



CBM: What and Why?

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Covered Business Method Review

- **What:** CBM review was introduced by the AIA, giving defendant accused of infringing a patent with at least one claim related to financial services or transactions a fast, streamlined means to challenge the validity of the patent.
- **Who:** **only a party charged with infringement of a CBM patent** can initiate a CBM challenge.
- **Where:** CBM review is conducted by the Patent Trial and Appeal Board (PTAB)

Covered Business Method Review

- Serial Filings May Be Allowed:
 - A petitioner who is not successful in instituting a proceeding may file a successive petition on the same patent raising different grounds from the unsuccessful petition, although the Director has discretion to refuse to permit the successive petition.
 - In *Liberty Mutual v. Progressive*, PTAB, May 2013, Liberty filed a second petition on Progressive's '358 patent on new grounds not raised in its first petition, which had been refused. Second petition was allowed, Director declined to use discretion to terminate, and review instituted against all claims.
- Appeals:
 - No appeal from the Director's decision to institute a proceeding or not.
 - Appeal from final PTAB decision is to Federal Circuit.

WHY PETITION FOR CBM?

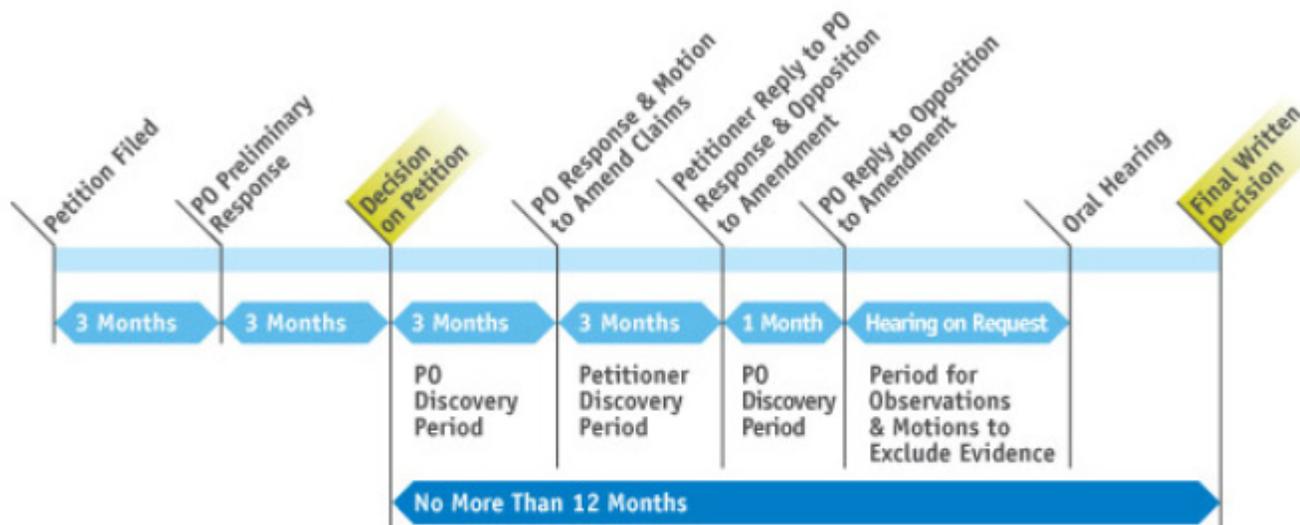
- (1) No presumption of validity
- (2) Broadest construction of claims (best case for invalidity)
- (3) PTAB (specialized administrative court) not jury decides
- (4) Limited discovery and streamlined hearing
- (5) PTAB decision in 12-18 months
- (6) Statute encourages stay of district court litigation
- (7) Right to interlocutory appeal on district court ruling on stay
- (8) Any ground for invalidity can be raised (§§ 101, 102, 103, and 112); BUT estoppel only attaches to those grounds petitioner actually chooses to raise...
- (9) Economical: Cheaper and more effective than district court but work product can be re-used in district court litigation.

- Courts have stated PTO decisions in re-exams might be introduced into evidence to rebut willfulness .
 - *See, e.g., Oracle v. Google*, Civ. No. 10-03561, 2012 WL 1189898, *3 (N.D. Cal. Jan. 4, 2012)(Ruling on motion in limine regarding final decisions)
- Arguably, a PTO decision may rebut intent to cause infringement for inducement based claims (at least after the date of the decision)(e.g., 271(b), 271(f)(1).
 - *See, e.g., Commil v. Cisco*, 720 F.3d 1361 (Fed. Cir.)(invalidity can rebut intent for inducement), cert. pending.
- PTO decision will be more persuasive than opinion of private counsel and avoid arguments of waiver of privilege from use of opinion of counsel.

