



Defining the Covered Business Method Patent

In the America Invents Act (“AIA”), Congress granted the Patent Trial and Appeal Board (“PTAB,” “the Board”) heightened jurisdiction to hear challenges to patents related to performing data processing or other operations used in the practice, administration, or management of a financial product or service.¹ Patents that fall within the definition of a “covered business method” can be subjected to challenges in a Covered Business Method (“CBM”) post-grant review proceeding beyond those available for other non-covered patents.² The prospect of additional challenge grounds and expanded time period availability makes CBM proceedings an attractive option when available, but the precise scope regarding which patents are eligible for CBM review has remained fuzzy thus far.

The bright-line rule as to which patents qualify for CBM reviews has eluded practitioners to date. But input into that definition has come from a variety of sources. A broad definition was provided by Congress in the AIA with instructions for the U.S. Patent Office to further define in the ensuing regulations.³ The Patent Office issued regulations further describing the scope of a CBM patent and provided additional commentary with its rulemaking.⁴ In operation, the PTAB has further contributed to the definition through its decisions on CBM eligibility. Finally, the Federal Circuit in the *Versata*

appeal noted its willingness to join in the covered business method patent debate by stating that it has jurisdiction to review the PTAB’s CBM standing decisions.⁵

The following *Commentary* compiles the definitional inputs supplied by each of these four parties to help establish the meaning of covered business method patent.

Covered Business Method Patents are patents that include a claim:

- Used in the practice, administration, or management of a financial product or service; and
- That is not directed to a technological invention.

—Leahy-Smith America Invents Act § 18(d)(1).

Congressional and Patent Office Definitions

In section 18(d)(1) of the AIA, Congress defined a CBM patent as 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.”⁶ The Patent Office then promulgated rules for CBM reviews, considering the

legislative intent and history behind the AIA's definition, and concluded that the AIA's CBM patent definition was drafted to encompass patents "claiming activities that are financial in nature, *incidental* to a financial activity or *complementary* to a financial activity."⁷ In addition, the Patent Office added "[the legislative history] supports the notion that 'financial product or service' should be interpreted broadly," and "is not limited to the products or services of the financial services industry."⁸ Finally, in response to a comment regarding the scope of subject matter review, the Patent Office stated, "A patent need have only one claim directed to a covered business method to be eligible for review."⁹ Regarding the carveout for "technological inventions," the Patent Office added that "technological inventions are those patents whose novelty turns on a technological innovation over the prior art and are concerned with a technical problem which is solved with a technical solution."¹⁰

The Patent Office provided additional discussion and, perhaps most helpful, examples in its commentary which accompanied the rules and the PTAB's Trial Practice Guide. Regarding technological inventions, the Patent Office stated that "mere recitation of known technologies, such as computer hardware, communication or computer networks, software, memory [or] computer readable storage mediums..." would not typically render a patent a technological invention.¹¹ Furthermore, "Reciting the use of known prior art technology to accomplish a process or method, even if that process or method is novel and non-obvious...[or] combining prior art structures to achieve the normal, expected or predictable result of that combination," would not qualify as a technological invention.¹²

Examples of eligible CBM patents included "a patent that claims a method for hedging risk in the field of commodities trading" and "a patent that claims a method for verifying validity of a credit card transaction."¹³ Contrarily, "a patent that claims a novel and non-obvious hedging machine for hedging risk in the field of commodities trading" or "a patent that claims a novel and non-obvious credit card reader for verifying the validity of a credit card transaction," were examples cited of technological inventions not eligible for CBM review.¹⁴

History of CBM Reviews

The factors included in the Patent Office's CBM definition are referenced in nearly every CBM institution decision to date. But, the PTAB's varying application and focus on differing factors from case to case continue to create uncertainty in outcomes.

