Stop Paying the Troll: Patent Reform Efforts Provide New Weapons For Banks and Financial Services Companies to Combat Bogus Patent Claims

By Rob Van Arnam

With the advent of business method patents and the proliferation of Non Practicing Entities ("NPEs"), banks and other financial institutions have been forced to defend against questionable and overly broad patents claiming rights to common aspects of modern banking, including mobile banking, check imaging, and security features. The NPE business model focuses not on developing or commercializing patented inventions, but on purchasing and asserting patents, often against companies that independently have created and/or have long been using the technology. With recent patent reform efforts and decisions by the U.S. Supreme Court, however, those victimized can fight back on an increasingly even playing field. This article addresses the recent legislative and judicial efforts to address NPEs and their effects on the banking industry.

AIA and IPR/CBM Petitions

It was the passage of the America Invents Act (AIA) that ushered in the reforms which have leveled the playing field. In addition to harmonizing U.S. patent law with the international community by changing to a "first-to-file" patent system, the AIA expands the procedures through which the United States Patent and Trademark Office ("PTO") can evaluate validity challenges to issued patents. Parties accused of infringing "business method" patents (often the patents asserted against financial institutions) are afforded the option of pursuing the Transitional Program for Covered Business Method Patents ("CBM") as set forth in § 18 of the AIA.

The CBM program was intended to be an alternative to litigation, and the early results show that it can be an effective tool for invalidating or narrowing the scope of patents. Importantly, the scope of CBM Patents has been determined to be broad. Before instituting a CBM trial, the Board must first decide whether the challenged patent qualifies as a covered business method. As defined by the AIA, "covered business method patent" means "a patent that claims a method or corresponding apparatus...used in the practice, administration, or management of a financial product or service, except that the term does not include patents for technological inventions."

Patent owners have tried but most often failed to contest CBM petitions so far, and the Board has ruled that the patents at issue claimed a covered business method and qualified for CBM review. Indeed, in its first decision regarding this subject, the Board rejected a narrow standard – one that would limit CBM review to patents directed to a financial service provider – explaining that "financial" in this case means relating to monetary matters and should encompass patents claiming activities that are financial in nature, incidental to a financial activity or complementary to a financial activity, and not be limited to the financial services industry.

Further, CBM proceedings are not limited to the grounds for challenge available under other PTO proceedings, but may be brought on any invalidity grounds, and are considered under the lower "a preponderance of the evidence" standard, rather than the higher "clear and convincing" standard required to invalidate a patent in federal court. Finally, CBM proceedings are much faster and are decided by a deliberative body at the Patent office, often better suited to consider the complexities of the patented technology presented to it.

Legislative Efforts

Critics of the AIA believe it did not go far enough to stem the tide of NPE litigation and, since its passage, have been trying to advance additional legislation. One of the more contentious issues in draft legislation is the award of attorney's fees to the prevailing party.

In December, the House passed the Innovation Act, H.R. 3309, which stated that courts shall award fees to prevailing parties unless the court finds that the losing party's position or conduct was "reasonably justified." A Senate version of companion legislation stated that judges "shall award reasonable attorney's fees" if they find that the position or conduct of the losing party in a patent case "was not objectively reasonable."

Now the attention has centered on the Senate Judiciary Committee that is considering Chairman Patrick Leahy's (D-Vt.) version of patent reform legislation, the Patent Transparency and Improvements Act, S. 1720. The current version of the bill does not include the attorney's fee provision, but Senator Leahy has stated that he is open to considering it. Without question the momentum favors the passage of a patent reform law later in 2014. While it is unclear whether the final Senate bill or any eventual law would contain such a fee-shifting provision, recent Supreme Court rulings will impact future cases.

Supreme Court Decisions

In two recent and unanimous decisions, the Supreme Court significantly diminished Federal Circuit rules that many felt made it too difficult for courts to award attorney's fees, rulings that could discourage NPEs or even competitors from bringing frivolous cases on weak patents.

In **Octane Fitness v. Icon Health and Fitness**, Octane Fitness, a company that provided high-end elliptical machines, was sued by Icon Health & Fitness, a large competitor which, evidence found, brought the case on a patent it did not practice only for competitive reasons. Octane spent about $2 million to defend the litigation, but its requests to get those fees reimbursed once it prevailed were rejected by both the district court and the U.S. Court of Appeals for the Federal Circuit, which considers all patent appeals. The Supreme Court overruled both lower courts, finding that the Federal Circuit had inappropriately rejected the "holistic, equitable" approach to attorneys' fees for a "more rigid and mechanical formulation." In order to get fees in a case, a party had to show that litigation is both "objectively baseless" and "brought in subjective bad faith," making it almost impossible to establish.

The Supreme Court returned to the patent statute and found that fees should be awarded in an "exceptional" case based on its ordinary meaning of that term, which, according to Justice Sotomayor, meant a case "…that stands out from others with respect to the substantive strength of a party's litigating position... or the unreasonable manner in which the case was litigated."

In the second case, **Highmark v. Allcare Health Management**, a health insurance company was awarded $4.7 million in fees and costs, but the award was partly overturned by the Federal Circuit. Allcare is an NPE which, according to the district court judge, engaged in "vexatious" and "deceitful" conduct, including sending out informational surveys to health companies "as part of a bigger plan to identify companies potentially infringing" the patent asserted. Once companies responded to the surveys, they were threatened with a lawsuit unless they paid to license the patent.

In its decision, the Supreme Court found that the patent appeals court should have shown more deference to district judges in such cases. Instead of reviewing the fee award "de novo" (or essentially from scratch), the Supreme Court held that the patent appeals court should show more deference to district court judges in such matters because the kind of bad behavior that leads to fee awards is "rooted in factual determinations" best suited for district court judges.

These recent litigation proceedings, legislation and Supreme Court precedents will impact and should strengthen the ability of banks and other financial institutions to combat wrongful attacks and questionable patents.

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