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SightSound v. Apple: When Is a Patent a CBM Patent?

The Federal Circuit recently revisited the question: When is a patent eligible for Covered-Business Method Review (CBM review) under AIA §18? This was first answered earlier this year in *Versata Dev. Grp., Inc. v. SAP Am., Inc.* [793 F.3d 1306 (Fed. Cir. 2015) (*Versata II*)], now the court is taking up the question again in *SightSound Techs., LLC v. Apple Inc.* [(Fed. Cir. 2015).]

SightSound appealed a decision by the Patent Trial and Appeal Board (the Board) in which several of SightSound's patent claims were subjected to CBM review and determined to be obvious. The claims at issue generally were directed to transferring digital content from a first party to a second party in exchange for a fee. [*See* U.S. Patent No. 5,191,573 claims 1, 2, 4, and 5 and U.S. Patent No. 5,966,440 claims 1, 64, and 95.]

Claim 1 of the '573 patent, for example, recites a method of transmitting digital audio in exchange for money:

> 1. A method for transmitting a desired digital audio signal stored on a first memory of a first party to a second memory of a second party comprising the steps of:
>
> transferring money electronically via a telecommunication line to the first party at a location remote from the second memory and controlling use of the first memory from the second party financially distinct from the first party, said second party controlling use and in possession of the second memory;
>
> connecting electronically via a telecommunications line the first memory with the second memory such that the desired digital audio signal can pass therebetween;
>
> transmitting the desired digital audio signal from the first memory with a transmitter in control and possession of the first party to a receiver having the second memory at a location determined by the second party, said receiver in possession and control of the second party; and
>
> storing the digital signal in the second memory.

A key issue in SightSound's appeal was whether the Board was correct in classifying the SightSound patents as "covered business method patents" (CBM patents)—a threshold requirement for instituting a CBM review.

A CBM patent is defined by statute 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." [*See* AIA §18(d)(1).]

First, SightSound argued that the claims at issue were outside the statutory definition because they were not directed to the management of money, banking, investment, or credit. The court rejected this argument, however, noting that under *Versata II*, the definition of a CBM patent is not limited to products and services of only the financial industry, or to patents owned by or directly affecting activities of financial institutions. Rather, financial activity not directed to money management or banking can constitute a "financial product or service" under the statute. In this case, the Board reasoned that the electronic sale of digital audio was "a financial activity" and allowing or facilitating such a sale amounted to "providing a financial service." This reasoning was upheld by the Court as not being arbitrary or capricious and being supported by substantial evidence.

Second, SightSound argued that its claims were directed to technological inventions, and as such were specifically exempted from the statutory definition of CBM patents. The Court, again relying on *Versata II*, rejected this argument as well. The Court noted that claiming general purpose or conventional computer components to facilitate operations does not, by itself, remove a patent from CBM status under the technological inventions exception. In the present case, claim elements such as "first memory," "second memory," "telecommunications line," "transmitter," and "receiver" were deemed by the Board to be generic hardware devices known in the prior art, and the Board found that the claimed combination of method steps would have been obvious in light of a prior art reference. Again, the Board's reasoning was affirmed by the Court as not being arbitrary or capricious and being supported by substantial evidence. The Court did imply, however, that a different result could have been reached if the claims recited "specific, unconventional software,

computer equipment, tools or processing capabilities."

The *SightSound* case highlights the Federal Circuit's willingness to continue with the *Versata II* approach of taking a broad view of CBM eligibility. In light of these decisions, those contemplating a challenge to a granted patent should consider whether CBM review is available as an option. A useful guide for evaluating the strengths and weaknesses of the various types of post-grant proceedings is available here. Patent owners should be aware of any exposure to CBM review that may exist in their portfolio. Any patent that claims a method or apparatus related to a financial transaction could be considered to be a CBM patent. Also, patent applicants should consider whether it is feasible to define their invention in a manner that avoids CBM eligibility, for example, by including in the claims "specific, unconventional software, computer equipment, tools or processing capabilities" beyond mere generic hardware devices.

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