

THE PTAB REVIEW

August 2016

Covered Business Method Patent Review: What Constitutes a Financial Product or Service?

Along with *inter partes* review (IPR) and post-grant review (PGR), the America Invents Act (AIA) created a transitional program for reviewing covered business method (CBM) patents. CBM review differs from the more common *inter partes* review in several ways, including the availability of non-prior-art challenges (e.g., § 101 and § 112 challenges) and the narrower estoppel ramifications for CBMs.

These benefits come with an eligibility catch—the patent must: (1) claim a method or apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service; and (2) not claim a technological invention. AIA § 18; 37 C.F.R. § 42.301(a).

The Patent Trial and Appeal Board (PTAB) initially took a liberal view of what it takes to satisfy the first prong (financial product/service) of the CBM eligibility test. During the first two years of CBM reviews, the PTAB almost never found a patent ineligible for CBM review based on the failure to demonstrate that the patent was used in the practice, administration, or management of a financial product or service. However, over the past two years, it has become increasingly common for the PTAB to deny a petition for CBM review on this basis. In recent months, about one of every five CBM petitions has been denied for failure to satisfy the eligibility requirement, the overwhelming majority of those due to the financial product or service prong. Making sense of this shift has presented a significant challenge to practitioners.

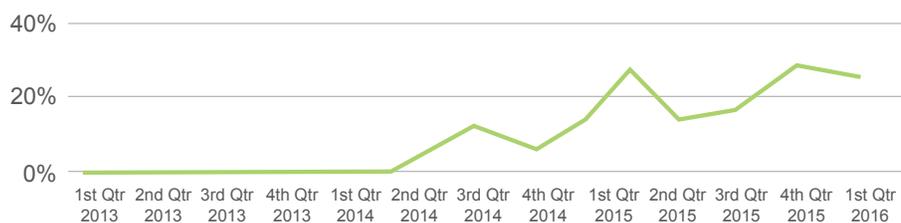
Initial Low Bar Shifts Toward Increasing Scrutiny

Early CBM decisions took a broad view of what constitutes an invention used in the practice, administration, or management of a financial product or service. For example, in *Agilysys, Inc. et al. v. Ameranth, Inc.*, CBM2014-00015 Paper 20 (March 26, 2014), the PTAB found a patent directed to computerized menu generation and synchronous communications to be CBM-eligible because a dependent claim required that the menu be a restaurant menu, and “[m]enus are used in ordering, which pertains to the sale of a product, which generates revenue.”

More recent PTAB decisions appear to take a narrower view of the financial product or services requirement. For example, in *Par Pharmaceutical, Inc. et al. v. Jazz Pharmaceuticals, Inc.*, CBM2014-00149 Paper 12 (January 13, 2015), the PTAB determined that a patent directed to a method of distributing prescription drugs did not satisfy the financial product or service requirement. In doing so, the PTAB decided it was not enough that the specification described verifying insurance coverage or a patient’s ability to pay because those aspects were not reflected in the claims.

The PTAB similarly distinguished between inventions that merely could be used for a financial product or service versus those that are specifically intended for use in a financial product or service in *ServiceNow, Inc. v. BMC Software, Inc.*, CBM2015-00107 Paper 12 (September 11, 2015). In denying institution, the PTAB found it insufficient that the specification’s sole embodiment described using the claimed invention (a method of using fault models to analyze error conditions in an enterprise computing system) in an ATM, because the claims themselves were not specific to ATMs or financial activities.

CBM Petition Denials Based on Lack of Eligibility



Source: Docket Navigator

— Denied for failure to show financial product/service or non-technological

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Recent Cases Produce Divergent Outcomes

In 2016, the PTAB has continued its increasing reliance on the financial prong as a basis for denying CBM petitions, often in ways seemingly inconsistent with its earlier broad interpretation of the requirement. For example, in *AT&T Mobility LLC v. Intellectual Ventures II LLC*, CBM2015-00185 Paper 10 (May 4, 2016), the PTAB denied institution where the patent was directed to a method of providing directory assistance call completion to a wireless caller. Despite the petitioner’s argument that the claims were broad enough to encompass aspects of a billing system, the PTAB found the claim language insufficient on its own to demonstrate a link to financial activity and refused to rely on a billing example provided in the specification.

