

CBM Can Turn The Tables In Patent Litigation

Law360, New York (June 27, 2014, 10:48 AM ET) --

New patent infringement lawsuits fill the dockets every morning. The asserted patents are often directed to a process involving financial services or products, electronic commerce or monetary matters. The patents may implement these processes using traditional forms of computer, memory or networking technology, well-known hardware or software components, or other solutions that address business problems instead of technical problems. These patents are commonly referred to as business method patents. Too often, defendants in these lawsuits only consider two strategies: unfavorable settlements and protracted litigation.



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The America Invents Act gives defendants a third option. It created a proceeding known as covered business method review that allows defendants to attack the patentability of business method patents with the Patent Trial and Appeal Board of the U.S. Patent and Trademark Office. Unlike in the more frequently used inter partes review proceeding, a petitioner in a CBM proceeding can attack the “unpatentable subject matter” of a business method patent pursuant to 35 U.S.C. §101. Below, we discuss how an early Section 101 challenge in a CBM proceeding may help defendants turn the tables in patent litigation. With CBM, defendants now have a chance to play offense.

Timing Is Important

Unlike IPRs, CBM is limited to persons or their privies that have been sued or charged with infringement of a covered business method patent.[1] Sometimes, companies that are charged with infringement, but not yet sued, may consider filing a declaratory judgment of invalidity in anticipation of being sued. However, companies need to be careful. The statute prohibits the PTAB from instituting a CBM of a patent if the petitioner filed a civil action challenging the validity of the patent before filing a CBM petition.[2] And the PTAB has denied such petitions on multiple occasions.[3] Thus, the proper timing for filing a petition under CBM is after being sued or charged with infringement, but before filing a declaratory judgment action based on invalidity.

Standard for Instituting a Covered Business Method Review

As an initial matter, a petitioner must consider whether the asserted patent qualifies for covered business method review. A “covered business method patent” is one 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.”[4] Thus, the threshold inquiry for CBM involves two prongs, whether the patent (1) is directed to a “financial product or service,” and (2) is not directed to a “technological invention.”

A patent having just a single claim directed to a covered business method is eligible for CBM.[5] Thus, a petitioner can institute a CBM on an entire patent even if only a single claim is directed to a covered business method. Defendants should therefore look beyond the claims asserted in litigation to determine whether even a single, unasserted, claim qualifies for CBM.

“Financial Product or Service” Prong of CBM Test

The legislative history of the AIA broadly interprets the “financial product or service” prong of the test. Yet, many defendants forego CBM because they mistakenly believe that only patents that are allegedly used or asserted by a financial services company or that involve a traditional financial services business qualify for CBM. To date, the PTAB has not been so strict with its analysis of the “financial product or service” prong of the test.

The PTAB often cites the legislative history of the AIA in finding that patents “claiming activities that are financial in nature, incidental to a financial activity or complementary to a financial activity” qualify for CBM. Some examples of such financial activity include: “e-commerce transactions;”[6] “payment processing;”[7] “electronic ‘sale’ of digital audio and the electronic ‘transfer’ of ‘money;’”[8] “‘selling electronically’ from one party to another, including ‘charging a fee’ and ‘charging [an] account’”;[9] and “products and services involving insurance.”[10]

To determine whether a patent meets the “financial product or service” prong, the focus is on the subject matter of the patent, including the express language of the claims and the description of those claims in the specification.[11] Thus, petitioners are encouraged to analyze not only what the claims recite, but how the specification describes those claims, to meet the “financial product or service prong” of the CBM test.

Accordingly, the mere fact that a patent is allegedly being used, or asserted, by a company that is not a financial services company does not disqualify the patent from CBM. Of the hundreds of CBM petitions that have been filed in the roughly 18 months since the AIA was enacted, only 28 petitions have been denied. Of those, no petition has been denied for failure to meet the “financial product or service” prong of the CBM test.

