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As the Curtain Falls on CBM Review, What's Next for Financial Institutions?

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From 2012 to 2020, the transitional Covered Business Method (CBM) review program allowed anyone who believed that a patent was directed to a “covered business method” such as certain financial services or products,² to petition the Patent Office to reconsider its patentability. This review often included whether the patent claimed patent-ineligible subject matter or was anticipated or obvious over the prior art. This program proved itself a powerful shield to financial institutions, many of whom found themselves accused of infringing patents directed to everything from portfolio management to methods for depositing checks. Of all CBM cases that reached a final decision through March 2020, more than 95% found at least one claim in the reviewed patents to be invalid.³

In the year since the CBM review program closed its doors, patent suits against financial institutions like JP Morgan Chase Bank and Bank of America have almost tripled.⁴ Industry trade associations are now increasingly concerned that “patent assertion entities have been waiting for the expiration of the CBM review program”⁵ and

that suits involving business method patents will continue to ramp up into 2022. Without the reliable shield of CBM review, many financial institutions will need to consider alternative methods of quickly dispensing with business method patents before being subject to invasive and costly discovery.

I. 12(b)(6) Motion to Dismiss for Patent-Ineligible Subject Matter

Though the CBM review program expired, financial institutions still have tools to combat patent infringement allegations based on CBM-style patents. One option includes challenging patents at the pleading stage for failing to claim patent eligible subject matter. Under 35 U.S.C. § 101, only four categories of subject matter may be patented—specifically, “any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof.”⁶ Patent-ineligible concepts, on the other hand, include laws of nature, natural phenomena—and abstract ideas.⁷

In a seminal decision *Alice Corporation v. CLS Bank International*, the Supreme Court explained that concepts which simply implement an abstract idea on standard computer hardware are also ineligible for patent protection. The patent in *Alice* described a computerized method and system for mitigating settlement risk in financial transactions. The Supreme Court found the claims at issue invalid because (1) they were “directed to the abstract ideas of intermediated settlement,” and (2) they did not contain an “inventive concept” needed to transform the abstract idea into a patent-eligible invention.⁸

Accused infringers can argue on the pleadings that the patents asserted against them are directed to patent-ineligible subject matter. The success rate of these motions will vary depending on the venue in which they are brought. In 2021, the Southern District of New York (S.D.N.Y.), where many financial institutions are headquartered, had one of the highest success rates for motions to dismiss under § 101 in the country:

2021 Success Rates of 12(b)(6) Motions to Dismiss Based on 35 U.S.C. § 101⁹

| Western District of Texas | Eastern District of Texas | District of Delaware | Northern District of California | Southern District of New York |
|---------------------------|---------------------------|----------------------|---------------------------------|-------------------------------|
| 0% | 18% | 22% | 50% | 80% |

One exemplary case from S.D.N.Y is *Island Intellectual Property LLC v. Stonecastle Cash Management LLC et al.* There, the New York court granted the defendant’s 12(b)(6) motion to dismiss after finding that the asserted claims of the plaintiff’s multibank reciprocal deposit patents were directed towards a patent-ineligible abstract idea. “[The] Patents are directed to an abstract idea: namely, the use of a multibank depository program to stay within insurance limits. The idea of dividing and transferring funds to stay within insurance limits is a fundamental economic practice. . . .”¹⁰

The challenge for defendants, of course, is getting to the S.D.N.Y. in the first place. Many patentees file their suits in the Eastern and Western Districts of Texas—and both districts frequently deny motions on subject matter eligibility issues at the pleadings stage. The Western District has not invalidated a patent on subject matter grounds at the pleading stage since 2016, when it agreed with Amazon that an email system patent asserted against it was directed to an abstract idea with no inventive concept to salvage it.¹¹ For these and other reasons, defendants often attempt to transfer out of Texas. The primary mechanism they use is 28 U.S.C. § 1404(a), which permits a district judge to transfer a case to another district “[f]or the convenience of parties and witnesses, in the interest of justice.” The Western District of Texas in 2020 received more than 20% of new patent cases file nationally, granting only 26.7% of contested transfer motions.¹²

But the tides may be changing. In recent years, defendants unhappy with these results have sought relief on appeal. Before 2008, the Federal Circuit rarely, if ever, granted mandamus to overturn a decision regarding district transfer.¹³ But since 2018, defendants have successfully petitioned the Federal Circuit for mandamus relief (and transfer out of Texas) six times. Many financial institutions are headquartered in the Southern District of New York—and are thus able to assert venue there. If they can successfully transfer out of popular venues like Texas, these parties may find their home court’s high grant rate for § 101 invalidity

motions at the pleading stage to be a powerful replacement for CBM review.