The PTAB structures their CBM institution decisions by first deciding whether a patent qualifies as a CBM patent and if so, whether it meets the exception of a technological invention. Often the PTAB will bypass or reverse the order of the analysis if one category effectively disqualifies the patent from CBM review.¹⁵ Many opinions stress the Board's view that only one claim needs to qualify as a CBM claim for the patent to be eligible for review.¹⁶ Similarly, the opinions typically state that when determining eligibility, "financial product or service" should be interpreted broadly and based on the patent's claims.¹⁷

Financial Product or Service. The PTAB's interpretation of "financial product or service" has narrowed through the short history of CBM reviews. Early institution decisions looked for any explicit link to finance or commerce in the specification or claims. For example, in *Experian Marketing Solutions, INC v. Rpost Communications Limited*, a patent relating to a method of providing proof of email message delivery was determined to be a financial service because the claims referenced e-commerce capabilities.¹⁸ The PTAB held: "The presence of the e-commerce embodiment makes clear that the method claims have utility to financial processes."¹⁹

But a lack of financial-related subject matter in the specification or claims could rescue a patent from CBM review, as shown in *Financial Services Group, Inc. v. Intellectual Ventures I LLC*, where the PTAB dismissed a CBM review because the claims did not "expressly" refer to the "practice, administration, or management of a financial product or service."²⁰ The Board added, "a specification that describes no financial product or service application is different from a specification that does," suggesting that a key factor of a CBM-eligible patent is a reference in the specification or claims to a financial activity in which the patent can be used.²¹

In more recent CBM proceedings, the PTAB's decisions hinge more narrowly on whether the patent "require[s] an activity involving the movement of money."²² For instance, in *Roxane Laboratories and Par Pharmaceutical, Inc. v. Jazz Pharmaceuticals, Inc.*, a claim directed to "a method for treating a patient and controlling access to [a] prescription drug used for treatment to guard against 'potential abuse, misuse, or diversion of the prescription drug'" was found to be non-financial.²³ Here, the PTAB rejected the petitioner's argument that "contacting the patient's insurance company," "shipping via US postal service or a commercial shipping service," and "checking for cash payments" rendered the patent eligible for CBM review.²⁴ Rather, the PTAB held that those activities, "when considered in the context of the claim as a whole, do not recite or require an activity involving the movement of money or extension of credit in connection with the sale of a prescription drug."²⁵ The PTAB further stated that "Congress did not say in the statute that a business method patent 'used in commerce' or covering 'core activities' of running a business is eligible for CBM review."²⁶

Thus, based on the outcomes in *Financial Services Group* and other similar CBM reviews, practitioners should consider whether the patent at issue involves the actual movement of money when attempting to handicap outcomes.²⁷

Technological Invention. A patent must also pass the "technological invention" hurdle before it is eligible for CBM review. To do so, the challenger has the burden of showing that the patent is "not directed to a technical invention."²⁸ A useful example of a case dismissed on the technological exception is *Motorola Mobility LLC v. Intellectual Ventures I LLC*.²⁹ Here the patent at issue was a distribution service method for automatic computer updates on personal user stations.³⁰ The PTAB rejected the petitioner's contention that the claimed method is the "normal, expected, or predictable result of the combination of a computer and a network" because the petitioner's arguments did not "address the entire subject matter of the claims."³¹ The Board continued, "Although a computer and network may be known technologies, petitioner has not established that simply combining the two would normally result in that combination performing the specific steps claimed in the '054 patent."³² Because the petitioner failed to demonstrate a lack of novelty and non-obviousness³³ in the software's ability to select available software updates and

communicate with the user station for installation, the patent was deemed to qualify for the technological invention safe harbor, and the petition was dismissed.

Contrarily, in *Square, Inc. v. Think Computer Corporation*, an electronic payment system patent where participants may act as either purchaser or merchant was found to be a non-technical invention.³⁴ Here, the PTAB agreed with the Petitioner's argument that claims were not excluded from CBM review "merely because they recite generic computer technology..."³⁵ Because the patent avoided tying any claim limitation to a particular technical device and could function with "any suitable implementation or device," the Board found it eligible for CBM review.³⁶ The PTAB added that it is insufficient to merely recite "the use of known prior art technology to accomplish a process or method, even if the process or method is novel or non-obvious."³⁷

In view of these decisions, petitioners should consider fully briefing the technological invention exception in the petition to avoid the *Motorola Mobility LLC* result. In drafting such arguments, petitioners can draw on certain 35 U.S.C. § 101-type concepts (e.g., claims only recite conventional computer hardware, claims could be performed by hand by a person) to illustrate that challenged claims are non-technical in nature. Patent owners should emphasize any hardware in their claims that can be argued to be non-trivial, especially any hardware that goes beyond conventional data processors and memories, to emphasize the technical nature of their claimed inventions. Patent drafters can aid in this CBM defense by pre-populating the specification and claims with technology that can be relied upon in arguments against CBM standing.

