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Apple Inc. v. Smartflash LLC: A Solution to Business Problems May Not Be a Technological Invention

Article By:

Intellectual Property Practice Group

Addressing the standard for instituting a covered business method (CBM) review, as well as patent eligibility issues under 35 U.S.C. § 101, the Patent Trial and Appeal Board (PTAB or Board) found patents related to payment data eligible for CBM review and that the petitioners would more likely than not prevail on their Section 101 challenge. *Apple Inc. v. Smartflash LLC* CBM2015-00121 (PTAB, November 10, 2015) (Anderson, APJ); *Apple Inc. v. Smartflash LLC* CBM2015-00123 (PTAB, November 10, 2015) (Plenzler, APJ); *Apple Inc. v. Smartflash LLC* CBM2015-00124 (PTAB, November 10, 2015) (Elluru, APJ); *Apple Inc. v. Smartflash LLC* CBM2015-00127 (PTAB, November 10, 2015) (Elluru, APJ); *Google Inc. v. Smartflash LLC* CBM2015-00125 (PTAB, November 16, 2015) (Elluru, APJ); *Google Inc. v. Smartflash LLC* CBM2015-00126 (PTAB, November 16, 2015).

The petitioners sought CBM reviews for patents related to data storage and access systems that enable downloading and paying for data. AIA § 18(d)(1) defines the term "covered business method 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." The petitioners argued that the claims were directed to payment data ("transmitting the requested data in connection with payment validation," in one of the challenged patents, and "performing data processing and other operations used in practice, administration, or management of a financial activity and service," in another of the challenged patents).

The patent owner, Smartflash, argued that the patents were not CBM-eligible. According to the patent owner, AIA § 18(d)(1) should be interpreted narrowly to cover only technology used specifically in the financial or banking industry. The Board disagreed, noting that the U.S. Court of Appeals for the Federal Circuit has expressly determined that "the definition of 'covered business method patent' is not limited to products and services of only the financial industry." Moreover the legislative history indicates that the phrase "financial product or service" is to be interpreted broadly.

The Board also concluded that patents do not fall within § 18(d)(1)'s exclusion for "technological inventions," because their claims do not recites a technological feature that is novel and unobvious over the prior art. Moreover, according to the Board, the problem being solved by the claims of these patents was a "business problem—data piracy." For these reasons, the Board found that these patents were eligible for CBM review.

On the merits, the Board concluded that the petitioner would more likely than not prevail on its claim that the patents are not direct to eligible subject matter under 35 U.S.C. § 101. The Board was not persuaded by the patent owner's arguments that the claimed solution is "necessarily rooted in computer technology in order to overcome a problem specifically arising in the realm of computer networks," which was found eligible by the federal Circuit in *DDR Holdings v. Hotels.Com* (*IP Update*, Vol. 18, No. 1). Instead, the Board found that the claims merely apply conventional computer processes to restrict access to data based on payment, which is not sufficient to "transform the nature of the claim" into a patent-eligible application of an abstract idea.

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