Escaping PTAB Review Through Strategic Disclaimer in CBM Proceedings

A patent is only eligible for covered business method (CBM) review if it: (1) claims a method or apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service (the “financial prong”); and (2) does not claim a technological invention (the “technological invention prong”). Only one claim of a patent must satisfy this requirement in order for the entire patent to be CBM-eligible. This raises the question of whether a patent owner can avoid CBM review by canceling or “disclaiming” certain claims, leaving the remaining claims ineligible for CBM review.

The Federal Circuit has explained that disclaimer under 35 U.S.C Section 253 causes a patent to be “treated as though the disclaimed claims never existed.” Patent owners have attempted to use statutory disclaimer to avoid CBM review since the early days of the proceedings. These efforts have met with varying degrees of success before different panels of the Patent Trial and Appeal Board (PTAB). While there are many open questions about the impact of disclaimer on CBM eligibility, recent decisions by the Federal Circuit and the PTAB suggest that disclaimer will continue to be—at least in the near term—an effective tactic for avoiding institution in certain cases.

Divergent Outcomes Following Disclaimer

Different PTAB panels have reached different outcomes when considering the effect of disclaimer on CBM eligibility. A typical fact pattern involves a broader independent claim that recites a system or method of general applicability and a dependent claim that recites a financial embodiment. In Google, Inc. v. LocatioNet Systems Ltd., the panel addressed such a scenario and acknowledged the PTAB’s divergent approaches. The independent claims recited methods of determining the location of mobile platforms, but did not explicitly recite financial limitations. While an unchallenged dependent claim referenced obtaining location information from “advertising systems,” this claim was disclaimed after the petition was filed. The LocatioNet Systems panel recognized that some previous panels faced with this situation had denied institution, noting that disclaimed claims could not provide a basis for CBM eligibility and that the remaining claims were not explicitly or inherently financial, while other panels in similar situations had granted institution, finding the disclaimed claims to be relevant because they showed that financial subject matter fell within the scope of a broader independent claim. The panel ultimately agreed with the former approach and denied institution.

Different Approaches to Disclaimer or Something Else?

While the different outcomes noted above are often described as different approaches to the effect of disclaimer, a closer reading of the decisions suggests that the divergent outcomes are less about different approaches to disclaimer and more about different views of the financial prong in general. Panels finding a patent ineligible for CBM review tend to note that when a disclaimed dependent claim is removed from consideration, the remaining claims are of general applicability and are not

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1 AIA § 18; 37 C.F.R. § 42.301(a).
2 Vectra Fitness, Inc. v. TNWK Corp., 162 F.3d 1379, 1383 (Fed. Cir. 1998) (citation omitted).
4 Id.
6 Id. at 8 (citing J.P. Morgan Chase & Co. v. Intellectual Ventures II LLC, CBM2014-00157, Paper 11 at 2-3); see also American Express Co. v. Maxim Integrated Prods., Inc., CBM2015-00098, Paper 17 at 5 (patent eligible for CBM review despite disclaimer where petition cited subsequently disclaimed claim as example of financial applicability of remaining claims).
limited to financial products or systems.\(^7\) Panels finding patents CBM-eligible despite disclaimer acknowledge the immediate effect of disclaimer, but focus on the fact that the scope of an independent claim necessarily encompasses its dependent claims, even when the subject matter of the dependent claims is removed from consideration.\(^8\) In other words, despite different outcomes, no panel appears to dispute that: (1) disclaimed claims cannot directly satisfy the financial prong; (2) the remaining general claim is still broad enough to encompass financial embodiments; and (3) the remaining general claim is not limited to financial embodiments only. This suggests that the key disagreement is not about the effect of disclaimer on eligibility, but whether the financial prong is satisfied by a claim of general applicability that encompasses—but is not limited to—financial products or activities.

