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PATENTS

The authors review patent challengers' use of the "covered business method" post-grant review procedure as of its one-year anniversary.

The Evolving Landscape of CBM Review: Emerging Trends in the Program's First Year



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Among the various post grant procedures introduced in the Leahy-Smith America Invents Act (AIA), one that is particularly crafted to have an impact on "patent troll" litigation is the Transitional Program for Covered Business Method Patents.¹ Under

¹ A "patent troll" is generally considered an entity whose business is the enforcement of patent rights against accused infringers with the goal of collecting licensing fees, but does

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this program, a party who has been sued for, or accused of infringing a "covered business method" (CBM) patent can request that the Patent Trial and Appeal Board (PTAB) institute a review of the validity of the patent.

In the first year following its Sept. 16, 2012, effective date, 53 petitions for CBM review were filed. While that figure may appear low in comparison to the 482 petitions for inter partes review (IPR) filed during the same timeframe, unlike IPR, CBM review is targeted to a specific issue affecting American businesses: the prevalence of non-practicing entity (NPE), or "patent troll," litigation. A recent study found that over the last decade, median damage awards in NPE patent litigation have been significantly more than those in non-NPE patent litigation.² As expected, the result of this financial success has led to the proliferation of NPEs and, as a consequence, NPE litigation.

Indeed, another study found that since 2004, the number of companies who have faced NPE litigation involving business method patents has increased at an annual rate of 28 percent per year.³ The CBM review provisions of the AIA were crafted in response to these concerns, with the intent to curtail the steady rise of NPE patent litigation. As described in a 2011 Committee Report, the program was designed to combat the

not make or sell products, or provide services, covered by the patent. A related, less pejorative term is "non-practicing entity" (NPE). NPEs such as universities or research laboratories are generally not considered patent trolls.

² See PWC, *2012 Patent Litigation Study*, at 7 (2012), available at <http://www.pwc.com/us/en/forensic-services/publications/2012-patent-litigation-study.jhtml>.

³ See PatentFreedom, *Investigations into NPE Litigation Involving Business Method Patents*, at 4, available at https://www.patentfreedom.com/wp-content/uploads/2013/09/NPE-Litigations-involving-Business-Method-Patents_Sept-4-2013.pdf (Sept. 4, 2013).

“poor business-method patents [from] the late 1990’s through the early 2000’s [that] led to . . . patent ‘troll’ lawsuits.”⁴

So after one full year of implementation, how effective has this new tool been in combating the rise of “patent troll” litigation? The short answer is that it is too early to tell as the board issued only one final decision on a petition in that timeframe, albeit a ruling that found the challenged patent invalid.⁵ However, decisions to institute CBM review and other rulings that have issued thus far from the PTAB provide hope that it may eventually translate into a reduction in NPE litigation.

Early Trends in the Board’s Decisions

Thus far, it appears the board is taking a fairly liberal approach when considering petitions for CBM review. Of the 18 petitions to initiate CBM review that were considered by the board in the first year of the program, 12 were granted, three were dismissed before a determination was made due to settlement by the parties, and only three were denied.⁶ Notably, all three denied petitions were filed by Progressive Casualty Insurance Co., and in each case, the board granted co-pending petitions by the same company challenging the same patents. In other words, in the first year of the program, the PTAB has granted review, at least to some extent, of every patent challenged by petitioners.

This liberal approach is also reflected in the scope of review authorized for each granted petition. In 10 of the 12 granted petitions, CBM review was authorized for every claim challenged, and in the remaining two granted petitions, the board authorized review of most of the challenged claims (15 of 17 in one case, and 4 of 5 in the other).

The board has been somewhat less liberal when considering multiple grounds for invalidity asserted within the petitions. In petitions that were ultimately granted in the first year, an average of just over 50 percent of the total number of grounds raised for each challenged claim were allowed to proceed to CBM review.⁷ For petitions raising 100 or more total grounds for invalidity, only 36 percent of the grounds raised were allowed to proceed to CBM review.

