

# 12 Observations

## On Covered Business Method Review

January 30, 2014



# CBM

When the America Invents Act (AIA) was passed in 2011, it ushered in a number of new post-grant options to challenge and defend patents at the United States Patent and Trademark Office. One of these newly-created proceedings, Covered Business Method (CBM), is noteworthy for its special eligibility criteria and limitations not present in other post-grant options. In this report, we look at the particular challenges and opportunities posed by this unique proceeding in the time since it was implemented.

## "If you build it will they come?"

The results have been mixed. This is perhaps not surprising given some of the eligibility requirements that Congress put in place at the outset.

The number of CBMs filed each month fluctuates between 0 and 19, compared with approximately 60 requests for *inter partes* review filed each month.

CBM was largely imagined as a proceeding for the financial services industry. In light of some Supreme Court decisions, notably *In re Bilski*, Congress determined certain financial services patents need a special proceeding to test patentability. In practice, a variety of industries have availed themselves of CBM review. Over 40 percent of CBMs have been filed by technology companies.

**CBM is a Fast Track.** The Patent Trial and Appeal Board (PTAB) is certainly treating its one-year timeline with seriousness when creating schedules. While the patent owner might normally have three months after the decision to file its response, the PTAB is often scheduling only two months. The petitioner has two months to file its reply as well. Petitioners and patent owners can argue against the expedited schedule but they are not always successful.

### Legislative history is important.

When CBM was first instituted, there were questions about whether the PTAB would rely on legislative history. Judging by reference to comments made by Senator Schumer, both on the Senate floor and then in some later comments he filed, the PTAB is relying on legislative history quite strongly.

### It may not be possible to terminate a CBM, even if the parties have settled.

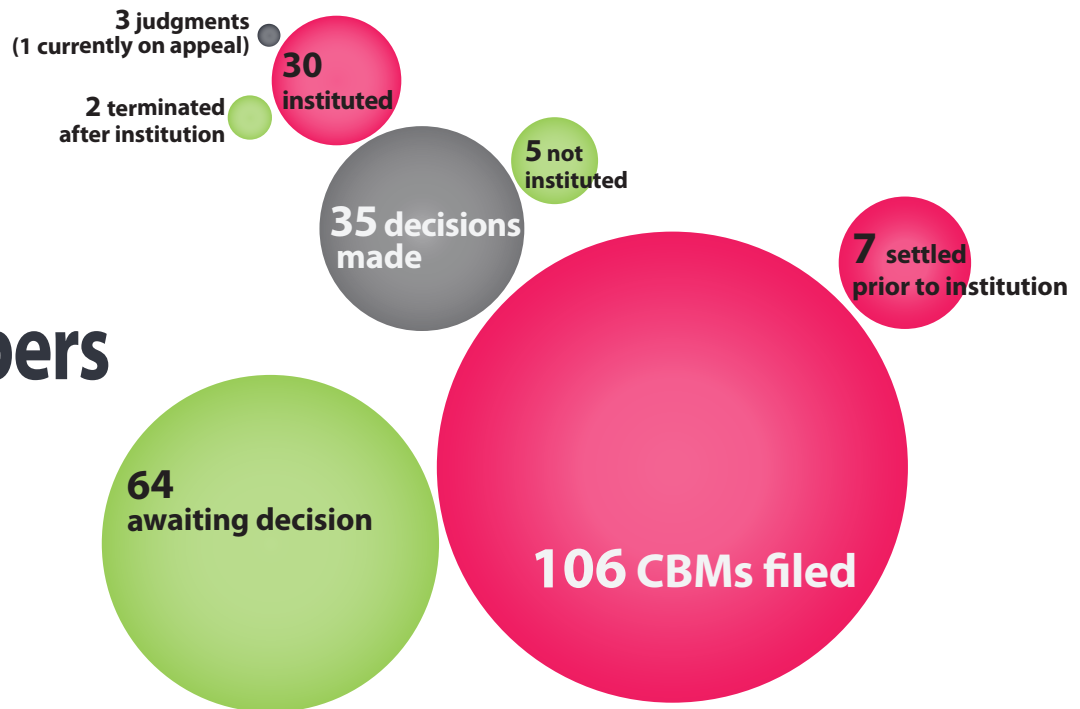
In *Interthinx v. Corelogic*, the CBM had progressed so far down the road that the PTAB thought it would be a waste of time not to complete the trial. The petitioner was excused from the CBM trial but the patent owner was left to argue its case.