Given this distinction, the Federal Circuit’s Unwired Planet decision will likely make it more attractive for patent owners to use disclaimer to avoid CBM eligibility in certain cases. In Unwired Planet, the Federal Circuit rejected the PTAB’s broad interpretation of the financial prong as being satisfied by activities that were merely “incidental to” or “complementary to” financial activity.\(^9\) While the Federal Circuit did not directly address disclaimer, the court emphasized that for a patent to be eligible for CBM review, it must claim methods or apparatuses “of particular types and with particular uses ‘in the practice, administration, or management of a financial product or service.’”\(^10\) This requirement of a “particular” connection to financial activity suggests that a patent of general applicability is not rendered eligible for CBM review simply because it is broad enough to encompass a financial embodiment. While future cases will be needed to clarify how tight the relationship to financial activity must be in order to satisfy the financial prong, disclaimer is more likely to be effective following Unwired Planet in cases where the remaining claims are plainly of general applicability.\(^11,12\)

**Practice Tips**

Disclaimer is a tactic that both parties must consider. Petitioners and patent owners should take into account the following issues when considering a petition for CBM review:

- **Independent Claims of General Applicability.** If disclaimer of explicitly financial claims would leave only claims that are broadly applicable beyond financial embodiments, disclaimer may be a viable option for avoiding institution, particularly if the explicitly financial claims have limited strategic importance.

- **Scope of CBM Eligibility Section in Petition.** If a petition only addresses a few explicitly financial claims that could be painlessly disclaimed, disclaimer may undercut the petitioner’s ability to meet its burden of demonstrating CBM eligibility.

- **Disclaimer to Avoid Technological Invention Prong.** While strategic disclaimer typically becomes an issue in the context of the financial prong, the same logic should also apply to the second prong of CBM eligibility. For example, consider whether a patent owner might disclaim a broad independent claim where the remaining claims clearly recite technical innovations over the prior art.

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\(^7\) See, e.g., Plaid Technologies, Inc. v. Yodlee, Inc., CBM2016-00070, Paper 8 at 6 (“[C]laims of general utility are not converted into finance-related claims merely because the Specification of the challenged patent or the litigation positions of the Patent Owner suggest that the scope of the claims is broad enough to encompass some finance-related activities.”).

\(^8\) See, e.g., J.P. Morgan Chase & Co. v. Intellectual Ventures II LLC, CBM2014-00157, Paper 11 at 2-3 (“[S]tanding for covered business method patent review remains at least because disclaimer of claim 12 does not change the scope of independent claim 1, from which it depends.”).

\(^9\) Unwired Planet, LLC v. Google Inc., 841 F.3d 1376, 1382 (Fed. Cir. 2016) (“It is not enough that a sale has occurred or may occur, or even that the specification speculates such a potential sale might occur.”).

\(^10\) Id

\(^11\) See, e.g., Ford Motor Co. v. Versata Development Group, Inc., CBM2016-00100, Paper 12 at 3-4 (citing Unwired Planet to support determination that patent having “generic, broad claims” was ineligible for CBM review despite financial data recited in disclaimed claims).


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Petitioners also must be vigilant before and after filing a petition and should consider the following:

- **Expansion of CBM Eligibility Section.** Before filing a petition, a petitioner should consider whether the patent owner is likely to disclaim certain claims, e.g., where only certain claims explicitly recite financial activity. If disclaimer is possible, the petitioner should consider expanding the CBM eligibility section to address the broader claims as well.

- **Response to Disclaimer.** If the patent owner disclaims the only claims identified in the petition as the basis for CBM eligibility, it is crucial for the petitioner to request additional briefing to address CBM eligibility in view of the disclaimer. A recent PTAB decision demonstrates the dangers of failing to do so. In *Broadsign International*, the patent owner disclaimed several claims after the petition was filed, including all claims that the petitioner had identified as satisfying the financial prong. The PTAB found that the petition did not prove CBM eligibility and specifically noted that the petitioner “did not request an opportunity to present arguments that any other claims would meet the” financial prong.

