonably believes the published claims are unpatentable. In such an instance, the entity might feel compelled to copy the published claims to preserve its rights just in case the published claims issue. Obviously, however, such monitoring and claim copying may be very costly if done regularly. Here, again, the Board has offered some guidance, clarifying that § 135(b)(2) bars a target claim only if the subject claim “ultimately (1) issues as published or (2) issues with no material changes.” *Ryan*, Paper No. 116 at 43.

Given the timeframes set forth in § 135(b), companies should ensure they not only monitor U.S. patent grants and application publications but also monitor PCT publications. Once the company becomes aware of subject matter in a third-party publication that it believes it is entitled to, the company should make a case-by-case determination of whether it is prudent to copy claims at that time or, if a patent application publication, simply monitor the publication as it progresses through prosecution. However, waiting to see if the application matures into a patent having interfering claims may foreclose an opportunity to pursue an interference if the patent issues with claims identical to or materially similar to the published claims.

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<sup>1</sup> While the portions of 35 U.S.C. § 135(b) discussed here are currently in force, it is important to note that both the House and Senate have proposed to substantially revise § 135 to, among other things, remove the current provisions of § 135(b).

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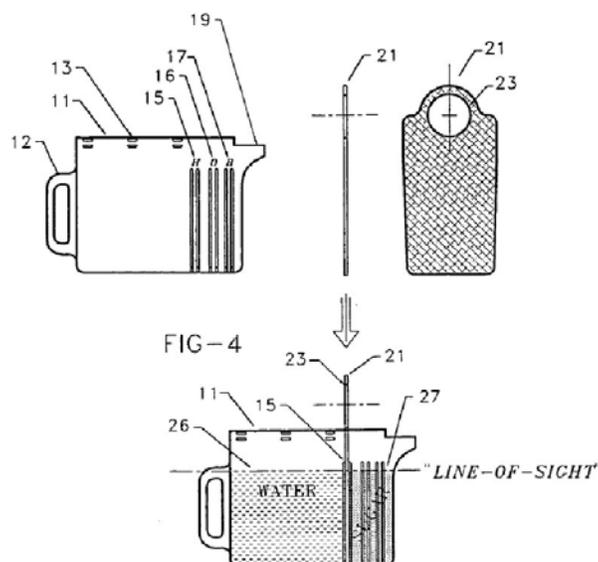
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## The Federal Circuit Says

If a reference is directed to a different purpose, inventors have less motivation or occasion to consider the teachings of that reference. *In re Klein*, No. 10-1411 (Fed. Cir. June 6, 2011), reversed the U.S. Patent and Trademark Office's (USPTO) Board of Patent Appeals and Interferences because the Court found that the references cited in the USPTO's obviousness rejections were not analogous to the claimed invention. The Court reasoned that the references were not reasonably pertinent to the problem the inventor aimed to solve. In fact, the Court found that the cited references, though structurally similar, were directed to diametrically opposed purposes.

The invention at issue concerned a mixing device for use in preparation of sugar-water nectar for certain bird and butterfly feeders. As shown in the figure below, the device 11 includes a series of rails 15-17 that, when engaged with a divider 21, allow for the creation of two compartments for separating sugar and water. The rails divide the device into proportionate volumes—a first for sugar and a second for water. Once the respective compartments have been filled to the same level with sugar and water, the divider is removed, allowing the sugar and water to mix and create nectar. Placing the divider 21 within a particular rail governed the sugar-water ratio of the resultant nectar.



In the appeal before the Court, the patent applicant argued that the Board failed to identify any evidence suggesting that the applied references were "reasonably pertinent" to the problem of preparing different

ratios. To be “reasonably pertinent,” a reference, even though in differing fields of endeavor, is one which, because of the matter with which it deals, logically would have commended itself to an inventor’s attention in considering his/her problem. Slip op. at 7. In addition, if a reference disclosure has the same purpose as the claimed invention, the reference relates to the same problem. *Id.* at 7-8. That fact supports use of that reference in an obviousness rejection. *Id.* at 8.

In evaluating the applicant’s arguments, the Court considered five applied references. The Court found that three of the five references disclosed devices having dividers designed to *separate* solid objects within the devices, as opposed to facilitate *mixing* of those objects. Moreover, the Court found that the dividers of the prior art devices included openings that would allow leakage of a liquid. Based on this finding, the Court concluded that the devices disclosed by these three references were not “adapted to receive water,” as required by the claims. The Court also found the other two references to be nonanalogous because neither included a movable divider to facilitate compartments having multiple ratios to one another.

Instead of instinctively amending claims in the face of rejections, *In re Klein* suggests that applicants should not overlook arguing the merits of rejections, especially those grounded in obviousness. Applicants should look at the purpose of prior art references to determine whether they are analogous to the claimed invention. In addition, when arguing that cited references do not constitute analogous art, applicants may consider narrowly defining the purpose of the claimed invention to limit the field of “reasonably pertinent” references. Such arguments, however, should be balanced with any potential estoppel that may flow from narrowly defining the invention’s purpose.

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## Did You Know?

In view of this year's Federal Circuit en banc decision in *Therasense, Inc. v. Becton, Dickinson & Co.*, 2011 WL 2028255 (Fed. Cir. May 25, 2011) (en banc), the United States Patent and Trademark Office (USPTO) recently proposed revising the materiality standard for the duty of disclosure to match that of the inequitable conduct doctrine, as articulated in that decision.

The *Therasense* Court limited materiality to a "but-for-plus" standard. In doing so, the Court explained that "[w]hen an applicant fails to disclose prior art to the [USPTO], that prior art is but-for material if the PTO would not have allowed a claim had it been aware of the undisclosed prior art." *Id.* at \*11. The Court therefore held that inequitable conduct during prosecution cannot be found unless the alleged misconduct was a "but-for" cause for the patent's issuance. In addition, the Court recognized an exception in cases of affirmative egregious misconduct before the USPTO. *Id.* at \*12. The Court, however, clarified that "neither mere nondisclosure of prior art references to the [USPTO] nor failure to mention prior art references in an affidavit" would rise to such misconduct. *Id.* In contrast, submission of an unmistakably false affidavit would be considered affirmative egregious misconduct. *Id.*

Although the USPTO does not consider *Therasense* to require it to harmonize the materiality standards underlying the duty of disclosure and the inequitable conduct doctrine, the USPTO believes there are important reasons to do so. In particular, the USPTO believes that adopting the *Therasense* materiality standard will reduce the frequency with which applicants and practitioners are being charged with inequitable conduct, thereby reducing the incentive for applicants to submit marginally relevant information out of an abundance of caution. A harmonized standard will also avoid forcing applicants to meet one standard when defending against inequitable conduct allegations and a second, different standard to fulfill the duty of disclosure before the USPTO.

Thus, the USPTO has proposed to rewrite 37 C.F.R. § 1.56(b) to clarify that "information is material to patentability if it is material under the standard set forth in *Therasense*, and that information is material to patentability under *Therasense* if: (1) The [USPTO] would not allow a claim if it were aware of the information, applying the preponderance of the evidence standard and giving the claim its broadest reasonable construction; or (2) the applicant engages in affirmative egregious misconduct before the [USPTO] as to the information." Revision of the Materiality to Patentability Standard for the Duty to Disclose Information in Patent Applications, 76 Fed. Reg. 43633 (July 21, 2011). The USPTO also plans to similarly revise 37 C.F.R. § 1.555(b), which relates to reexamination proceedings before the USPTO. See *id.* As alluded to above, the new rules ensure that a failure to disclose information cannot be considered material to patentability so long as the subject claims are still allowable.

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