***Versata* Decision: First Look at CBM Standing by the Federal Circuit**

In July 2015, the Federal Circuit decided its first appeal of a CBM review in *Versata v. SAP*.³⁸ In this decision, the court affirmed the PTAB's ruling to dismiss the challenged claims, while simultaneously exerting for the first time its power of review over PTAB decisions on CBM standing.³⁹ The patent at issue was a method and apparatus for pricing products in multi-level product and organizational groups.⁴⁰ According to the claims, the method is used to reduce the need for large data tables by arranging customers and products into a

hierarchy of groups based on characteristics.⁴¹ Pricing information is then associated with the groups based on their make-up.⁴²

In affirming the PTAB's decision to institute a CBM trial, the court agreed with the Patent Office that the definition of a CBM patent is "not limited to products and services of only the financial industry, or to patents owned by or directly affecting the activities of financial institutions such as banks and brokerage houses."⁴³ The court also noted that the Patent Office is entitled to substantial deference with regard to how it defines its mission, and that it was proper for the PTAB to use the "broadest reasonable interpretation" standard in construing the claims for CBM standing purposes.⁴⁴

Regarding the technological exception, the court affirmed that the patent was not a technical invention. Borrowing from a §101 test, the court agreed with the PTAB that the claimed steps "could be performed...with pencil and paper," and that "no specific unconventional software, computer equipment, tools or processing capabilities are required."⁴⁵ The Federal Circuit recognized that the regulation's definition ("technical problem using a technical solution") does not offer much guidance,⁴⁶ but was unwilling to clarify the definition in this opinion, and concluded that "whatever may be the full sweep of the term 'technological invention,' the invention that comprises the '350 patent is essentially not a technological one as that term ordinarily would be understood."⁴⁷

Conclusion

CBM reviews give petitioners a number of advantages that they would not have via other flavors of PTAB review, including additional grounds of available challenge and broader time periods for requesting a trial. For patent owners, lack of CBM standing provides an opportunity to fully extract a patent from the Board without addressing the substantive merits (e.g., 35 U.S.C. §§ 101, 102, 103, 112) of the petitioner's challenges. Although the *Versata* case does not resolve the ongoing struggles surrounding the definition of what patents are eligible for CBM review, it is clear that while the PTAB can rule on CBM challenges, there will be continued oversight of such decisions from the Federal Circuit. Further decisions by the Board and the Federal Circuit should add clarity to this somewhat murky area of significant importance.