**Conclusion**

While the PTAB’s treatment of disclaimer—and indeed the financial prong generally—has not yet achieved perfect consistency, disclaimer continues to be an effective tool for avoiding institution of CBM review. As with any gambit, parties should carefully consider the specifics of their situation before deciding whether disclaimer is a viable option. However, given the significant ramifications in failure to gain institution, disclaimer is a tactic that should be carefully considered by both parties in a CBM proceeding.

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**Parties Raising Indefiniteness Arguments May Find Advantage at the PTAB**

Patent litigants raising indefiniteness arguments have traditionally faced a very tough standard, but recent decisions by the Patent Trial and Appeal Board (PTAB) indicate that parties may have a better chance of success raising an indefiniteness challenge at the Patent Office rather than in court, provided the circumstances are right to raise the issue.

Until 2014, the Federal Circuit required that the claim be “insolubly ambiguous,” meaning not amenable to any reasonable construction, in order to be indefinite. The U.S. Supreme Court held that this standard was overly restrictive and replaced it with a new standard: a claim is indefinite if, when read in light of the specification and the prosecution history, it fails to inform those skilled in the art about the scope of the invention with reasonable certainty. The Federal Circuit has found that this lower “reasonable certainty” standard “changed the law of indefiniteness,” and may be outcome determinative in some cases. Nonetheless, it is not uncommon for indefiniteness challenges to fail even under the relaxed reasonable certainty standard. At least one early survey of district court decisions applying the *Nautilus* standard found that most such challenges fail.

Post-grant proceedings under the America Invents Act (AIA) can provide an alternative forum to district courts for raising indefiniteness challenges, which can be raised as substantive grounds of unpatentability in covered business method (CBM) and post-grant review (PGR) proceedings. However, CBM and PGR proceedings are not available for challenging all patents because CBMs have specific subject-matter and petitioner limitations, and PGRs have certain limitations regarding the filing and issue date of the challenged patent. *Inter partes* review (IPR) proceedings are generally available whenever PGRs are not, though there are certain limitations on who can initiate them. Indefiniteness issues might be raised in an IPR if a patent owner attempts to amend its claims, but cannot otherwise be raised as substantive grounds of unpatentability.

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3. *See, e.g.*, *The Dow Chemical Company v. Nova Chemicals Corporation*, 803 F.3d 620, 625 (Fed. Cir. 2015) (finding a claim indefinite under *Nautilus* that had been found definite under the insolubly ambiguous standard).
4. *E.g.*, *Ethicon Endo-Surgery, Inc. v. Covidien, Inc.*, 796 F.3d 1312, 1319-22 (Fed. Cir. 2015) (reversing judgment finding claims indefinite under *Nautilus*).
5. *35 U.S.C. 332(b)*.

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One of these AIA proceedings may provide an advantageous forum for attacking indefinite claims, because the standard for demonstrating indefiniteness is even lower in AIA proceedings than the reasonable certainty standard applicable in district courts. The PTAB previously has held that the standard for evaluating indefiniteness of a claim during prosecution of a patent is whether the claim is "amenable to two or more plausible claim constructions." At least two post-\textit{Nautilus} PTAB decisions have found that this standard applies during post-grant proceedings before the PTAB and that it survives the Supreme Court’s \textit{Nautilus} decision.

In \textit{SimpleAir}, the PTAB rejected the argument that the \textit{Miyazaki} standard does not apply to AIA post-grant proceedings. The PTAB found that the \textit{Miyazaki} standard applies because post-grant proceedings employ the broadest reasonable interpretation claim construction standard and because there is no presumption of validity before the Patent Office. However, the PTAB ultimately found the claims not indefinite.

In \textit{Telebrands}, the PTAB rejected the argument that \textit{Nautilus} governs the indefiniteness analysis. The board reasoned that at the PTAB, unlike in district court, "the claims are interpreted under the broadest reasonable interpretation standard, and an opportunity to amend the claims is afforded." Thus, the PTAB concluded that the indefiniteness test for a PGR is that "a claim is indefinite when it contains words or phrases whose meaning is unclear." The PTAB found the challenged claims indefinite.