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# CBM By the Numbers



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**Petitioners are filing multiple CBM petitions against the same patent.** There are a number of reasons for this. The CBM petition is limited to 80 pages. In those 80 pages the petitioner has to deal with actual grounds of unpatentability, and address all the standing and eligibility issues as well. One way petitioners are trying to get around the 80-page limit is by filing multiple CBMs and splitting the issues between them. For example, a petitioner might file one CBM to deal with the §101 and §112 grounds, and then another CBM to deal with the §102 and §103 grounds. Alternatively, they might file two CBMs against the same patent but deal with one set of claims in one petition and another set of claims in the second petition.

This has some consequences regarding institution decisions. In all of the cases where trial has been denied on a CBM, additional CBMs had been filed on the same patents. The petitioner might have filed what it thought would be the most successful grounds in one filing and more questionable grounds in the other. When trial was denied for one of the petitions, it was instituted for the second.

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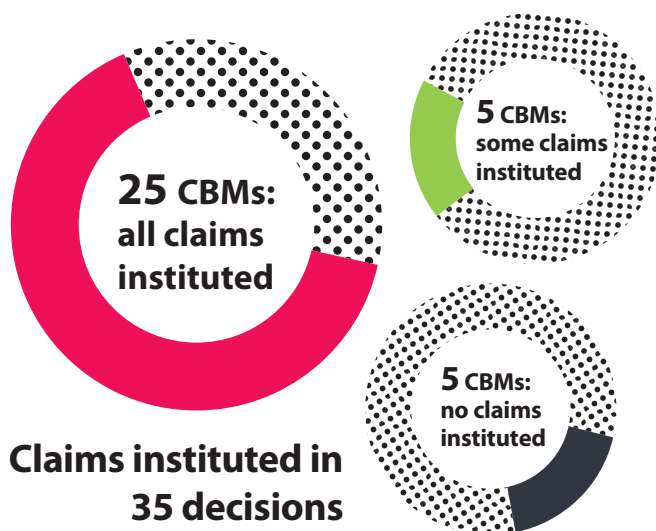
**A customer is considered a privy for the purposes of standing.** The requirement for CBM standing is that the petitioner, privy, or the real party-in-interest must have been sued or charged with infringement. Even if the petitioner has not been sued, it can file a CBM if its customer has been sued. This follows some of the legislative history in which Senator Schumer stated a customer should be considered a privy for purposes of standing.

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**There is no recourse from CBM by filing an APA action.** In *SAP v. Versata*, the district court dismissed the APA action because it said it didn't have subject matter jurisdiction. It indicated that the decision of the PTAB to institute or not institute trial was final and non-appealable. Any issues that the parties have must wait until after a final written decision is given. Then they can appeal to the federal circuit.

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**It only takes one claim to be eligible (and it's not always the first claim).** The PTAB typically uses just one claim from the patent for its eligibility analysis, and in many cases it is not the first independent claim. Many times, the first independent claim is considered to be the broadest claim. However, the PTAB has been looking at some of the later claims for eligibility analysis, and it only takes one eligible claim to put the whole patent into review.



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**The PTAB is flexible on the financial eligibility requirement.** Even if the claims don't recite financial activity, the PTAB is considering whether financial activity is contemplated by the specification, or whether a financial organization could use the subject matter at issue. In one case involving an organizational hierarchy for a database, the claims weren't specific to any industry. The PTAB decided the financial services industry could benefit from organizing data in a database, so the subject matter was sufficiently financial.

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**Patent owners have difficulty identifying a technological invention.** To satisfy the §112 ground in the general examination process, some applicants say their software process uses conventional computer components. That way, they don't have to explain them in detail to satisfy enablement. However, this makes it difficult to rely on the same computer components to satisfy the technological invention exception later down the road.

The PTAB has responded to this situation every time by saying that even though the patent owner has argued in the preliminary response that technological aspects of the invention make the patent ineligible for CBM review, the original specification said that they are conventional. The patent owner can't have it both ways.