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Endnotes

- 1 Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011) (“AIA”) § 18.
- 2 For example, challenges for *Inter Partes* Review (“IPR”) and Post-Grant Review (“PGR”) are limited in the types of grounds (e.g., only 35 U.S.C. §§ 102, 103 for IPRs) that can be raised and the time periods where petitions may be filed.
- 3 AIA § 18(d)(1).
- 4 See 77 Fed. Reg. 48,734 (Aug. 14, 2012); 77 Fed. Reg. 48,756 734 (Aug. 14, 2012).
- 5 *Versata Dev. Grp., Inc. v. SAP Am., Inc.*, No. 2014-1194, 2015 WL 4113722 (Fed. Cir. July 9, 2015).
- 6 Leahy-Smith America Invents Act § 18(d)(1); see 37 C.F.R. § 42.301(a).
- 7 157 Cong. Rec. S5432 (daily ed. Sept. 8, 2011) (emphasis added).
- 8 *Id.*
- 9 See Transitional Program for Covered Business Method Patents—Definitions of Covered Business Method Patent and Technological Invention; Final Rule, 77 Fed. Reg. 48,734, 48,736 (Aug. 14, 2012).
- 10 157 Cong. Rec. S5428 (daily ed. Sept. 8, 2011).
- 11 Office Patent Trial Practice Guide, 77 Fed. Reg. 48,756, 48,763-64 (Aug. 14, 2012).
- 12 *Id.*
- 13 *Id.* at 48764.
- 14 Interestingly, certain of these examples come from Federal Circuit and Supreme Court 35 U.S.C. §101 jurisprudence, which indicates the Patent Office’s recognition of interplay between the CBM eligibility standard and § 101. See *Bilski v. Kappos*, 561 U.S. 593, 130 S.Ct. 3218 (2010); *CyberSource Corp. v. Retail Decisions, Inc.*, 654 F.3d 1366 (Fed. Cir. 2011).
- 15 *Motorola Mobility LLC v. Intellectual Ventures I LLC*, CBM2014-00083 at 5 (PTAB Aug. 6, 2014).
- 16 See, e.g., *PNC Financial Services Group, Inc. and PNC Bank, N.A. v. Intellectual Ventures I LLC*, CBM2014-00032 at 9 (PTAB May 22, 2014); *Fedex Corporation v. Ronald A. Katz Technology Licensing, L.P.*, CBM2015-00053 at 9-10 (PTAB June 29, 2015).
- 17 *Id.*
- 18 *Experian Marketing Solutions, Inc. and Epsilon Data Management, LLC v. Rpost Communications Limited*, CBM2014-00010 (PTAB Apr. 22, 2014).
- 19 *Id.* at 5-6.
- 20 *PNC Financial Services Group, INC. and PNC Bank, N.A. v. Intellectual Ventures I LLC*, CBM2014-00032 at 11-12 (PTAB May 22, 2014).
- 21 *Id.* at 8.
- 22 *Roxane Laboratories, Inc. and Par Pharmaceutical, Inc. v. Jazz Pharmaceuticals, Inc.*, CBM 2014-00161 at 13 (PTAB Feb. 9, 2015).
- 23 *Id.*
- 24 *Id.* at 13.
- 25 *Id.*
- 26 *Id.* at 17.
- 27 See, e.g., *Sega of America, Inc. and Ubisoft, Inc., Kofax, Inc., and Cambium Learning Group, Inc. v. Uniloc USA, Inc. and Uniloc Luxembourg S.A.*, CBM2014-00183 (PTAB Mar. 10, 2015) (Where a patent for registering software licenses by use of a credit card number was held to be a non-financial transaction because the claims did not recite or require an activity involving the movement of money.).
- 28 *Experian Marketing Solutions, Inc., Epsilon Data Management, LLC, and Constant Contact, Inc. v. Rpost Communications Limited*, CBM2014-00064 at 10 (PTAB Jul. 31, 2014) (emphasis added).
- 29 See *Motorola Mobility LLC v. Intellectual Ventures I LLC*, CBM2014-00083 (PTAB Aug. 6, 2014).
- 30 *Id.*
- 31 *Id.* at 4.
- 32 *Id.*
- 33 As discussed further herein, the Board is likely performing a 35 U.S.C. § 101-type analysis here, looking to whether the claims include any unconventional software, computer equipment, tools or processing capabilities that might qualify them for the technological invention safe harbor.
- 34 See *Square, Inc. v. Think Computer Corporation*, CBM2014-00159 (PTAB Dec. 29, 2014).
- 35 *Id.* at 8.
- 36 *Id.*
- 37 *Id.* at 9.
- 38 *Versata*, 2015 WL 4113722.
- 39 *Id.*
- 40 *Id.* at 7-8.
- 41 *Id.*
- 42 *Id.*
- 43 *Id.* at 35.
- 44 *Id.* at 35-36.
- 45 *Id.* at 34, 38.
- 46 *Id.* at 37 (“Defining a term in terms of itself does not seem to offer much help. In short, neither the statute’s punt to the USPTO nor the agency’s lateral of the ball offer anything very useful in understanding the meaning of a ‘technological invention.’”).
- 47 *Id.* at 39.

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