Notably, each of the PTAB’s justifications for applying a lower bar than the \textit{Nautilus} standard in PGRs and CBMs apply equally to IPRs where unexpired claims are also interpreted under their broadest reasonable construction, the patent owner has an opportunity to amend the claims, and there is no presumption of validity before the Patent Office.

Although the facts of each case will vary, parties with potential indefiniteness challenges should consider whether to raise such challenges in an appropriate AIA proceeding.

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Paper 13 at 17.

Paper 13 at 19.


\textit{Id.} (quoting \textit{In re Packard}, 751 F.3d 1307 (Fed. Cir. 2014))

Paper 75 at 19.

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\textbf{Sovereign Immunity: A Post-Grant Tool for Patent Owners?}

State entities have special privileges in a federal system. The Eleventh Amendment to the U.S. Constitution—the first to follow the Bill of Rights—states: "The Judicial power of the United States shall not be construed to extend to any suit in law or equity, commenced or prosecuted against one of the United States by Citizens of another State, or by Citizens or Subjects of any Foreign State." Even when it comes to patents issued by a federal agency, states are not subject to attack in a federal adjudication, unless the state has effectively waived its immunity or failed to provide a suitable alternative remedy. Recent decisions from the Patent Trial and Appeal Board (PTAB) indicate that sovereign immunity extends to proceedings challenging the validity of a patent owned by a state entity. However, to date, the PTAB’s application of the Eleventh Amendment has raised more questions than answers.

In 2002, the U.S. Supreme Court clarified that the "Judicial power of the United States" could mean an administrative agency acting against a state entity. The Federal Maritime Commission adjudicated a private corporation’s complaint against the South Carolina State Ports Authority ("an arm

\textit{U.S. Const., Amdt. XI} (1795).


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of the State of South Carolina”) under the federal Shipping Act of 1984. The Court upheld an appeals court ruling that the commission could not adjudicate the complaint.3

In January 2017, a panel of PTAB administrative patent judges dismissed three inter partes review (IPR) petitions on the basis of sovereign immunity.4 Covidien (now a unit of Medtronic) had filed three petitions against a patent owned by the University of Florida Research Foundation, a state entity. The panel concluded that it exercises judicial power of the United States for purposes of sovereign immunity.5 The panel also rejected arguments that the in rem nature of a patent review (i.e., it is a proceeding against the patent rather than the state entity per se) should make a difference.6

Much of the initial reaction to the Covidien decision focused on whether the decision would be subject to judicial review.7 In Cuozzo Speed Technologies, LLC v. Lee, the Supreme Court held that institution of an IPR is broadly insulated from judicial review, but specifically declined to decide the scope of review for constitutional questions. The Court indicated in dicta that constitutional issues can be resolved on review of a final decision.8 Indeed, the U.S. Court of Appeals for the Federal Circuit, the statutory court of review for the PTAB,9 has reviewed (and rejected) a constitutionality question relating to IPRs on appeal from a final decision.10 In Covidien, however, there is no final written decision. Covidien has not requested rehearing by the PTAB or filed notice of judicial review with the PTAB.11

Writs of mandamus for IPR non-institution decisions have fared poorly. In Dominion Dealer Solutions, LLC v. Lee, the district court granted the USPTO Director’s motion to dismiss because it held that review of the institution decision was barred by statute.12 The Federal Circuit reached the same conclusion in the companion appeal, In re Dominion Dealer Solutions, LLC, explaining that the appellant lacked one of the requirements for mandamus: a clear and indisputable right to relief.13 As the Supreme Court has explained, when the tribunal below is acting within its discretion, mandamus relief is “hardly ever” available.14 Arguably, Covidien would also have had difficulty showing that it satisfied the other mandamus requirement: lack of adequate alternative relief.15 Medtronic (Covidien’s parent) is engaged in collateral invalidity litigation with the University of Florida Research Foundation.16 Even if a court is a less favorable forum for demonstrating invalidity, mandamus requires an adequate alternative, not an equivalent alternative.