In *CoreLogic, Inc. v. Boundary Solutions, Inc.*, CBM2016-00017 Paper 9 (May 24, 2016), the PTAB denied institution where the claimed invention was directed to a computer implemented method for retrieving maps and associated parcel information from a database, where the specification described a business revenue model based on subscription agreements for access to the database. The PTAB found that absent specific claim language directed to the business model, it was not enough that the specification described a way to generate money using the invention.

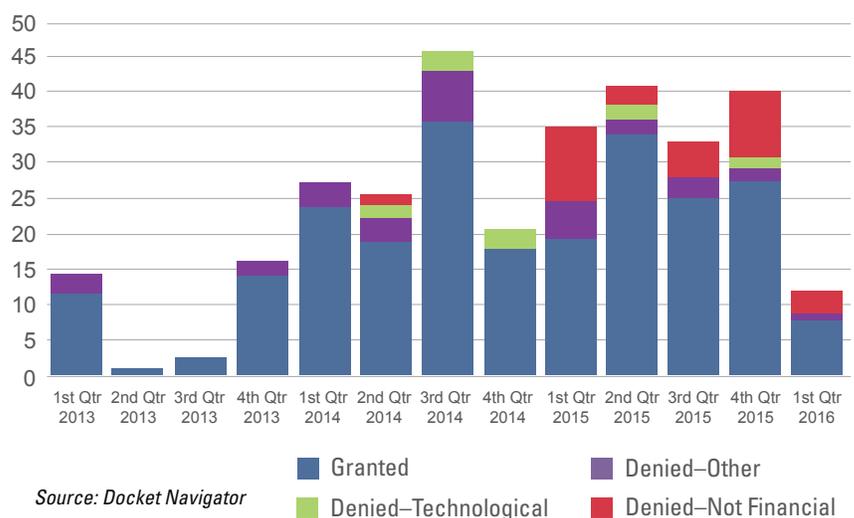
At the same time, other recent PTAB decisions have found patents eligible for CBM review, even where the financial aspect of the invention might not be explicit in the claims. In *iBiquity Digital Corp. v. Impulse Radio, LLC*, CBM2016-00011 Paper 11 (May 10, 2016), the PTAB found CBM-eligibility for a patent directed to sending and receiving broadcast schedule information, based on a dependent claim’s recitation of “advertising data.” The PTAB pointed to the specification’s teaching that “advertising data is used to generate revenue.” Thus, while it was insufficient in *CoreLogic* that the specification taught that real estate parcel data could be used to generate revenue, a similar teaching in *iBiquity* with respect to advertising data established CBM-eligibility.

In *ServiceNow, Inc. v. BMC Software, Inc.*, CBM2015-00170 Paper 9 (February 16, 2016), the PTAB found it sufficient that claims directed to evaluating deployment of software in compliance with software licenses recited “software license contracts,” which the PTAB interpreted to “qualify as a ‘financial product’ or ‘financial activity’ because they represent ‘an agreement between two parties stipulating movements of money or other consideration now or in the future.’”

PTAB Acknowledges Difficulty of One-Size-Fits-All Approach

Some recent PTAB decisions have acknowledged the difficulty in determining a one-size-fits-all approach to assessing whether the financial prong is satisfied. For example, in denying institution in *Motorola Mobility LLC v. Intellectual Ventures I LLC*, CBM2015-00174 Paper 8 (February 9, 2016), the PTAB recognized that “some panels of this Board have imparted ‘financial’ status to otherwise ‘generic’ claims where the Specification has unequivocally shown that the invention is directed to something ‘financial in nature,’ while “[o]ther panels of this Board, however, have not imparted ‘financial’ status to claims that have a general utility when neither the claims nor Specification establish that the claimed invention is directed to citing something financial in nature.” Another case involving the same parties but a different PTAB panel found the patent at issue satisfied the financial prong, recognizing an unrelated PTAB decision stating that “the focus is on the claims,” but citing to the Federal Circuit for the proposition that “a financial product or service need not be explicitly recited in the claims.” *Motorola Mobility, LLC v. Intellectual Ventures I, LLC*, CBM2015-00004 Paper 33 (March 21, 2016), citing *Versata Dev. Grp., Inc. v. SAP Am., Inc.*, 793 F.3d 1306, 1324-25 (Fed. Cir. 2015).