With respect to the specific types of challenges, the PTAB appears very willing to consider the issue of subject matter eligibility under Section 101, 35 U.S.C. § 101, granting review of such grounds in all four petitions in which such a challenge was made. Conversely, challenges as to the form of claims under Section 112 have been less successful, with review being granted in only one of the five petitions in which the issue was raised.

⁴ See H.R. Rep. No. 112-98, pt. 1, at 54 (June 1, 2011).

⁵ See *SAP Am., Inc. v. Versata Dev. Group, Inc.*, No. CBM2012-00001 (P.T.A.B. June 11, 2013) (86 PTCJ 335, 6/14/13).

⁶ All statistical information related to the CBM program was obtained from information made available on the Patent and Trademark Office’s website for PTAB trials, <https://ptabtrials.uspto.gov/>.

⁷ “Total number of grounds” refers to the sum total of every ground for invalidity raised for each individual claim challenged.

The Question of Eligibility

One area of uncertainty that has arisen under the new statute is the question of whether a patent qualifies as a “covered business method” patent as would be eligible for CBM review. The AIA defines a “covered business method” patent 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.”⁸ While this definition sounds fairly narrow, it has so far been applied broadly by the PTAB. For example, in one case, the board granted review of a patent directed to “a method and apparatus for pricing products and services,” stating that even “activities that are . . . incidental to a financial activity or complementary to a financial activity” qualify as eligible subject matter for CBM review.⁹

In another case of interest, the PTAB granted review of a patent relating to “human resources management,” and whose claim language does not contain any explicit reference to financial products or services.¹⁰ The board found that because a disclosed embodiment and a claim reference “retail banks” as possible locations requiring substitute workers, the eligibility requirements were met.

Another particularly interesting set of petitions filed by Apple Inc. requested review of various patent claims from two patents directed to methods for transmitting digital video or audio signals.¹¹ While the claimed methods include steps such as “transferring money electronically,” the overall claimed methods are noticeably different in nature from the financial products or services, such as “hedging risk” and “verifying validity of a credit card transaction,” set forth as representative examples in the PTO’s Patent Trial Practice Guide.¹² Nevertheless, the board recently found the underlying patents challenged in those petitions eligible for CBM review because they referenced activities that were “financial in nature,” even though they did “not relate to a financial services business.”

The definition of “covered business method” patents also expressly excludes “patents for technological inventions,” but it does not offer any description or clarification of what may qualify as a “technological invention.”¹³ In an effort to clarify this issue, the board has construed this phrase as covering inventions which include a “technological feature” that is “novel and unobvious,” and which “solves a technical problem using a technical solution.”¹⁴ The board has also emphasized that the “mere recitation of known technologies,” including computer-related technology, does not transform the subject matter into a technological inven-

⁸ See AIA § 18(d)(1), P.L. 112-29, 125 Stat. 284, 331 (2011).

⁹ *Versata*, No. CBM2012-00001, at 21-22 (P.T.A.B. Jan. 9, 2013) (emphasis added).

¹⁰ See *CRS Advanced Techs., Inc. v. Frontline Techs., Inc.*, No. CBM2012-00005 (P.T.A.B. Jan. 23, 2013).

¹¹ See *Apple, Inc. v. SightSound Techs., LLC*, Nos. CBM2013-00019, CBM2013-00020, CBM2013-00021, CBM2013-00023 (P.T.A.B. May 6, 2013); U.S. Patent No. 5,191,573; U.S. Patent No. 5,966,440.

¹² See Department of Commerce, Patent and Trademark Office, Office Patent Trial Practice Guide, 77 Fed. Reg. 48,756, 48,763-64 (Aug. 14, 2012) (84 PTCJ 653, 8/17/12).

¹³ See AIA § 18(d)(1).

¹⁴ See, e.g., *Versata*, No. CBM2012-00001, at 25 (P.T.A.B. Jan. 9, 2013) (quoting 37 C.F.R. 42.301(b)).

tion.¹⁵ Notwithstanding the ongoing debate, in the first year of the CBM review program, the board did not deny any petitions due to the patent at issue covering a “technological invention.”

