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May 15, 2014

Open for Business: The PTO Offers a Fast and Low-Cost Shot at Invalidating Business Method Patents

Business method patents exploded in the mid-1990s, leaving companies vulnerable to patents that many felt never should have been issued. The expense of litigation and the high hurdle to invalidating issued patents caused many companies to pay license fees rather than wage pyrrhic legal battles. But the good times for business method patentees may be ending.

A new procedure called the Covered Business Method Review (CBM) was created by the America Invents Act, and it allows companies to challenge issued business method patents in the Patent Office. The procedure is fast, normally concluding in just one year, and allows petitioners to prove invalidity by a mere preponderance of the evidence – not the more stringent clear and convincing evidence standard used in district court. And unlike the more popular *inter partes review* procedure (IPR), a threatened party can challenge business method patents on *additional* grounds, including §§ 101 and 112 (but not best mode).

So far, CBM has been a resounding success for petitioners: the PTO has invalidated nearly every business method patent claim reviewed under CBM. Despite this favorable statistic and CBM's attractive features, as of May 8, 2014, only 162 petitions have been filed so far – less than 15% of the more restrictive IPR.¹ Why is that? One obvious reason is that non-business method patents cannot be challenged in a CBM. Nevertheless, CBM seems underutilized when one considers the significant assertion activities of business method patentees versus the relatively small number of CBM filings. The reason may be that Congress requires CBM petitioners to meet certain conditions that are causing uncertainty in the minds of would-be filers.

Fortunately, as explained below, guidance exists for prospective petitioners to evaluate whether a CBM is a good option to challenge a vulnerable business method patent.

A. Qualifying for CBM Review

The CBM process includes a number of formal requirements that petitioners must satisfy before filing. Most are straightforward, dealing primarily with the timing and content of the petition itself, and will not be discussed in this article. However, two broad requirements seem to raise the most questions in petitioners' minds, which are discussed in turn below: standing to bring a petition, and exactly what qualifies as a covered business method patent.

1. Standing: Petitioners Must Demonstrate a Real Threat

CBM is open only to those parties who are targets of a business method patent holder. This is a significant difference from an IPR petition, which may be brought by anyone for any recognized reason. To establish standing to seek CBM review, the petitioner must demonstrate either that it *or its customer* has been directly sued for infringing that patent, or that there exists a real and substantial controversy regarding infringement. This standard is similar to the declaratory judgment standard used in federal district courts.²

2. Claims Must Relate to a "Financial Product or Service" (Construed Expansively), but Not Claim a "Technological Invention"

The term "covered business method patent" is defined as:

- a patent that claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a *financial product or service*,

- except that the term *does not* include patents for *technological inventions*.³

Thus, sensibly, a potential petitioner must evaluate: (1) whether at least one claim of the patent covers a "financial product or service" and (2) whether the patent is for a "technological invention."⁴

a. "Financial Product or Service:" Any Commerce of Any Business – Not Just Banks and Financial Services

During CBM's creation in Congress, Senator Charles Schumer explained that "a financial product is an agreement between two parties *stipulating movements of money or other consideration now or in the future*."⁵ The Board has seized on this and similar statements to reject patent owners' arguments that would limit "financial product or service" to just products or services of the "financial services industry."⁶ Rather, the Board has construed the term "financial product or service" to encompass patents that "claim[] activities that are financial in nature, incidental to financial activity or complementary to a financial activity."⁷ In other words, the focus is on the claimed activity and not its specific business application. Qualifying examples of such activities have included the following:

- electronic movement of money between financially distinct entities;⁸
- the electronic sale of something, including charging a fee to a party's account;⁹
- adjudicating an insurance claim and processing payment for that claim;¹⁰ and
- e-commerce transactions that are "complementary to a financial activity" and "relate to monetary matters."¹¹

Notably, of the 11 petitions that have been denied for CBM, none was denied on the basis of not covering a financial product or service, corroborating the Board's stated view that the term should be construed broadly.

b. Using Conventional Software and Hardware Components to Transact Business Is "Not...a Technological Invention," but Using a Novel Data-Processing Algorithm Incident to the Transaction Probably Is

To qualify for CBM, the petitioner must also show that the patent is *not* for a technological invention. In making this determination, the Board asks: (1) does the claimed subject matter as a whole recite a technological feature that is novel and nonobvious over the prior art, and (2) do the claims solve a technical problem using a technical solution?¹² In answering those questions, the board has determined that using the following generic technology terms *does not* magically transform the claimed subject matter into a technological invention:

- a web browser, a communication network, various software modules, and a computer;¹³
- first memory, second memory, telecommunications line, transmitter, and receiver;¹⁴ and
- a medical service terminal and computer generated image files.¹⁵

On the other hand, a technological invention may be found where the patentee specifically identifies a technical solution for a technical problem and the petitioner fails to show the technical solution was known in the art at the time of the invention.¹⁶ For example, "an intermediary server" for a "recording step" and an "intermediate server" for a "forming step" were found to be technological inventions.¹⁷ Tellingly, only 2 of the 11 CBM denials concerned the "technological invention" exception, suggesting that, in practice, this may be a relatively easy call.

B. Businesses Should Take Another Look at this Powerful and Underutilized Weapon in the Fight Against Shaky Business Method Patents

CBM is a powerful weapon for challenging patents on grounds unavailable to IPRs, as long as they qualify. By now, however, any uncertainty has been addressed by numerous Board decisions clarifying what is eligible for CBM review. When a CBM petition does qualify, the results for threatened business have been very good indeed. Going forward, paying business method patentees to go away should no longer be "business as usual," at least not until a CBM petition has been seriously considered.

¹ http://www.uspto.gov/ip/boards/bpai/stats/050814_aia_stat_graph.pdf

² America Invents Act, Section 18(a)(1)(B).

³ *Id.* at §18(d).

⁴ See Apple Inc. v. Sightsound Techs., LLC (CBM2013-00019).

⁵ 17 Cong. Rec. S 5432 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer).

⁶ See Apple Inc. v. Sightsound Techs. LLC (CBM2013-00019).

⁷ *Id.*

⁸ See *id.*

⁹ See Apple Inc. v. Sightsound Techs., LLC (CBM2013-00021).

¹⁰ See David Gillman v. Stoneeagle Servs., Inc. (CBM2013-00047).

¹¹ See Experian Marketing Solutions, Inc. v. RPost Commns. Ltd. (CBM2014-00010).

¹² 37 C.F.R. § 42.301.

¹³ See Liberty Mutual Insurance Co. v. Progressive Casualty Insurance Co. (CBM2012-00011).

¹⁴ See Apple Inc. v. Sightsound Techs., LLC (CBM2013-00019).

¹⁵ See Gillman v. Stoneeagle Servs., Inc. (CBM2013-00047).

¹⁶ See Experian Marketing Solutions, Inc. v. RPost Commns. Ltd. (CBM2014-00010).

¹⁷ *Id.*