CBM Petition Outcomes



Source: Docket Navigator

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Conclusion

Despite the PTAB's increased practice of denying petitions for CBM review based on the financial product or service prong, a definitive standard for satisfying this test has not yet emerged. While the PTAB's decisions are trending toward a requirement that the financial prong cannot be satisfied by the specification alone and requires something in the claims, the question of what exactly the claims must contain is unresolved. What is clear is that in light of the increased scrutiny this aspect of a CBM petition receives, the issue must be given careful consideration when evaluating a patent's eligibility for this proceeding.

Increased Federal Circuit Scrutiny of Patent Ineligibility Decisions Likely to Impact Life Sciences Cases at the PTAB

In *Rapid Litigation Management Ltd. v. CellzDirect, Inc.*, App. No. 2015-1570 (Fed. Cir. July 5, 2016), the Federal Circuit vacated and remanded a district court decision dismissing an infringement suit because the patent claims were not directed to eligible subject matter. The decision is one of three Federal Circuit decisions since May 2016 reversing district court decisions of patent ineligibility, which may have downstream consequences for Patent Trial and Appeal Board (PTAB) proceedings.

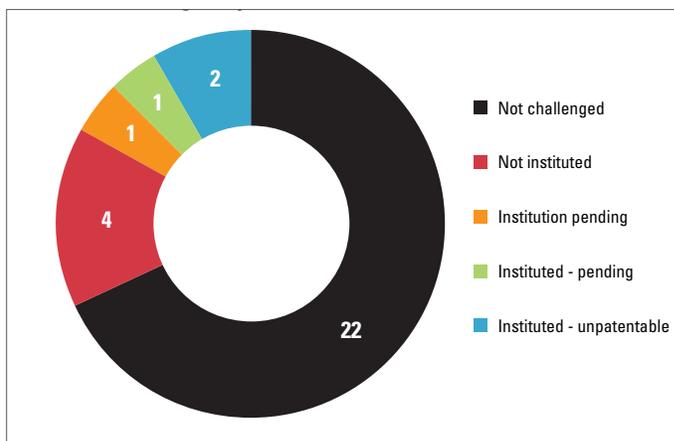
In *Rapid Litigation*, the patent claimed methods of refreezing liver cells while maintaining the cells' viability. The district court applied the two-part test from *Alice Corp. v. CLS Bank Int'l*, 134 S. Ct. 2347, 2355 (2014), which asks whether a claimed invention is "directed to" a judicial exception, and if so, whether the claimed invention as a whole is significantly more than just the judicial exception. The district court concluded that the claims were directed to a judicially excepted natural phenomenon (cells surviving multiple freeze-thaw cycles) and that the other steps of the claims were conventional.

The Federal Circuit disagreed on both points. First, the court explained that simply identifying a judicial exception is not sufficient. Rather, claims that use a natural phenomenon to attain a distinct end result are not fairly characterized as "directed to" that judicial exception. Second, the court explained that even if the claims were directed to a natural phenomenon, they nevertheless transformed the phenomenon into an inventive application. Although each step was conventional, they were used unconventionally—even contrary to their ordinary use—which qualified the claimed invention as something more than a conventional use of a judicial exception.

The United States Patent and Trademark Office (USPTO) promptly issued a guidance memorandum, "Recent Subject Matter Eligibility Rulings" (July 14, 2016), highlighting the court's emphasis on looking at the claim as a whole in assessing whether the claim is directed to a judicial exception. The USPTO noted that many claims focus on a process for achieving an outcome (producing a thing, treating a disease) that direct the claim beyond the judicial exception itself. The USPTO also noted the similarity to the court's decision in *Enfish, LLC v. Microsoft Corp.*, App. No. 2015-1244 (Fed. Cir. May 12, 2016), in which the court held that a data-storage system implementing a logical table was directed to more than a judicial exception (the abstract idea of the logical table) itself. In both cases, the court looked at the claim as a whole, including its purpose, in determining what the claim was ultimately "directed to."