A non-judicial route of relief also exists: review by the USPTO Director. By statute, the institution decision is the Director’s decision.17 The Director has delegated this responsibility to the PTAB by rule.18 Delegation of authority is not a delegation of ultimate responsibility, however; the Director remains responsible for providing policy direction and management supervision.19 As a practical matter, however, the Director has not reviewed PTAB institution decisions.

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5 Id at 24-25.
6 Id. at 11-12.
9 35 U.S.C. 141(c).
11 According to the Board’s PTAB E2E database.
13 749 F.3d 1379, 1381 (Fed. Cir. 2014).
14 Allied Chemical Corp. v. Daiflon, Inc., 449 U.S. 33, 36 (1980) [original emphasis].
15 749 F.3d at 1381.

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By rule, the USPTO Director has delegated requests for supervisory review of PTAB action to the PTAB’s Chief Administrative Patent Judge. Even this review is limited: both merits issues committed by statute to a PTAB panel and procedural issues in pending contested cases “are not subject to petition.” The IPR rules define the “trial” as a contested case, but are silent about whether the “preliminary proceeding” before institution decision is a contested case for purposes of supervisory review. In any case, the rules provide only a rehearing request to the PTAB as a route for internal review of institution decisions. A panel reviews its own institution decision for an abuse of discretion. Requests for supervisory review or an expanded panel are routinely denied.

So, does the Covidien decision provide automatic relief for patent owners who are also state entities? The Covidien decision itself has not yet been adopted as binding PTAB precedent. At least one PTAB panel has followed Covidien’s lead, however. In Neochord, Inc. v. University of Maryland, Baltimore, the PTAB authorized belated briefing on sovereign immunity after institution, briefing, and oral argument had already been completed. On May 23, 2017, the PTAB granted the university’s motion to terminate the IPR based on sovereign immunity, concluding that the university had not waived its Eleventh Amendment immunity despite participating in the IPR through oral argument, because sovereign immunity is a jurisdictional issue that can be raised at any time. Additionally, Reactive Surfaces Ltd., LLP v. Toyota Motor Corp. raises the question of sovereign immunity when not all of the patent assignees are state entities. The PTAB has instituted trial in Reactive Surfaces, but expressly noted that it had not yet resolved the sovereign immunity question.

There is good reason for caution in applying the Covidien decision. The decision holds the IPR statute unconstitutional as applied to state entities. Yet Congress does not ordinarily empower an administrative agency to consider the constitutionality of the statutes the agency administers. Moreover, while the Covidien decision holds that the in rem nature of PTAB reviews is irrelevant, it does so based on language from the Federal Maritime Commission decision about the dignity of the state. A patent, however, is a creation of federal law (unlike South Carolina’s control over its ports). It seems anomalous that Congress cannot regulate its own creations. The Covidien decision’s analysis on this point is a weakness that might not survive challenge. For example, 35 U.S.C. Section 261 (which governs ownership) expressly makes the property attributes of a patent “[s]ubject to the provisions of this title,” which would include the provisions permitting post-grant review of a patent. Does this mean that the patent grant is conditioned on a waiver of sovereign immunity?

If the Covidien decision does become the norm, it raises interesting possibilities for patent owners. For example, does it matter if the state acquires its interest after a petition for IPR review has been filed? Can a patent owner insulate itself against post-grant review by assigning a nominal interest in the patent to a state entity? If nothing else, the Covidien decision has introduced a new wild card into post-grant practice before the PTAB.

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20 37 CFR § 1.181(a)(3), citing 37 CFR § 41.3.
21 37 CFR § 41.3(b)(2).
22 37 CFR § 42.2, defining “Preliminary Proceeding” and “Trial.”
23 37 CFR § 42.21(c) & (d).
24 37 CFR § 42.21(e).
26 See SOP 2 (rev. 9); Publication of opinions and designation of opinions as precedential, informative, representative, and routine (September 22, 2014) (providing process for making decisions binding precedent).
27 IPR2016-00208, Paper 23 (February 15, 2017). Briefing has been completed, but the PTAB has not issued a decision yet.
29 IPR2016-01914, Paper 23 (February 21, 2017).
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