“Technological Invention” Prong of CBM Test

The definition of “covered business method patent” specifically excludes patents directed to “technological inventions.”[12] This determination considers “whether the claimed subject matter as a whole recites a technological feature that is novel and unobvious over the prior art; and solves a technical problem using a technical solution.”[13] If a claim merely recites well-known technologies, including general purpose computer hardware, communication or computer networks, software, memory, computer-readable storage mediums, or similar elements that address business problems rather than solve technical problems, then those claims are generally not considered “technological inventions.”[14]

Thus, petitioners should assess the claims to determine whether the recited technical components are

general purpose hardware or software components already known in the art. If so, then the claims will likely not be excluded from CBM as a “technological invention.”

Of the 28 petitions for CBM that the PTAB has denied thus far, only two were denied for failure to meet the “technological invention” prong of the test. Notwithstanding this high success rate, petitioners are advised not to make conclusory arguments regarding the “technological invention” prong.[15]

Attack Patents Directed to “Unpatentable Subject Matter” Pursuant to 35 U.S.C. §101

An important benefit of using CBM over IPR is the ability to challenge patentability under Section 101. Although the test for patentability under Section 101 lacks bright-line categorical rules and is currently being reviewed again by the U.S. Supreme Court,[16] a petitioner should consider a Section 101 challenge of patentability in a CBM for several reasons.

First, the likelihood of winning a Section 101 challenge in the PTAB is higher than in the district court because a patent asserted in litigation enjoys a presumption of validity and must be proven invalid by the higher “clear and convincing evidence” standard.[17] In contrast, the PTAB reviews the patentability of a claim, rather than its validity, and applies a lower “preponderance of the evidence” standard to the underlying factual determinations.[18] In addition, the PTAB applies a “broadest reasonable interpretation” standard to claim construction,[19] which may make the claims vulnerable in the patentability analysis. In one case, the PTAB found claims to be unpatentable under Section 101 even though a district court had already found the same claims not invalid under Section 101.[20]

The early statistics on the success rate of CBM institutions and final decisions demonstrate that a Section 101 challenge can be more successful in the PTAB. Of the 28 petitions for CBM denied by the PTAB, only three were denied because the PTAB determined it unlikely that the claims were invalid under Section 101.[21] This is a low failure rate. In addition, three petitions for CBMR asserting unpatentability under Section 101 have proceeded to a final decision. In all three cases, the PTAB held that all of the challenged claims were unpatentable under Section 101.[22] This is a high success rate.

Although petitioners may institute a CBM on multiple grounds of unpatentability, including based on prior art, defendants should consider filing a focused CBM challenging only the unpatentable subject matter of the claims under Section 101. First, preparing a CBM petition based on prior art can take a long time. A petitioner may need several months to commission a prior art search, prepare an invalidity claim chart, engage an invalidity expert, obtain the expert’s opinion on the prior art, and select which of multiple prior art references to assert in the petition.

In contrast, a petition focused only on a Section 101 challenge can be prepared and filed in about one month. Second, the estoppel effect of a CBM is limited to only those invalidity grounds actually raised and subject to a final decision in the CBM.[23] Thus, a petitioner can challenge a patent under Section 101 in a CBM and save the prior art invalidity arguments for a later CBM, an IPR, or for trial in the district court.

Seek a Stay of Litigation Pending the Outcome of the Covered Business Method Review

In conjunction with filing an early, focused CBM petition, a defendant should seek a stay of the litigation pending the outcome of the CBM. Courts give significant consideration to the progress of the litigation when evaluating stay requests. Filing a CBM petition early in a case, even before the initial case management conference, can increase the likelihood that the court will grant the request for stay.

If granted, a stay can save the defendant attorneys' fees and expenses that would otherwise be spent litigating its defenses. A successful stay of litigation can reverse the roles between the plaintiff and the defendant. Instead of defending itself in the plaintiff's chosen venue, a defendant can play offense as a CBM petitioner in the PTAB. In a CBM, the patentee must now play defense to preserve the validity of its patent. If the PTAB finds the asserted claims unpatentable in a CBM, then the district court litigation can be dismissed with prejudice before it even gets off the ground.

A Focused CBMR Petition Can Lead to an Early Settlement

An early, focused CBM petition filed in conjunction with a request to stay the district court lawsuit can also increase the likelihood for a favorable settlement of the underlying lawsuit.