CBM – The Statistics

- Of few final decisions to date, **no claims have survived a CBM once review was initiated on that claim.**
- CBM's Filed?
 - **161** filed through May 1, 2014
- Application of Threshold: More Likely Than Not
 - CBM instituted in vast majority of CBM Petitions that were evaluated
 - In a number of cases, CBM was ordered on only a subset of petitioned grounds (PTAB does not permit redundant grounds, e.g., combinations of prior art).
 - But cases to date overwhelmingly favor challenger.

CBM - Procedural Schedule (12-18 months)



Proceeding can be extended by 6 months

Definition of CBM

- Only covered business method patents are eligible for CBM review.⁹
- 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 [1] a financial product or service, except that [2] the term does not include patents for technological inventions.¹⁰
- The AIA's legislative history demonstrates that the term "financial product or service" should be "interpreted broadly," encompassing patents "claiming activities that are financial in nature, incidental to a financial activity or complementary to a financial activity." ¹¹

CBM – *It just takes one claim...*

- The CBM petition must establish that it is more likely than not that at least **one claim** is unpatentable.
- *Liberty Mutual Insurance Co. v. Progressive Casualty Insurance Co.*, CBM2012-00002:
“Section 18(d)(1) of the AIA sets forth a single threshold based **on just one claim—the satisfaction of which qualifies an entire patent as eligible for review**—rather than a test that must be applied on a claim-by-claim basis to justify review of each claim. ...a *patent* is eligible for a covered business method patent review **if the subject matter of at least one claim is directed to a covered business method.**”

- In *Liberty v. Progressive*, the patent owner argued that CBM review was not permitted for practicing entities with “thousands of employees” that were asserting patents against their competitors.
- PTAB held that nature of the patent owner’s business was not the issue, rather the nature of the claims and teachings of the specification were dispositive.
- That is CBM review is not limited to NPEs.

CBM – Technological Invention Excluded....?

- The AIA **excludes “patents for technological inventions” from the definition of CBM patents.**
- To determine when a patent covers a technological invention, the Board considers whether:
 - (1) the claimed subject matter as a whole recites a technological feature that is novel and unobvious over the prior art; and
 - (2) solves a technical problem using a technical solution.¹⁷
- “[A]bstract business concepts and their implementation, **whether in computers or otherwise,**” are not included in the definition of “technological inventions.”¹⁸

CBM Eligibility – Financial Activity

- In practice, the USPTO has broadly construed the term “financial product or service.”
- PTAB has established that a challenged patent may be deemed a CBM patent on the basis of claims that lack explicit reference to financial activities if there are references in the specification.
- PTAB has declined to institute for patents useful in financial services but which do not refer to financial services in claims or specification, but which are of general applicability in the field.

CBM Eligibility – Financial Activity

- In *Volusion*, the challenged patent, U.S. Patent No. 6,834,282, related to a hierarchical representation of items in a database, consisting of nodes that are related to one another in a tree-like structure starting with a root node.
- Claims did not refer to financial products or services.
- But specification said that the invention could be used in eCommerce, especially for web catalogues, and other web based marketing and sales.

CBM Eligibility – Financial Activity

The '282 patent:

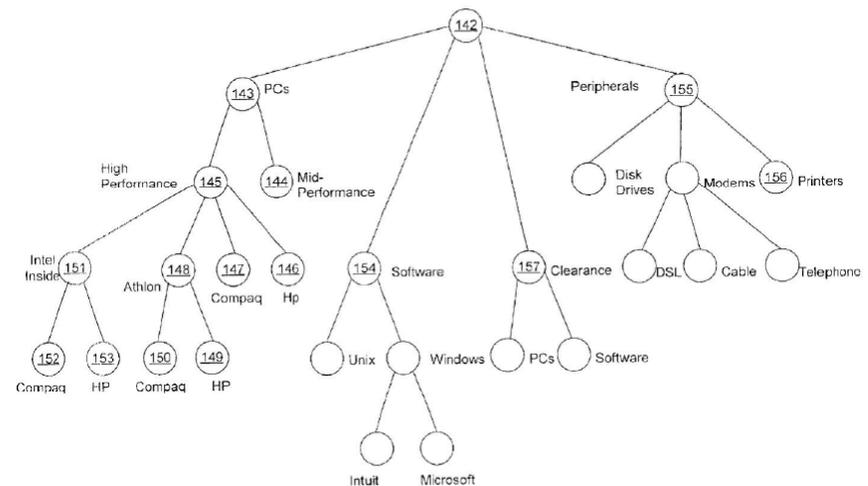
11. A method of representing a plurality of items in a database hierarchically, each of the items associated with one or more attributes, each of the attributes having one or more values, said method comprising:

apportioning the plurality of items into subsets;

representing each of the subsets with a node in a hierarchy, each of the nodes being a child of one other node, except for a root node, which is a child of no other of the nodes and is an ancestor of all of the nodes in the hierarchy;

specifying one or more constraints for each of a first portion of the nodes, the constraints defining a scope of the subset of items represented by each of the first portion relative to their parent node; and

establishing a logical grouping of the items for a second portion of the nodes, the logical grouping defining a scope of the subset of items represented by each of the second portion of nodes, no constraints being specified for any of the second portion of the nodes.



Assertion against financial services not enough: *PNC v. Intellectual Ventures*, CBM 2014-32 (2014)

Thus, the mere assertion of a patent against a bank or other financial institution is not sufficient by itself to transform a patent claiming a generally applicable data processing technique to a covered business method patent. Petitioners' exclusive reliance on this factor, while failing to identify any reference to financial products or services in the Specification or claims, does not persuade us that any of the claims of the '298 patent are directed to a method for performing operations used in the practice, administration, or management of a "financial product or service" within the meaning of the AIA § 18(d)(1) and the legislative history associated with the statute.

- In PNC v. Intellectual Ventures, 2014-0032, a patent that claimed inventions relating to detecting corrupt files in computer databases was asserted against PNC, which dealt only in financial services.
- However, the patent was of general applicability to all computer databases.
- Neither claims nor specification called out or referred to benefits or uses in any financial service or product.
- Potentially may have been excluded from CBM eligibility under technological innovation test since the inventions were specific to operations and systems of error checking in a computer database.

- CBM is not subject to a time limitation for filing, but *inter partes* review must be initiated within one year of service of the complaint on accused infringer.
- Decision to initiate CBM is to be made 6 months after office accepts a petition in proper form for filing.
- If PTAB declines to institute because the patent is not a CBM patent, then a successive petition could not be filed.
- This leaves limited window of time to file inter partes within one year time limit, the window being narrowed further by time between service of the lawsuit and filing of CBM (e.g., if CBM is filed 3 months after service, declined for lack of CBM 6 months later, accused infringer has only 3 months to file *inter partes* review).
- Subsequent *inter partes* review could be terminated in Director's discretion in handling of multiple proceedings on the same patent.

CBM - Petition

- The petition should effectively be your brief, fact and expert evidence.
- At a minimum, the petition must provide:
 - Identification of real parties in interest and grounds for standing
 - Identification of challenged claims and grounds on which the claims are challenged
 - Claim constructions
 - Explanation of the grounds of unpatentability and of the relevance of evidence relied upon (usually provided in the form of claim charts)
 - Copies of the evidence relied upon
 - The required fees at filing (\$12,000 + \$250 for each claim over 20) and once instituted (\$18,000 + \$550 for each claim over 20)
 - Expert declaration in support is helpful, if not expected
 - Redundant grounds are highly disfavored (e.g., multiple, alternative prior art)

- CBM provisions in the AIA have their own statute governing motion for stay of district court litigation, a “four factor test”.
- First three are the same as case law governing motions for stay in other cases:
 - (A) whether a **stay**, or the denial thereof, will simplify the issues in question and streamline the trial;
 - (B) whether discovery is complete and whether a trial date has been set;
 - (C) whether a **stay**, or the denial thereof, would unduly prejudice the nonmoving party or present a clear tactical advantage for the moving party;
- But fourth factor added to the test is designed to favor a stay:
 - (D) whether a **stay**, or the denial thereof, will reduce the burden of litigation on the parties and on the court.

“The substantial difference between the test set forth in § 18(b)(1) and that employed by courts in the ordinary patent reexamination context is the inclusion of a fourth factor, which requires the court to consider “whether a **stay**, or the denial thereof, will reduce the burden of litigation on the parties and on the court.” § 18(b)(1)(D). This additional consideration was included, in part, to ease the movant's task of demonstrating the need for a **stay.**”

Market-Alerts Pty. Ltd. v. Bloomberg Finance LP, 922 F. Supp. 2d 486, 489-90 (D. Del. 2013).