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**Just because a claim is eligible for CBM review, that doesn't mean it will fail a §101 analysis.** With the emphasis on the technical components in the test for the technological invention exception, we were originally concerned that if a claim failed that test it would automatically fail a §101 analysis. Two recent CBM petitions involving *Apple v. SightSound* were denied because the claims satisfied §101, even though the claims were considered otherwise eligible for CBM.

The PTAB is looking to individual claim elements for novelty in determining whether or not a claim has satisfied the technological invention exception. But in a §101 analysis, the PTAB is really looking to see whether the claims, as a whole, are abstract. In the *SightSound* case, even though the computer components were conventional, the PTAB found that they were combined in a claim and used in such a way that they were not abstract. That's a ray of hope for patent owners.

# Grounds Challenged in CBM Decisions



## Grounds in Covered Business Method

With respect to grounds, parties seem to be taking advantage of CBM and requesting that the PTAB look at all grounds. Many are putting, where appropriate, §101, §112, §102, and §103 grounds of attack in one petition and one proceeding. Others are choosing to divide different grounds up among multiple proceedings. So we're seeing all types of patentability grounds in play.

**§101 Ground:** In the 35 instances where decisions have been made, 16 raised the §101 ground, which is lack of patentable subject matter. Out of those 16, all but two were allowed to proceed forward to trial. Two of the petitions were denied on the basis of §101. Two more petitions actually had some claims allowed for §101, and some claims denied.

**§102 Ground:** For §102, a higher percentage has been denied than with the other grounds.

**§103 Ground:** On the §103, ground a pretty significant percentage has been allowed to proceed to trial versus where §102 was raised and then denied.

These numbers may still be too low to indicate a meaningful trend, but when you look at the grounds that are being asserted and the levels of success from the petitioner's perspective, we're seeing a high proportion of grounds presented by petitioners being ultimately adopted with trial being instituted.

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**You can revisit the same grounds and arguments used in a prior reexamination.** In CBM2013-00009, the same art and same arguments had been overcome in reexam, but the petitioners re-filed in a CBM and the PTAB decided to institute trial. The PTAB said that the previous proceeding had happened under a different authority and it had the opportunity here to re-review that decision.

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**§102(e) art is not available.** Though some practitioners suspected this, it wasn't entirely clear from the AIA whether art that qualified under §102(e) but which wasn't published a full year before the patent's filing date would be available under CBM. In CBM2013-00008, the petitioner filed using §102(e) art, and the patent owner did not recognize the issue when filing its preliminary response. The PTAB didn't even recognize the issue when it instituted CBM based on those §102(e) grounds. When the PTAB later admitted the error, it asked the patent owner whether it would be acceptable to continue with the CBM including those art-based rejections. Unsurprisingly, the patent owner said no. Since the §102(e) art formed the basis of all the art rejections, they were left with only §101 grounds in the CBM. Shortly thereafter the parties agreed to terminate the CBM.

In similar situations, we're finding CBMs are being used in combination with *inter partes* review so that the §102 (e) art, for now, can properly be presented.

# Patent Office Litigation at Sterne Kessler

The Sterne, Kessler, Goldstein & Fox team invested countless hours digesting and analyzing what the AIA means to the practice of patent law and the implications for protecting and enforcing intellectual property rights. In the months following its passage, we've handled more than 75 contested proceedings before the Patent Trial and Appeal Board, making us a leading firm in the realm of post-grant proceedings.

“ Sterne Kessler is  
a leader in the increasingly significant realm  
of post-grant review procedures at the USPTO

- *Managing Intellectual Property Magazine*

## Why Choose Sterne Kessler?

- In total, our attorneys and specialists have 105+ advanced technical degrees
- We have handled 10 Covered Business Method Review proceedings before the PTAB
- To date, we have handled 65+ *inter partes* review proceedings for both petitioners and patent owners
- We have 400+ reexaminations under our belt
- We draw on experience from 50+ interference proceedings
- Our attorneys have the technical skills to deconstruct patents for challenge or defense
- With a number of former patent examiners and trial lawyers on our team, we have a strong understanding of the USPTO and PTAB
- We have significant foreign opposition experience
- Our interdisciplinary teams merge technical, USPTO, and District Court trial experience

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