In June 2016, the court vacated and remanded a district court dismissal under the second prong of the *Alice* test. In *BASCOM Global Internet Services, Inc. v. AT&T Mobility LLC*, App. No. 2015-1763 (Fed. Cir. June 27, 2016), the Federal Circuit agreed that claims involving remote content filtering were directed to an abstract idea and that the other elements of the claims were conventional, but held that the district court had failed to explain why the ordered combination of the elements was conventional. *Enfish* and *BASCOM*, although computer-related cases, presaged the *Rapid Litigation* holding on each prong of the *Alice* test: it is not enough to simply identify a judicial exception and characterize the remaining elements as conventional; rather, the factfinder must look at the claim as a whole, in context, in making these determinations. Significantly, *Enfish*, *BASCOM* and *Rapid Litigation* are the Federal Circuit's first reversals on patent ineligibility since the Supreme Court issued *Alice*. As such, these appear to herald not so much a change in the law but rather a significant increase in the level of scrutiny over how the law is applied.

§ 101 Ineligibility Outcomes in PGRs



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In the near term, this enhanced scrutiny may have little practical effect on most PTAB proceedings. Most life sciences cases are challenged in *inter partes* review (IPR). Patent ineligibility is not an available ground for challenging claims in IPR. A post-grant review (PGR) can include ineligibility grounds, but thus far it has not been commonly asserted as a ground for challenge (see chart). This is perhaps because only patents filed after March 16, 2013, are subject to PGR trials, but these are also the patents that have received the greatest scrutiny from the patent examining corps on patent eligibility and may have been drafted with attention to the *Alice* decision. Moreover, among all PGR cases raising a Section 101 ineligibility challenge, all but one of the challenged patents was directed to a computer-related technology.

The effect will be greatest for covered business method (CBM) reviews, in which older patents can be reviewed and in which patent ineligibility has been a popular ground for challenge. But life sciences patents will rarely qualify as being directed to a financial product or service so as to meet the requirements for CBM review eligibility. To the extent there is an effect, it will likely be two-fold, both positive for patent owners. First, the PTAB—mindful of a likely Federal Circuit review—will have to exercise greater care when explaining ineligibility, which might aid the patent owner in close cases. Second, if the PTAB applies a similar level of scrutiny to CBM petitions, then it will be that much easier for the PTAB to deny the petition without instituting a trial.

Patent practitioners have been looking for a thaw in patent-eligibility case law. The thaw appears to have begun at the Federal Circuit. The USPTO has embraced this thaw—at least in its examination guidelines—and appears to be encouraging examiners to look favorably at more claims. While the near-term effect will be beneficial to patent owners facing PTAB challenges, the long-term effect might be the USPTO issuing more patents that are arguably close cases and thus more vulnerable to patent-eligibility challenges in a PGR or CBM proceeding at the PTAB.

Federal Circuit's *Enfish* Decision Makes Mark at the PTAB

In May 2016, the Federal Circuit issued *Enfish, LLC v. Microsoft Corp.*, No. 15-1244 (Fed. Cir. May 12, 2016), one of the few Federal Circuit decisions holding patent claims to be drawn to eligible subject matter following the Supreme Court's *Alice* decision. *Enfish* marks the first time after *Alice* that the Federal Circuit has reversed a lower tribunal's decision in favor of a patent claim's §101 eligibility. The decision raises questions about its impact in patent challenges. While it is still early, a review of PTAB decisions addressing § 101 following *Enfish* indicates a limited impact at the board.

Enfish addressed step one of the *Alice* test for subject matter eligibility, which asks whether a patent claim is directed to an abstract idea, in the context of computer-related patents. *Enfish* provides additional guidance for determining whether the claims of a computer-related patent are *not* abstract under step one of *Alice*. The Federal Circuit commented that “[w]e do not read *Alice* to broadly hold that all improvements in computer-related technology are inherently abstract” and that it did not believe software patents to be inherently abstract. The Federal Circuit found it “relevant to ask whether the claims are directed to an improvement to computer functionality versus being directed to an abstract idea.”

Enfish has already been cited in a number of decisions from the PTAB involving patentable subject matter challenges under § 101. A review of institution decisions and final written decisions issued since May 2016 indicates that *Enfish* has been addressed in almost a dozen instances. In a large majority of those cases, the PTAB's analysis with respect to *Enfish* was fairly limited, with *Enfish* being cited as supporting a conclusion already reached by the PTAB regarding whether or not the claims are directed to an abstract idea.