II. Inter Partes Review

Another tool financial institutions have in a patent infringement dispute is *inter partes* review (IPR). IPR, like the transitional CBM review program, allows accused infringers to ask the Patent Office to review patents for patentability by arguing that the patents should never have been granted in the first place. But unlike CBM review—which included patent eligibility issues arising under Section 101 of the Patent Code—IPRs are limited to patentability issues arising under Sections 102 and 103. These two sections of the patent code deal with the issue of whether a patent is new and non-obvious over prior art printed publications. IPRs remain a powerful tool in the absence of CBM review. Of all cases that went to a final decision through October 2021, only 19.27% ended with all of the reviewed patent claims being found valid.¹⁴

IPRs also have the benefit of allowing defendants to seek a stay in district court, provided they are filed quickly. District courts generally analyze whether or not to stay litigation pending an IPR under a three-factor test: (i) whether discovery is complete and whether a trial date has been set; (ii) whether a stay would simplify the issues of the case; and (iii) whether a stay would unduly prejudice the non-moving party. and (iii).¹⁵ In recent years, the Patent Office has begun to refuse to institute IPRs when it considers any accompanying litigation to be sufficiently advanced—emphasizing the importance of filing early.¹⁶

III. Conclusion

Suits asserting patents directed to financial services have soared since the sunset of the CBM review program. But financial institutions are not without solutions. Financial entities facing infringement allegations should consider options available in district court and at the Patent Office as they move forward.

1. The authors are attorneys at the intellectual property firm of Finnegan, Henderson, Farabow, Garrett & Dunner LLP. This article is for informational purposes, is not intended to constitute legal advice, and may be considered

advertising under applicable state laws. This article is only the opinion of the authors and is not attributable to Finnegan, Henderson, Farabow, Garrett & Dunner LLP, or the firm’s clients.

2. A Covered Business Method included 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); *see also* 37 C.F.R. § 42.301(a).
3. Statistics pulled from docketnavigator.com.
4. Scott Eells, *Banks Face Lawsuit Frenzy After Business Patent Reviews End*, BLOOMBERG (Apr. 31, 2021), <https://news.bloomberglaw.com/lip-law/banks-face-lawsuit-frenzy-after-business-patent-reviews-end>.
5. *New Wave of Patent Litigation Possible After Covered Business Method Review Program Ends*, BIPC (Sept. 17, 2020) <https://www.bipc.com/new-wave-of-patent-litigation-possible-after-covered-business-method-review-program-ends>.
6. 35 U.S.C. § 101 (1952).
7. *Alice Corp. Pty. v. CLS Bank Int'l*, 573 U.S. 208 (2014).
8. *Id.* at 222.
9. Statistics pulled from docketnavigator.com.
10. *Island Intell. Prop. LLC v. StoneCastle Cash Mgmt. LLC*, No. 19-CV-4792 (JPO), Order at 6, (S.D.N.Y. May 29, 2020).
11. *A PTY Ltd. v. Amazon.com, Inc.*, 1-15-cv-00154 (WDTX, Feb. 29, 2016).
12. Jason Rantanen, *How it Started...How It's Going: Venue Transfers in the Western District of Texas*, Patently-O (Oct. 28, 2021), <https://patentlyo.com/patent/2021/10/startedhow-transfers-district.html>.
13. Paul Gugliuzza, *The New Federal Circuit Mandamus*, 45 INDIANA L. REV. 343 (2012).
14. Elliot C. Cook, Daniel F. Klodowski, *Claim and Case Disposition*, FINNEGAN (Oct. 31, 2021) <https://www.finnegan.com/enlat-the-ptab-blog/claim-and-case-disposition.html>.
15. *Murata Machinery USA v. Daifuku Co., Ltd.*, 830 F.3d 1357, 1361 (Fed. Cir. 2016).
16. *Apple, Inc. v. Fintiv, Inc.*, IPR2020-00019 at 7–8 (PTAB May 13, 2020).

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