Whether petitions challenging patents like those described above continue to be granted by the PTAB will shed light on just how expansive CBM review is. As it stands now, it appears that the board will take the broadest view possible when determining whether challenged claims are eligible for CBM review.

Initial Conclusions and Strategies

What does this all mean? Based on the early statistics, it seems very likely that the PTAB will grant review of at least some of the claims challenged in a petition. With the current average time between the filing of a petition and a decision of whether to institute CBR review being just under five months, a party accused of infringing a business method patent may significantly improve its position in any pending litigation and potential settlement negotiations by pursuing CBM review at an early stage of the dispute. This is particularly true where a petition results in an early decision granting CBM review because, according to the applicable CBM review standard, such a grant means the challenged claims were found to be “more likely than not” invalid. An NPE fearing the potential loss of future profits due to the invalidation of its patent in CBM review may be compelled to settle quickly, rather than spend significant amounts of money in litigation.

An additional benefit of CBM review is the potential to stay any co-pending district court infringement litigation while CBM review takes place.¹⁶ In the first year of the program alone, 10 of the 12 motions to stay litigation pending the results of a CBM petition were ultimately granted, with an additional three litigations stayed pursuant to agreement of the parties. By obtaining a stay in conjunction with a CBM petition, a filing party will relieve the financial pressure of impending litigation costs that NPEs often rely on to obtain favorable settlements, while simultaneously forcing the NPE to expend resources of its own defending the validity of its patent before the board.

In addition to the economic benefits of challenging a patent through CBM review and possibly avoiding litigation, CBM review provides substantive advantages as well. One particularly valuable advantage stems from the applicable evidentiary standard. In CBM review, the challenger must prove invalidity by a “preponderance of the evidence”—i.e., show that it is more likely than not. By contrast, in litigation, issued patents are given a presumption of validity and, therefore, a challenger must prove invalidity by a somewhat higher standard—“clear and convincing evidence.” Likewise, in CBM review, the board gives patent claims the “broadest reasonable interpretation,” which significantly increases the likelihood that prior art will be found to invalidate the challenged claims as compared to district court litigation where claims are interpreted in light of the patent disclosure.¹⁷

¹⁵ See, e.g., *Liberty Mutual Insur. Co. v. Progressive Casualty Insur. Co.*, No. CBM2013-00004, at 8 (P.T.A.B. Mar. 15, 2013).

¹⁶ See AIA § 18(b).

¹⁷ See 37 C.F.R. § 42.300(b).

There are, of course, potential adverse effects that a party accused of infringement must take into account before considering CBM review. These include estoppel effects that prevent a party from introducing into litigation arguments that were previously raised during CBM review. Also, the patent owner may introduce patent claim amendments in CBM review which avoid any asserted prior art, yet do not meaningfully impact the infringement arguments in the pending litigation.

Notwithstanding these issues, given the generally favorable results for petitioners in the first year of the program, it is in the interest of any party accused of infringing a business method patent to seriously consider pursuing CBM review at an early point in the litigation.

Changes on the Horizon?

While the CBM review program is still in its infancy and its impact has yet to be fully determined, several groups have already pushed for revisions to the program to increase its life and efficacy. One such effort spearheaded by Sen. Charles Schumer (D-N.Y.) is the “Patent Quality Improvement Act of 2013.”¹⁸ The currently pending bill comprises only a few lines of text, but its effects would drastically expand the reach of CBM review. For one, it eliminates the sunset provision in the AIA, making CBM review a permanent program.¹⁹ But perhaps more importantly, it expands the scope of CBM review by changing the “financial product or service” language of the CBM definition to “an enterprise, product, or service.” This revision would likely pull all software patents within the scope of CBM review, regardless of their purpose or legitimacy.

Similarly, Reps. Darrell Issa (R-Calif.) and Judy Chu (D-Calif.) have introduced the “Stopping the Offensive Use of Patents Act,” or “STOP Act,” which closely parallels Schumer’s bill, with additional requirements directed toward establishing pro bono programs to assist certain “financially under-resourced” users of allegedly infringing product or process.²⁰

Both of these proposed revisions to the CBM program are a step towards the more drastic actions taken in countries like New Zealand, where the patentability of software has been severely restricted following the passage of the New Zealand Patents Bill 2008.²¹ Many have pointed to software-related patents as a primary reason for the continued prevalence and success of patent trolls,²² and if either of these bills is enacted into law, the board could see a dramatic increase in petitions filed.

