

Secure Axxess Denied Access in Third CBM Eligibility Decision by Federal Circuit

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As a result of the Federal Circuit's decision in *Secure Axxess, LLC v. PNC Bank National Association* in late February, it is not likely that a flood of Covered Business Method ("CBM") reviews will be coming any time soon. By statute, CBM reviews are reserved for patents relating to "a financial product or service," and under the Federal Circuit's narrow reading of that statute, the number of CBM reviews will likely remain quite small relative to the number of Inter Partes Reviews ("IPR"). Although relatively few in number, CBM reviews have generated a number of precedential Federal Circuit opinions recently.

In *Secure Axxess*, the Federal Circuit reversed the Patent Trial and Appeals Board's ("PTAB") decision finding that claims relating to website authentication were eligible for CBM review. No. 16-1353, slip op. at 3 (Fed. Cir. Feb. 21, 2017). Although earlier precedent, such as *Blue Calypso, LLC v. Groupon, Inc.*, could be interpreted to suggest that the scope of CBM review was relatively broad, the Federal Circuit's more recent cases take a much narrower reading of the controlling statute. Following its previous decision in *Unwired Planet, LLC v. Google Inc.*, the Federal Circuit in *Secure Axxess* again held that the PTAB's statutory interpretation regarding the scope of CBM reviews was overly broad, and reversed the PTAB's CBM decision.

It is clear from *Secure Axxess* that CBM reviews, although broad in regard to the types of invalidity arguments available, are only applicable to a narrow group of patents. Unlike IPR proceedings, where the challenger is limited to invalidity under § 102 or § 103 based on patents or printed publications, a party may raise any invalidity arguments except best mode in a CBM review. However, only a "CBM patent" is subject to CBM reviews. CBM patents are defined as those that "that claim[] 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." AIA § 18(d)(1). The Federal Circuit emphasized in *Secure Axxess* that a CBM review is a powerful weapon for patent infringement defendants when available, but it will continue to have limited applicability.

As discussed above, leading into the *Secure Axxess* decision, the Federal Circuit had previously addressed the scope of patents eligible for CBM review under AIA § 18(d)(1) in *Blue Calypso* and *Unwired Planet*. In *Blue Calypso*, the Court affirmed the PTAB's CBM final decision, finding that claims directed to advertising systems on mobile devices were subject to CBM review. 815 F.3d 1331, 1338-41 (Fed. Cir. 2016). The Court's analysis turned on the claim term "subsidy," which was construed to mean "financial assistance" and understood to be "central to the claims." *Id.* at 1339-40. Because the claims were "directed to methods in which advertisers *financially* induce 'subscribers' to assist their advertising efforts," they were properly subject to CBM review. *Id.* at 1340.

In contrast, the Federal Circuit had vacated the PTAB's final decision in *Unwired Planet* as based on an overly broad and incorrect interpretation of AIA § 18(d)(1). 841 F.3d 1376, 1380 (Fed. Cir. 2016). The Court took issue with the PTAB's focus on "whether the patent claims activities that are

financial in nature, incidental to a financial activity, or complementary to a financial activity.” *Id.* Although the PTAB appears to have quoted that language directly from the *Blue Calypso* opinion, the court found that interpretation overly broad and inconsistent with the plain language of the statute. *Id.* The patent in *Unwired Planet* addressed “privacy preferences that determine whether client applications are allowed to access their device’s location information,” and the court remanded for the PTAB to determine if CBM was proper under the correct statutory interpretation. *Id.* at 1377 (internal quotations omitted).

Secure Axxess is the latest case to address the scope of CBM reviews, and resulted in the Court finding that the PTAB was incorrect in subjecting U.S. Patent 7,631,191 (“the ’191 Patent”) to CBM review. Slip op. at 3. The ’191 Patent is directed to systems and methods for authenticating a webpage. ’191 Patent, Title, Abstract. Notably, the claims are broadly worded and refer to authenticating data at a “host computer” by inserting an “authenticity key” into a “preferences file.” *Id.*, claims 1, 17. While the claims do not explicitly refer to a financial product or service, the specification does provide examples of how the claimed authentication process could be used for security in a sales transaction, and how the claimed invention may be useful to banks and other financial institutions generally. See *Secure Axxess*, slip op. at 4-7.