The PTAB has conducted a more detailed analysis under *Enfish* in only a handful of cases. In several cases, the PTAB distinguished *Enfish* in holding claims unpatentable for being directed to abstract subject matter. For example, the PTAB found that *Enfish* failed to save the challenged patent claims in *Care N' Care Ins. Co., Inc. v. Integrated Claims Sys., LLC*, CBM 2015-00064, Paper 24 (June 21, 2016). In a final written decision in that case, the PTAB summarized *Enfish* and compared the claims at issue to *Enfish*'s self-referential table, finding no comparable aspect of the claims at issue. Unlike in *Enfish*, the claims “recite generalized steps to be performed on a computer using conventional computer activity.” (internal citations omitted). The PTAB reached similar conclusions in *Google Inc. v. Zuili*, CBM2016-00021, Paper 11 (June 1, 2016), and CBM2016-00022, Paper 11 (June 1, 2016).

On the other hand, the PTAB has relied on *Enfish* as a basis for rejecting patent challenges based on § 101 subject matter ineligibility in only two instances thus far. First, the PTAB rejected a § 101 challenge in *Apple, Inc. v. Mirror World Techs., LLC*, CBM2016-00019, Paper 12 (May 26, 2016). The petition in this case was originally filed prior to the *Enfish* decision. Before issuing this institution decision, however, the PTAB allowed supplemental briefing to address *Enfish*. The patent at issue relates to a time-ordered “stream” of documents and stream filters that organize, locate, summarize, and monitor incoming information. The PTAB found that the problems solved by the patent did not exist in the pre-computer world, and the way in which

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the claims named, organized, and retrieved documents was different from the way conventional computers had done so. The PTAB further found that *Enfish* supported its conclusion that the claims were not directed to an abstract idea, because the claims were directed to an improvement in computer functionality.

Second, the PTAB also rejected a subject matter eligibility challenge, denying institution of trial, in *Walgreen Co. v. Advanced Mktg. Sys., LLC*, CBM2016-00013, Paper 6 (May 26, 2016). There, the PTAB's decision turned more on a failure of proof by the petitioner, with a brief statement that *Enfish* confirmed its conclusion. The PTAB held that the petitioner's analysis of the claims was incomplete, particularly as to the "select code," and that the petitioner did not consider the claims as a whole. The PTAB explained that *Enfish* supported its conclusion that the claims were not directed to an abstract idea, because the claims were directed to an improvement in computer functionality, though the PTAB did not provide a detailed analysis.

In sum, the Federal Circuit's *Enfish* decision made an almost immediate appearance in PTAB decisions but has so far had only a limited impact, if any, on the PTAB's analysis. It remains to be seen how deeply *Enfish* will ultimately impact the PTAB's view of subject matter eligibility for computer-related patents. *Enfish* and other recent reversals on §101 ineligibility determinations do not appear to change the law so much as increase the scrutiny applied to ineligibility determinations. See *BASCOM Global Internet Servs., Inc. v. AT&T Mobility LLC*, App. 15-1763 (Fed. Cir. June 27, 2016) (computer-related) (remanding on *Alice* step 2), and *Rapid Litig. Mgmt. Ltd. v. CellzDirect, Inc.*, App. 15-1570 (Fed. Cir. July 5, 2016) (biotech) (remanding on both *Alice* steps). In the longer term, this increased scrutiny may lead to changes in at least the way the PTAB writes its decisions concluding that claims are not eligible.

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The post-grant practice at Wilson Sonsini Goodrich & Rosati is nationally recognized as a leader for representing petitioners and patent owners before the Patent Trial and Appeal Board. For the first half of 2016, the firm was ranked by *Managing Intellectual Property* magazine as the No. 2 law firm acting on behalf of petitioners, and as the No. 4 law firm representing either petitioners or patent owners before the PTAB. WSGR partner Michael Rosato was also ranked as the No. 1 attorney in the country for filing the most petitions on behalf of petitioners during the period.

About Our Post-Grant Practice

The professionals in Wilson Sonsini Goodrich & Rosati's post-grant practice are uniquely suited to navigate the complex trial proceedings at the United States Patent and Trademark Office (USPTO). We have extensive experience before the PTAB, representing clients in numerous new trial proceedings and in countless reexaminations and patent interference trials. Our practice includes professionals with decades of experience at the PTAB, including former PTAB personnel. As the needs of a case may require, our team also collaborates with other WSGR professionals, including district court patent litigators and patent prosecutors, with technical doctorates or other advanced technical degrees. Our core team leverages firmwide intellectual property expertise to provide comprehensive IP solutions for clients that cover strategy, prosecution, licensing, enforcement, and defense.

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