

White Paper Outlines USPTO's Strategy for Examining Business Method Patents

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In the aftermath of the *State Street* decision¹, the United States Patent and Trademark Office (USPTO) has observed a frenzy of patent activity in the business method area, as well as a great deal of media and investor attention. Ecommerce startups, established players, and clicks-and-mortar converts have embraced the procurement of business method patenting as an important step in securing competitive advantage. Examples of business method patents issued to date include auction paradigms, electronic payment processes, customer referral systems, incentive and reward models, user interface arrangements, and web advertising, to name a few.

While industry players ride the wave of business method patenting, critics have expressed bewilderment, worrying that the phenomenon may create legal disputes that slow further ecommerce innovation. Aside from basic philosophical opposition, they cite concerns about the quality of the patent examination process, and the sufficiency of the standards for patentability. In particular, many commentators have focused on the perceived inadequacy of the "prior art" resources available to the USPTO and the skill levels of USPTO examiners, raising questions about the validity of many business method patents.

Internal Improvements

In response to the cries of business method patent opponents, USPTO Commissioner Q. Todd Dickinson announced a new internal USPTO program for business method patents. Designed to improve examination quality, the program calls for better searching by USPTO examiners and a "second pair of eyes" focused on each ecommerce patent application prior to allowance. Secondary review is not new within the USPTO, however, and theoretically takes place in every application handled by a junior examiner.³ Along with the new program, the USPTO recently conducted a public hearing with industry leaders and other interested parties concerning business method patenting issues. See [Dickinson Gets an Earful From Business Method Patent Panel](#)

Until very recently, details concerning implementation of the new examination program remained quite vague. While the USPTO shed some light on specific initiatives with the July 19, 2000, issuance of "[A USPTO White Paper: Automated Financial or Management Data Processing Methods \(Business Methods\)](#)," some view it as a facial response to critics. Still, in the White Paper, the USPTO does describe steps the agency is taking to improve the business method patenting process, sets forth its views on the history behind business method patenting, and discloses a number of interesting facts and statistics.

According to the White Paper, business method patents have been around for almost 200 years, the first being a financial patent granted on March 19, 1799 to Jacob Perkins for an invention concerning "Detecting Counterfeit Notes." The White Paper goes on to track a number of additional patents purported to cover business methods that were granted by the USPTO throughout the years. According to the USPTO, the first 50 years of USPTO operation saw 41 "financial" patents ranging from "bank notes (two patents), bills of credit (one), bills of exchange (one), check blanks (four); detecting and preventing counterfeiting (ten), coin counting (one), interest calculation tables (five), and lotteries (17)."³

The White Paper also identifies a few hundred patents in Class 705 that the USPTO perceives as covering business methods issued between 1977 and 1999.⁴ The statistics are interesting in themselves, but the USPTO's interpretation is more interesting. The agency clearly suggests that

issuance of business method patents is not a radical departure from its previous practices, but rather business as usual over the course of the last 200 years.

Nonetheless, the smattering of business method patents issued in the 1800s along with the few hundred issued in subsequent years hardly prepared us for the onslaught of business method patents that began in the late 1990s and has continued into the present.

Whether to cower in the face of this tsunami of business method patents depends on how one reads the White Paper. It states that Class 705 has seen "strong filing growth" between 1998 and 1999, citing 2,658 applications filed during that period of time. While this number sounds impressive, the USPTO is also quick to point out that the number is less than one percent of the total USPTO annual filings. The White Paper also makes the point that it is still the enabling technologies, or e-commerce "backbone," that sees many more filings. According to the USPTO, digital and multiplex technologies saw 7,131 applications in 1999, while other classes relating to web browsers, wireless communications, and database applications saw over 13,000 applications in 1999.⁵ Still, for a relatively new technology to account for almost one percent of the USPTO's workload is notable.

Ensuring the Requisite Expertise

In describing the state of its business method examination corps, the White Paper indicates that 38 examiners now work in Class 705, and that "4 have an MBA or other business degree, 4 have a JD degree, 4 have PhD degrees, and 7 have Masters Degrees."⁷ According to the White Paper, the patent applications in Class 705 have begun a transition to inventions having more of a business focus. In response, the USPTO is seeking increased numbers of examiners with three years of business industry work experience. Presently, 14 Class 705 examiners have business experience ranging from banking and securities to real estate and insurance.

The White Paper acknowledges that examination in Class 705 is "filled with challenges."⁷ In an effort to meet the challenges, the USPTO's Science & Technical Information Center - Electronic Information Center (STIC - EIC) supports the Class 705 examiners in locating additional electronic business literature sources and retrieving hard copy references, and is expanding its own conventional library. In addition, the STIC is attempting to collate its examining resources into a web-based search tool for convenience and effectiveness of the Class 705 examiners.

Under the section entitled "Improving Quality," the White Paper acknowledges that high quality examination must be ensured. The agency's mission is to "help our customers get patents."⁹ To help better weed out unpatentable inventions, however, the White Paper refers to its Hybrid Examiner-Trainer program in which "primary" (senior) examiners will spend 50 percent of their time training the newbies in the legal, procedural, and technological aspects of patent examination.

Their procedural training involves two weeks of intensive tutelage in patent examining procedure, which is nothing new for examiners at large. (As the patent examiner gains more experience, he or she undergoes additional training, also in two-week installments). For Class 705 examiners (within 2760), however, there is also a special training manual developed by primary examiners in the group. According to the White Paper, the content of the manual focuses on disclosure and claim analysis, searching, and preparation of office actions -- but not anything that specifically pertains to business method technology.