Aside from the references to banks and financial transactions in the specification, the PTAB also considered *Secure Axxess*’s enforcement conduct. *Secure Axxess* had alleged infringement by a large number of banks and other financial institutions, and while recognizing that “the factor was not determinative,” the PTAB found that evidence weighed in favor of finding the ’191 Patent to be a CBM patent.

Ironically, on the one issue the parties agreed upon – the standard of review – the Court disagreed with them both. Declining the “arbitrary and capricious” standard they proposed, the Court instead adopted a *de novo* standard of review. Without using the words “*de novo*,” the Court noted that the Board’s finding was based on an incorrect understanding of the statutory definition of a CBM patent, and therefore presented a question of law.

It appears that *Secure Axxess* took for granted that the Board’s statutory interpretation was correct, likely because the Board’s decision simply quotes the language of AIA § 18(d)(1). In contrast, the Board’s decision in *Unwired Planet* explicitly relied on an interpretation of CBM patents that differed from the statutory definition. 841 F.3d 1376, 1380. Undoubtedly, the standard of review here influenced the Court’s ultimate analysis, and as explained further below, the remedy.

Consistent with the Federal Circuit’s characterization of the case as a question of statutory interpretation, the Court parsed the language of AIA § 18(d)(1) in detail. In the Court’s view, the issue before it was whether the claims of the patent must explicitly refer to a financial product or service, or whether it is enough that the claimed product or service be “used in the practice . . . of a financial product or service.” *Secure Axxess*, slip op. at 12-15. The Court held that “[i]t is the claims, in the traditional patent law sense, properly understood in light of the written description, that identifies a CBM patent.” *Id.* at 15. Contrary to appellees contention, “the written description alone cannot substitute for what may be missing in the patent ‘claims,’ and therefore does not in isolation determine CBM status.” *Id.* at 14.

In reaching its narrow reading of the CBM statute, the Federal Circuit expressed concern that a contrary reading would “obliterate” the limits of IPR reviews by opening virtually any patent to the broader range of invalidity arguments available in CBM reviews. *Id.* at 14-15. Directly addressing the PTAB’s reliance on how the invention was used, the Court noted that “nearly everything that is invented can and likely will be used in someone’s sale of a good or service.” *Id.*

Judge Lourie dissented, and appeared to take an equitable approach, noting that the patent owner's "litigation pattern" was indicative of how the patent owners envision their invention being used. *Secure Axxess*, slip op. at 3-5 (Lourie, J., dissenting). In Judge Lourie's view, a patent owner who has sued a large portion of the banking industry should not be able to escape the rigors of CBM review by arguing their patent is not sufficiently related to "a financial product or service." *Id.* While recognizing that the PTAB below may have misconstrued the statute, the dissent would have affirmed the PTAB for reaching the correct conclusion regardless. *Id.* at 6-7.

In light of its view that the PTAB applied the statute incorrectly, *Secure Axxess* requested a remand to the Board for a proper application, taking for granted the Board's interpretation of the statute as sound. *Secure Axxess*, slip op. at 19-21. Instead, the Court reversed the Board's finding that the '191 Patent was a CBM patent, holding that "an affirmative finding, applying the proper statutory definition, that this patent so qualifies [as a CBM patent] would be, in terms of the APA standard, arbitrary or capricious." *Id.* Accordingly, this case illustrates how the standard of review applied can impact the remedy available, as well as the analysis.

It seems that between the *Secure Axxess*, *Unwired Planet* and *Blue Calypso* rulings, the Federal Circuit has provided ample guidance going forward in determining whether a patent falls within the statutory definition for CBM patents. However, that guidance could still change, as Google and others have requested *en banc* review of the *Unwired Planet* ruling. Given the arguable discrepancy between the broad interpretation of CBM review in *Blue Calypso* and the considerably narrower view espoused in *Unwired Planet* and *Secure Axxess*, the Court may well take up the issue *en banc* to reconcile these competing views.