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In *Unwired Planet v. Google*, the Federal Circuit Rejected the PTAB's Expansive View of "Covered Business Method" Patent

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A "covered business method" (CBM) patent review is one of several post-grant trial proceedings established under the America Invents Act (AIA) that is conducted at the Patent Trial and Appeal Board (PTAB) of the U.S. Patent and Trademark Office (PTO). A patent is qualified for CBM patent review only if it is a "covered business method patent." The AIA defines a CBM 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, except that the term does not include patents for technological inventions.

AIA § 18(d)(1). The PTO subsequently adopted this statutory definition of a CBM patent by regulation without any alteration. *See* 37 C.F.R. § 42.301(a). In many cases, however, the PTAB has been applying a much broader definition of a CBM patent. In *Unwired Planet v. Google*, the Federal Circuit rejected the PTAB's expansive view of a CBM patent as exceeding the statutory authority.

In *Unwired Planet, LLC v. Google*, CBM2014-00006, the PTAB applied the following standard to determine whether the challenged patent is a CBM patent:

whether the patent claims activities that are financial in nature, ***incidental to a financial activity***, or ***complementary to a financial activity***.

CBM2014-00006, Paper 11, slip op. at 11 (PTAB Apr. 8, 2014) (emphasis added). The challenged patent in the CBM proceeding is directed to a system and method for restricting access by a "client application" to a wireless device's location information. The PTAB reasoned that since the specification of the challenged patent indicates that the "client application" may be associated with a service or goods provider, such as a hotel, restaurant, or store, the subject matter recited in the challenged claim is "incidental or complementary to

the financial activity or product sales." *Id*. As such, the PTAB determined that the challenged patent was a CBM patent and instituted a CBM patent review. The PTAB ultimately issued a final written decision invalidating the challenged claims under section 101. The patent owner appealed from, among others, the PTAB's determination that the challenged patent was a CBM patent, which the Federal Circuit has jurisdiction to review. *See Versata Dev. Grp., Inc. v. SAP Am., Inc*., 793 F.3d 1306, 1323 (Fed. Cir. 2015).

In *Unwired Planet, LLC v. Google Inc.*, Case No. 2015-1812 (Fed. Cir. Nov. 21, 2016), the Federal Circuit rejected the PTAB's determination and held that "the Board's reliance on whether the patent claims activities 'incidental to' or complementary to' a financial activity as the legal standard to determine whether a patent is a CBM patent was not in accordance with the law." Slip op. at 13.

As the Federal Circuit noted, the "incidental" or "complementary" language in the PTAB's own definition does not appear in the statute. Rather, this language came from "a single floor comment" by Senator Schumer during the Senate debate over the AIA that the PTO quoted as an example of the legislative history. Since the PTO did not adopt this general policy statement through rule making procedures, the Federal Circuit held that the PTO cannot apply or rely upon it as law. *See id*. at 8-10.

In all events, the Federal Circuit held that "[t]he authoritative statement of the Board's authority to conduct a CBM review is the text of the statute," and "[t]he Board's application of the 'incidental to' and 'complementary to' language from the PTO policy statement instead of the statutory definition renders superfluous the limits Congress placed on the definition of a CBM patent." *Id*. at 11-12.

In rejecting the PTAB's expansive view of a CBM patent, the Federal Circuit provided a clear guidance that "CBM patents are limited to those ***with claims that are directed to methods and apparatuses of particular types and with particular uses 'in the practice, administration, or management of a financial product or service'***" in accordance with the statutory definition. *Id*. at 12 (emphasis added). In this connection, the Federal Circuit provided some illustrative examples of patents that cannot automatically become CBM patents:

The patent for a novel lightbulb that is found to work particularly well in bank vaults does not become a CBM patent because of its incidental or complementary use in banks. Likewise, it cannot be the case that a patent covering a method and corresponding apparatuses becomes a CBM patent because its practice could involve a potential sale of a good or service. All patents, at some level, relate to potential sale of a good or service.

Id.

The Federal Circuit vacated the PTAB's final written decision from the CBM proceeding and remanded the case to the PTAB to determine whether the challenged patent is a CBM patent in accordance with the Federal Circuit's opinion. *Id*. at 13.

We will continue to monitor developments in CBM eligibility under the AIA. In the meantime, for more information on CBM patent review and other post-grant trial proceedings, please contact one of our attorneys.

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