“Senator Schumer first made clear that the intent of the fourth **stay** factor was to “place[] a very heavy thumb on the scale in favor of a **stay** being granted.” *Id.* at S1363. “ *Id.* at footnote 4.

CBM Stay Is Still Case Specific

BUT STAY IS STILL IN DISTRICT COURT'S DISCRETION:

This Court is mindful that Congress did not provide an automatic **stay** provision for the transitional program. Rather, the statute instructs the court to consider all four factors in deciding whether or not to grant a **stay**. Further, there has been little dispute among district courts that Congress did not intend to alter the way in which district courts assess the first three factors. *See, e.g., Market-Alerts*, 922 F. Supp. at 490 n.6; *Zillow*, 2013 WL 5530573 at *3. Thus, under the statutory **stay** provision of the transitional program, staying patent cases pending CBM review remains squarely within the court's discretion, and "such determinations must rest on the facts of each particular case." *See Sightsound Techs., LLC v. Apple*, No. 11-1292, 2013 WL 2457284 at *1 (W.D. Penn. June 6, 2013).

VIRTUALAGILITY, INC. v. SALESFORCE. COM, INC., (ED TX 2014)(Gilstrap, J.)

- Diligence in pursuing CBM also is considered as a factor in stay, as is amount and nature of district court litigation.
- Issue of whether stay should be based on filing of petition or initiation of the case is one of the issues presented in Federal Circuit appeal now pending.
 - But district courts that used “initiation” as threshold generally denied motions for stay filed before initiation without prejudice.

- Nearly all contested motions to stay have been granted in whole or on claims in CBM, or denied without prejudice pending a decision by PTAB to initiate CBM.
- Courts that do not have heavy patent dockets tend to grant CBM (and IPR stays) readily.
- Courts with heavy patent dockets (D. Del., E.D.Va., C.D.Cal., E.D.Tex.) with look more closely at timing of motion, timing of PTAB proceedings compared to trial, discovery taken, and prejudice to plaintiff (especially where plaintiff is not an NPE but is a competitor of defendant).
- Success rates on contested stay motions in D. Del. are said to be 80%, but in EDTEX stays are disfavored even in light of CBM statute.

- CBM statute provides for interlocutory appeal as a matter of right for ruling on a motion to stay.
- Such an appeal can effectively act as a stay if the district court or Federal Circuit will stay the lawsuit pending appeal or pending a ruling on a motion to stay.
- First interlocutory appeal on denial of motion to stay was argued on March 3, 2014 in **VIRTUALAGILITY, INC. v. SALESFORCE. COM, INC.**, Fed. Cir. 14-1232.
- **District Court denied stay pending appeal under FRAP 8, but Federal Circuit stayed District Court case pending a ruling on the motion to stay pending appeal – which remains pending, effectively staying the lawsuit.**
- **Decision expected soon....**

- Heard by patent judge (PTAB) not CRU
- Potential for discovery
- Statutory default protective order
- Experts are needed – even petition should be supported by expert declaration.
- Estoppel sets in at PTAB decision on grounds actually raised.
- Losing patent owner can still litigate claims in CBM in district court pending a final decision from Federal Circuit.
- But losing patent owner **may not take any action inconsistent with PTAB decision on other claims that would fall under same reasoning for invalidity** as found by PTAB.

- Until the final mandate issues affirming the district court's judgment, affirmance of PTO's cancellation of a patent eliminates the claim, even as to the prior judgment so long as it is still under appeal. [*Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 721 F.3d 1330, 1340 \(Fed. Cir. 2013\)](#)
- A final judgment of a district court affirmed by the Federal Circuit will remain binding on the parties once the mandate issues even if patent is later declared invalid by PTO. *Versata v. SAP*, EDTEX 2014 (Denying FRCP 60 motion to vacate judgment for extraordinary circumstances in light of cancellation of claims).

Resources

- Fish web sites:
 - General: <http://fishpostgrant.com/>
 - Post-Grant for Practitioners webinar series: <http://fishpostgrant.com/webinars/>
 - CBM: <http://fishpostgrant.com/covered-business-method/>
 - IPR: <http://fishpostgrant.com/inter-partes-review/>
 - PGR: <http://fishpostgrant.com/post-grant-review/>
 - Rules governing post-grant: <http://fishpostgrant.com/>
- USPTO sites:
 - AIA Main: http://www.uspto.gov/aia_implementation/index.jsp
 - Inter Partes: http://www.uspto.gov/aia_implementation/bpai.jsp

Questions?