PTAB statistics indicate that settlement is the most common outcome of a CBM petition. Of the 28 petitions denied by the PTAB so far, the parties settled fourteen of those petitions in conjunction with an underlying license agreement and litigation settlement. These cases settled before the PTAB even issued an institution decision on the merits. Because a CBM coupled with a stay of litigation can put a patent owner on the defensive, it is more likely to lead to a more favorable settlement than if the parties were just engaging in the normal course of litigation.

Not only can a well-prepared CBM petition affect a patentee's position with respect to the petitioner, it can also affect the patentee's entire enforcement campaign, including its leverage over other licensing and litigation targets. Thus, a patentee may be more motivated to settle the lawsuit before the PTAB even institutes the CBM proceedings, and certainly before the PTAB issues a final decision finding claims unpatentable.

A defendant may even consider sharing the CBM petition with the patentee and negotiating a confidential settlement before filing the petition with the PTAB. This approach might incentivize the patentee to settle the underlying lawsuit with the would-be petitioner before the CBM petition becomes public upon filing.

Conclusion

The early returns from the PTAB on CBM petitions are encouraging for patent litigation defendants. Though each patent must be assessed on its own merits, defendants should consider filing an early CBM petition focused on challenging "unpatentable subject matter" under Section 101. An early, focused petition, coupled with a successful stay of litigation and limited litigation estoppel, can reverse the traditional party roles to allow the defendant to play offense.

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[1] America Invents Act (AIA), Section 18(a)(1)(B).

[2] 35 U.S.C. § 325(a)(1).

[3] See CBM2013-00059, Paper 12; CBM2014-00035, Paper 12; CBM2014-00036, Paper 13; and CBM2014-00037, Paper 12.

[4] AIA, Section 18(d)(1); see also 37 C.F.R. § 42.301(a).

[5] See CBM2012-00002, Paper 66 at *4-7; see also CBM2012-00003, Paper 78 at *5-8.

[6] See CBM2014-00010, Paper 20 at *5-7.

[7] See CBM2014-00014, Paper 19 at *10-11.

[8] See CBM2013-00019, Paper 17 at *9-13.

[9] See CBM2013-00021, Paper 13 at *10.

[10] See CBM2013-00001, Paper 13 at *3-6.

[11] See CBM2013-00019, Paper 17 at *13; see also CBM2013-00021, Paper 13 at *14.

[12] AIA, Section 18(d)(1).

[13] 37 C.F.R. §42.301(b).

[14] See Office Patent Trial Guide, 77 Fed. Reg. 48756, 48763-64 (Aug. 14, 2012).

[15] See CBM2014-00010, Paper 20 at *7-9 (denying petition for CBMR due to “conclusory arguments” made by petitioner regarding “technological invention” prong of CBMR test).

[16] See *CLS Bank Int’l v. Alice Corp. Pty. Ltd.*, 717 F.3d 1269 (Fed. Cir. 2013) (addressing issue of whether claims to computer-implemented invention—including claims to systems and machines, processes, and items of manufacture—are directed to patent-eligible subject matter within the meaning of 35 U.S.C. §101), cert. granted, 134 S. Ct. 734 (2013).

[17] *Microsoft Corp. v. i4i L.P.*, 131 S.Ct. 2238 (2011).

[18] See CBM2012-00007, Paper 58 at *6 (citing 35 USC 326(e); *Ultramercial, Inc. v. Hulu, LLC*, 722 F.3d 1335, 1339 (Fed. Cir. 2013)).

[19] See CBM2012-00001, Paper 70 at *7-19; see also CMB2012-00005, Paper 66 at *6.

[20] See CBM2012-00007, Paper 58 at *5-11.

[21] See CBM2014-00014, Paper 19 at *33-40; CBM2013-00019, Paper 17 at *16-22; CBM2013-00021, Paper 13 at *17-23.

[22] CBM2012-00001, Paper 70 at *25-34; CBM2012-00005, Paper 66 at *8-17; CBM2012-00007, Paper 58 at *7-11.

[23] AIA, Section 18(a)(1)(D).

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