Industry has weighed in with its own concerns and suggestions regarding the possible expansion of CBM review. One letter penned by over 40 businesses from various industries—including companies such as Google, Wal-Mart and Samsung—and sent to members of the House and Senate Judiciary Committees urges Congress to expand the provisions of the CBM pro-

¹⁸ S. 866, 113th Cong. (2013) (86 PTCJ 71, 5/10/13).

¹⁹ The CBM program is transitional in nature, and is currently set to expire on Sept. 21, 2020. See AIA § 18(a)(3).

²⁰ H.R. 2766, 113th Cong. (1st Sess. 2013-2014) (86 PTCJ 632, 7/26/13).

²¹ Patents Bill 2008, 2010 No. 235-2 (N.Z.).

²² See, e.g., Ed Black, *Patent Trolls: The Innovation Hijackers* (Feb. 28, 2013), <http://www.forbes.com/sites/edblack/2013/02/28/153/>.

gram.²³ In particular, the letter argues that, in order for the CBM program to be an effective deterrent to NPE litigation, the program should be expanded to include all business method patents, not just those related to financial services.

However, there has also been significant push back from those opposing expansion of CBM review. Of note, more than 100 businesses and organizations—including IBM, DuPont and General Electric—have sent a letter to the same members of the House and Senate Judiciary Committees, asking Congress to refrain from expanding the CBM program.²⁴ This latter group is concerned with the alleged uncertainty and risk to innovation that would result if an expansion of the CBM program were signed into law.

Further fueling this debate, the Government Accountability Office recently released a study of NPE patent litigation conducted pursuant to Section 34 of the AIA, finding that “about 84 percent of [NPE] lawsuits from 2007 to 2011 involved software-related patents,” and noting that, according to various parties knowledgeable in patent litigation, claims in software-related

patents are often “overly broad, unclear or both.”²⁵ Importantly, the study concludes with a recommendation that the PTO focus on correcting issues with software-based patents rather than focus on whether a particular litigant is an NPE or not—a conclusion that the PTO expressly agreed with.

This study came on the heels of several legislative recommendations and executive actions issued by the Obama administration in an attempt to further curtail NPE litigation, where one of those executive actions called for closer scrutiny of “overly broad” software-related patents.²⁶

Whether proposed legislation and governmental pressure ultimately result in an actual expansion of the CBM program is yet to be determined. With major industry players on both sides of the debate, it is unclear to what extent, if any, an expansion of the program would undermine legitimate business interests while attempting to reduce rampant NPE litigation. However, if the PTAB’s continued action on CBM petitions successfully translates to a reduction in NPE litigation, an expansion of the program may be inevitable.

²³ Letter from Amazon.com, Inc., et al. to Sen. Patrick Leahy, Chairman, Committee on the Judiciary, et al. (July 30, 2013), available at http://internetassociation.org/wp-content/uploads/2013/07/Letter_-73013.pdf.

²⁴ Letter from 3M, et al., to Sen. Patrick Leahy, Chairman, Committee on the Judiciary, et al. (Sept. 19, 2013), available at www.ieeeusa.org/policy/policy/2013/091813.pdf.

²⁵ Government Accountability Office, *Intellectual Property: Assessing Factors That Affect Patent Infringement Litigation Could Help Improve Patent Quality*, GAO-13-465, at 22, 28 (Aug. 2013), available at <http://www.gao.gov/products/GAO-13-465> (86 PTCJ 888, 8/30/13).

²⁶ Press Release, White House, Office of the Press Secretary, *Fact Sheet: White House Task Force on High-Tech Patent Issues* (June 4, 2013), available at <http://pub.bna.com/ptcj/WHPatentFactSheet13Jun4.pdf> (86 PTCJ 274, 6/7/13).