

# OBSERVATIONS ON COVERED BUSINESS METHOD PATENT REVIEW

The newly-created Covered Business Method proceeding is noteworthy for its special eligibility criteria and limitations not present in other post-grant options. Michelle K. Holoubek and Michael V. Messinger report.

**W**hen 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 US Patent and Trademark Office (USPTO) including the Covered Business Method (CBM). A year on, we look at 14 particular challenges and opportunities posed by this unique procedure.

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

**2. Fast.** The Patent Trial and Appeal Board (PTAB) is serious about its one-year timeline for completing a trial, and routinely compresses

trial schedules. While the patent owner might typically have three months after the decision to file its response, in many cases the PTAB is scheduling only two months. In such cases, 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.

**3. Legislative history is important.** When CBM was first instituted, there were questions about whether the PTAB would rely on legislative history. Judging by the PTAB's reference to comments made by Senator Charles Schumer both on the Senate floor and in response to the USPTO's proposed rulemakings, the PTAB is relying on legislative history quite strongly.

**4. Terminate early.** 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 that the PTAB thought it would be against the public's interest not to complete

the trial. The petitioner was excused from the CBM trial but the patent owner was left to argue its case.

**5. Multiple CBMs.** 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 set out actual grounds of unpatentability, as well as address all standing and eligibility issues. One way petitioners are trying to gain pages is by filing multiple CBMs and splitting the issues between them.

For example, a petitioner might file one CBM to address the §101 and §112 grounds, and then another CBM to address the §102 and §103 grounds.



Alternatively, a petitioner might file two CBMs against the same patent but address one set of claims in one petition and another set of claims in the second petition.

In fact, 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. While trial was denied for one of the petitions, it was instituted for the second.

**6. Privy.** A customer is considered a privy for the purposes of standing. The requirement for CBM standing is that the petitioner, privy, or 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 that a customer should be considered a privy for purposes of standing.

**7. Appeal.** There is no recourse from CBM by filing an Administrative Procedures Act (APA) action. In *SAP v Versata*, the district court dismissed the APA action as not having subject matter jurisdiction. The court indicated that the decision of the PTAB to institute or not institute trial was final and non-appealable. Any issues the parties have must wait until after a final written

decision from the PTAB trial is issued. Then they can appeal to the Federal Circuit.

**8. Only one claim needed.** The PTAB typically uses just one claim from the patent for its eligibility analysis, and it does not have to be the first independent claim. Many times, the first independent claim is considered to be the broadest claim. However, the PTAB has been checking some of the later claims for eligibility analysis, and finding eligibility based on a later (sometimes dependent) claim instead of the first independent claim. It takes only one eligible claim to put the whole patent into CBM review.

**9. Broad financial eligibility prong.** The PTAB is flexible on the 'financial' requirement for CBM

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eligibility. 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 organisation could use the subject matter at issue. In one case involving an organisational hierarchy for a database, the claims weren't specific to any industry. But the PTAB decided that the financial services industry could still benefit from organising data in a database, so the subject matter was sufficiently financial.

**10. Narrow technological exception prong.** 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 in a CBM.

The PTAB has responded to this situation time and again 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.

**11. CBM eligibility distinct from patentable subject matter.** Just because a claim is eligible for CBM review, that doesn't mean claims under scrutiny will fail a §101 analysis. With the eligibility analysis focused on the technical components, many were originally concerned that if a claim failed that test it would automatically fail a §101 analysis. Yet the PTAB is considering the analyses separately.

Two CBM petitions involving *Apple v SightSound* were denied because the claims satisfied §101, even though the claims were considered otherwise eligible for CBM. Such analyses are

reconcilable, because with eligibility, the PTAB looks to individual claim elements for novelty. But in a §101 analysis, the PTAB looks 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.

**12. CBM after re-examination.** A petitioner may revisit the same grounds and arguments used in a prior re-examination. In CBM2013-00009, the same art and same arguments had been overcome in re-exam, but when the petitioners refiled the art and arguments in a CBM, the PTAB instituted trial. The PTAB said that the previous proceeding had happened under a different authority, and that the PTAB had the opportunity here to re-review that decision.

**13. No §102(e).** §102(e) art is not available to CBM petitioners. Although 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 raise the issue when filing its preliminary response. The PTAB didn't even recognise 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 that CBMs are being used in combination with *inter partes* review (when available) so that the §102(e) art, for now, can properly be presented.

**14. Pace steadily increasing.** All CBMs filed so far have been filed by parties engaged in concurrent patent litigation. By design, a party filing a CBM can take advantage of special provisions when requesting a stay of the concurrent litigation.

Given the ambiguity in the USPTO's rules at the outset and stricter eligibility criteria, it is unsurprising that CBM review has not caught on as quickly as some of the other post-grant proceedings. However, the pace at which CBMs are being filed is steadily increasing, and an understanding of these nuanced issues will be even more important as more CBMs head to trial. ■

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