

Kratz, Quintos & Hanson, LLP – IP Newsletter

COVERED BUSINESS METHOD PROCEEDINGS, PATENT INELIGIBILITY UNDER 35 U.S.C. §101, AND THE “SPECIAL PURPOSE COMPUTER”**By: Daniel A. Geselowitz, Ph.D.****T**

he America Invents Act introduced three administrative trial proceedings allowing a third parties to challenge the validity of existing patents: 1) Post-grant review (PGR); 2) *Inter partes* review (IPR); and 3) Covered business method (CBM) patent review. These went into effect in September 2012. As of September 2015, a majority (90%) of the AIA petitions for these proceedings have been for IPR, with 10% for CBM and only a tiny fraction (0.3%) for PGR. While PGR and IPR apply to any subject matter of the patent, the CBM is unique in being limited specifically to patents for financial products and services, and not to technological inventions.

The recent case of *Chicago Mercantile Exchange, Inc. v. 5th Market, Inc.* CBM2015-00061 (PTAB July 16, 2015, Paper No. 9) is the recent PTAB ruling on the petition, which granted institution of the CBM review. This case is of interest from the standpoint of patent ineligibility under 35 U.S.C. §101.

Chicago Mercantile Exchange (CME) was the petitioner, challenging the claims of U.S. Patent No. 7,024,387 on several grounds. The '387 patent is directed to an “Automated System for Conditional Order Transactions in Securities... .” The patent generally relates to the conditional trading of securities, such as convertible bond “swaps;” and claim 1 is directed to “a conditional order transaction network... .” CME challenged the claims on grounds of indefiniteness, anticipation, obviousness, and ineligibility under 35 U.S.C. §101.

Although the PTAB instituted a CBM patent review with regard to the issues of indefiniteness, anticipation and obviousness, the PTAB did **not** institute a CBM patent review with regard to the ground under 35 U.S.C. §101, and only instituted review with regard to the other issues.

Specifically, CME contended that claims 1 and 2 of the '387 patent were directed to an abstract idea, and there are no other features in the claims that would transform the patent-ineligible concept to a patent-eligible application. The PTAB conducted a two-step analysis of this issue: First, they reviewed the issue of whether the claims were directed to an abstract idea, in particular in view of *Alice Corp. Pty. Ltd. v. CLS Bank Int'l* (2014) (“*Alice*”) (please see our Newsletter Vol. VIII, No. 5). In this analysis, the PTAB concluded that the claims were directed to an abstract idea, “matching algorithmic orders in a trading system where the orders include constraints and dynamically changing prices for multiple items.” They concluded, as in *Alice*, that this is a “fundamental economic practice long prevalent in our system of commerce” and is “squarely within the realm of ‘abstract ideas’.”

However, in the second step of the analysis, the PTAB looked for an “inventive concept,” i.e., an element or combination of elements sufficient to ensure that the patent in practice amounts to significantly more than a patent on an abstract idea itself.” 5th Market contended that a “means for matching” limitation in claim 1 of the ‘387 patent is “not capable of being performed by just any generic computer that performs generic computer functions,” with reference to *Alice*. The PTAB agreed with 5th Market, stating: “When, as here, **a special purpose computer** constitutes the structure that performs the recited function of ‘matching,’ in practical terms **it imparts a meaningful limitation** or adds significantly to the abstract idea, itself.” (Emphasis added).

Accordingly, although a CBM review was instituted for the other grounds of challenge, the PTAB did **not** institute a review with regard to the issue of patent ineligibility under 35 U.S.C. §101.

Conclusion

Even if a claim is directed to an abstract idea, the claim may still be patent eligible if it requires a structure that imparts a meaningful limitation or adds significantly to the abstract idea. In particular, a “means plus function” limitation requiring a special purpose computer might provide such structure.

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