Client Alert

July 14, 2015

Versata: The Federal Circuit Explains the Parameters and Appealability of CBM Proceedings

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On July 9, 2015, the Federal Circuit decided its first appeal of a covered business method ("CBM") patent review. In *Versata Development Group Inc. v. SAP America, Inc. et al.*, Case No. 14-1194 (Fed. Cir. July 9, 2015) ("*Versata I*"), the court addressed four issues relating to CBM proceedings generally: (1) the scope of judicial review; (2) the definition of a "CBM patent"; (3) the applicable claim construction standard; and (4) whether 35 U.S.C. § 101 arguments are available. The court ultimately affirmed the decision of the Patent Trial and Appeal Board ("PTAB") that a product-pricing patent was invalid as claiming only abstract ideas.

In a separate decision issued on July 13, 2015, the Federal Circuit further held that a patentee may not file a lawsuit in federal district court to challenge the PTAB's initial decision to institute CBM review. *Versata Development Group Inc. v. Lee*, Case No. 2014-1145 (Fed. Cir. July 13, 2015) ("*Versata II*").

BACKGROUND

In 2007, Versata Software Inc. sued SAP America, Inc. for allegedly infringing U.S. Patent No. 6,553,350 ("the '350 patent"). After a 2011 trial, a jury found that SAP infringed the '350 patent and awarded Versata $391 million in damages. In May 2013, the Federal Circuit affirmed the jury verdict.

While the initial appeal was pending, SAP petitioned for CBM review of Versata's patent under AIA Section 18. In granting SAP's petition, the PTAB concluded that the '350 patent qualified as a CBM patent and that Section 101 applied during CBM proceedings. In June 2013, the PTAB issued a final written decision, holding the patent invalid under Section 101 as covering only the abstract idea of calculating a product price.

In March 2013, Versata separately sued the U.S. Patent Office ("PTO") in the Eastern District of Virginia, seeking to set aside the PTAB's decision to institute. The district court dismissed the case for lack of subject matter jurisdiction and for failure to state a claim. It did so because "the decision to institute post-grant review is merely an initial step in the PTAB's process to resolve the ultimate question of patent validity, not a final agency action." *Versata Dev. Corp. v. Rea*, 959 F. Supp. 2d 912, 915 (E.D. Va. 2013). The court further noted that Congress clearly intended "to preclude subject matter jurisdiction over the PTAB's decision to institute patent reexamination [*sic*] proceedings." *Id.*

Versata appealed both the PTAB's final decision and the district court's decision to the Federal Circuit. The cases were consolidated for argument but decided separately in *Versata I* and *II*, respectively.

THE FEDERAL CIRCUIT'S HOLDINGS REGARDING CBM PROCEEDINGS

In the *Versata I* and *II* cases, the Federal Circuit addressed four key issues relating to CBM proceedings generally.

1. Scope of Judicial Review

35 USC § 324(e) bars the appeal of the PTAB's determination as to whether to "institute" CBM review. Accordingly, a preliminary question on appeal was whether Versata could challenge the PTAB's conclusions that (1) the '350 patent is a CBM patent and (2) Section 101 applies during CBM proceedings. The PTO took the position that, because the determination that the '350 patent is a CBM patent was made at the institution stage, it was immune from judicial review under Section 324(e). SAP argued that the same was true of the PTAB's decision to apply Section 101, which the PTAB also made at the institution stage.

In *Versata II*, the Federal Circuit agreed that Section 324(e) "barr[ed] judicial review of the initial decision to institute." *Versata II* at 5. For this reason, the court affirmed the district court's dismissal of Versata's lawsuit challenging the PTAB's initial decision to institute CBM review.

In *Versata I*, however, the Federal Circuit confirmed that it *can* review the PTAB's *final written decision*, including whether the '350 patent is a CBM patent and whether Section 101 applies during CBM proceedings. This is true even though Section 324(e) precludes appeals of the PTAB's *institution decision.* The court reasoned that it "may review issues decided during the PTAB review process" – "regardless of when they first arose in the process, if they are part of or a predicate to the ultimate merits." *Versata I* at 57. Judge Hughes dissented on this point, arguing that the majority was impermissibly expanding the Federal Circuit's jurisdiction and scope of review.

2. Definition of Covered Business Method Patent

Section 18(d)(1) of the AIA defines a CBM patent as one "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 . . . ." In *Versata I*, the Federal Circuit held that 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 the activities of financial institutions such as banks and brokerage houses." *Id.* at 35.

The court further wrestled with Section 18(d)'s exception to the definition of a CBM patent. Under Section 18(d), a CBM patent "does not include patents for technological inventions." PTO regulations attempt to clarify that a "technological invention" is one in which the claimed subject matter as a whole (i) "recites a technological feature that is novel and unobvious over the prior art" and (ii) "solves a technical problem using a technical solution." 37 C.F.R. § 42.301(b).

As the court noted, these clarifications are unhelpful. The first requirement is itself "rather obvious, and not novel," and the second requirement "defin[es] a term in terms of itself" in a way that "does not seem to offer much help." *Id.* at 37.

The court ultimately concluded that the '350 patent "does not fall within the exception for technological innovations" – "whatever that exception may otherwise mean." *Id.* at 39. It explained that the claimed invention is

"not a technical solution, but more akin to creating organizational management charts." *Id.* Although Versata argued that all claims require the use of a computer, the court emphasized that the "presence of a general purpose computer to facilitate operations through uninventive steps does not change the fundamental character of an invention." *Id.* at 38 (citing *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 134 S. Ct. 2347 (2014)).

3. Claim Construction Standard in CBM Proceedings

Noting that the "broadest reasonable interpretation" claim construction standard applies in post-grant proceedings, the Federal Circuit saw "no basis for distinguishing between the two proceedings for purposes of the PTAB's use of BRI in claim construction here." *Id.* at 41. The court commented, however, that it was "less than clear" that the outcome would have changed even under a different claim construction regime. *Id.*

4. Availability of Section 101 in CBM Proceedings

The court affirmed that Section 101 challenges are available in CBM proceedings. *Id.* at 45.

THE FEDERAL CIRCUIT'S DECISION REGARDING VERSATA'S PATENT

While recognizing that each abstract idea case "requires separate analysis," *id.* at 56, the court concluded that the PTAB correctly invalidated Versata's patent as claiming only the abstract idea of determining a price using a computer. The court held that the claims do not improve an existing technological process, as they are directed to improving the performance of price determination – not the performance of a computer. *Id.* at 54.

CONCLUSION

The *Versata* cases together confirm the extensive authority of both the PTAB and the Federal Circuit. *Versata II* confirms that a patentee may not challenge the PTAB's decision to institute CBM proceedings via parallel district court proceedings. After the PTAB has rendered its final written decision, however, the Federal Circuit may review the PTAB's underlying determinations (*e.g.*, whether a patent qualifies as a CBM patent and whether Section 101 is an available ground for invalidity) on appeal of that final decision.

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