The White Paper further contemplates search strategy training that concerns analysis of the scope of the claims and use of standardized search strategies for aspects of business technology. Here, the USPTO may be breaking ground toward an improved examination process. The White Paper states: "[W]hile each application is unique and requires individual attention,

these strategies assist a patent examiner, new or experienced, in searching the appropriate areas and finding references relevant to the application at hand."⁹ With the search strategies, the USPTO now will provide a search strategy advisory panel "comprised of managers and experienced examiners" to help Class 705 examiners in particular applications. These steps should be very helpful in improving the uniformity of searching and examination among USPTO examiners.

In addition to improved search targeting, the White Paper says that commercial databases and non-patent literature are now more readily available to examiners, either directly or via the STIC - EIC. Also, search training will now include examples of searches initiated using such resources as "real world" situations. The EIC staff, which includes 12 searchers, now will provide "new and interesting" business information to Class 705 examiners in a daily e-mail. The Class 705 examiners will rely on a set of "core" databases of non-patent literature for all searching, as well as a number of subject-specific databases for particular types of inventions.¹⁰

In terms of technical training, both new and experienced Class 705 examiners will receive technical training in "electronic business practice," and particularly, computer networking, computer architecture, electronic payments, electronic catalogs, and computer security.¹¹ Direct technical training of examiners seems to be a new concept.

In addition, the White Paper contemplates a budget for industry field trips, conferences, and seminars to keep examiners up-to-date in their technical and business awareness. The White Paper specifically mentions plans to take Class 705 examiners on a field trip to Wall Street. Nothing new here, though. Field trips by examiners, although little known, have been going on for years. 3M in St. Paul, Minnesota, for example, has hosted groups of examiners over the years to learn more about its technologies and businesses.

According to the White Paper, the USPTO continues to seek "business practice specialists" to serve as resources for Class 705 examiners on well known practices in the areas of banking/finance, ecommerce, insurance, and Internet infrastructure, and will accept offers to act in that capacity on a consultancy basis. This initiative will be accompanied by a new second-level review of allowed Class 705 applications prior to issuance, as well as an expanded sampling of applications under the USPTO's existing quality review process.

Partnering with Patent Applicants

Finally, the White Paper takes note of the agency's efforts, begun last year, to form customer relationships with the objective of improving the examination process. In particular, the USPTO held a customer focus session in late 1999 concerning weaknesses in the quality of searches conducted by the USPTO. The White Paper also notes that the USPTO has started to form customer partnerships with specific emphasis on examination within Class 705, hoping to gauge any future transition of the patent application format toward the "business method form" and necessary shifts in the knowledge base of examiners to meet such changes. It appears that the USPTO wants to be aware of new disclosure and claiming trends as they emerge.

In summary, the White Paper explains the world of business method patenting as the USPTO sees it, and provides documentation of the efforts the agency has made and will make to ensure higher quality examinations. At the very least, the White Paper represents an acknowledgement of significant problems in the examination of business method patent applications. With proper follow-through, this acknowledgement, and the stated programs, should result in the issuance of fewer business method patents of suspect validity. They had better -- because business method applications will continue to pile up at the USPTO's doorstep, fueling more issued patents and, predictably, more controversy.

Endnotes

1. *State Street Bank v. Signature Financial Group*, 149 F.3d 1368 (Fed. Cir. 1998).
2. A "primary" examiner generally is required to co-sign any Office Action prepared by a junior examiner. It ordinarily takes 5-7 years to achieve the rank of primary examiner.
3. See USPTO White Paper, at page 2.
4. The patents have been assigned to Class 705 (automated business data processing technologies) in the USPTO Search Classification Index, a guide for examiner searching that divides prior patents and other art into technology areas. From the USPTO White Paper, the leaders in numbers of patents obtained in Class 705 over the period from 1995 to 1999 are as follows: Pitney-Bowes (77), Fujitsu (64), IBM (58), NCR (30), Hitachi (27), Citibank (22), EDS (21), and Microsoft (20).
5. The USPTO White Paper states: "[I]t must be noted that most patent applications being examined in Class 705 still strongly reflect the implementing or enabling engineering . . . used to carry out the practical applications being claimed." See USPTO White Paper, at page 9.
6. USPTO White Paper, at page 9.
7. USPTO White Paper, at page 11.
8. USPTO White Paper, at page 12.
9. USPTO White Paper, at page 14.
10. The core databases include: ABI/INFORM(r), Business & Industry(tm), Business Week, Business Wire, Computer Database(tm), Conference Papers Index, Dissertation Abstracts Online, Globalbase(tm), Inside Conferences, INSPEC, Internet & Personal Computing Abstracts(r), The McGraw-Hill Companies Publications Online, Microcomputer Software Guide Online(r), New Product Announcements /Plus(r) (NPA/Plus), Newsletter Database(tm), Financial Times Abstracts, New York Times Abstracts, San Jose Mercury News, Wall Street Journal Abstracts, PR Newswire, PROMT(r), Softbase: Reviews, Companies, and Products, Trade & Industry Database(tm), Wilson Applied Science and Technology Abstracts, and World Reporter.
11. See USPTO White Paper, at page 20.