PAUL HASTINGS

STAY CURRENT

July 2015

Follow @Paul_Hastings

Federal Circuit Rules on Appealability in Post-Grant Proceedings and on What Is a CBM Patent

By Chetan Bansal, Joseph Palys & Naveen Modi

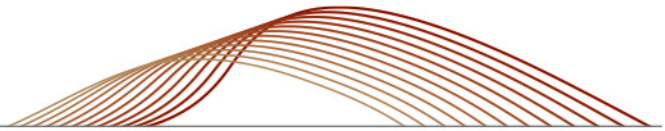
On July 9th, in *Versata Dev. Grp., Inc. v. SAP Am., Inc.*, No. 2014-1194, 2015 WL 4113722 (Fed. Cir. July 9, 2015), the Federal Circuit held, *inter alia*, that (1) where a final written decision has been issued by the Patent Trial and Appeal Board's (the "Board"), it has jurisdiction to review the Board's determination that a patented invention is a "covered business method" ("CBM") under § 18 of the America Invents Act ("AIA"), and (2) 35 U.S.C. § 101 is a ground available for challenging a patent in a post-grant review ("PGR") and CBM review proceeding. The Court also addressed what defines a "covered business method patent" and the Board's application of the "technological invention" exception to the CBM definition.[1] This alert summarizes some of the Court's rulings.

Background

The appeal arose from a patent dispute between SAP and Versata Development Group, Inc. ("Versata") concerning Versata's U.S. Patent No. 6,553,350 (the "'350 patent"). SAP petitioned the USPTO to review the '350 patent, and the Board initiated a CBM review of claims 17 and 26-29 of the '350 patent finding that the '350 patent is a CBM patent as that term is defined in § 18 of the AIA. The Board issued a final decision finding the challenged claims unpatentable under § 101. Versata appealed the decision on four grounds: (1) the '350 patent is not a CBM patent, which is a prerequisite for the Board to institute a CBM review, (2) § 101 is a ground unavailable for CBM review, (3) the broadest reasonable interpretation ("BRI"), which is the standard the Board applied in construing the claims, is not the correct standard, and (4) the challenged claims are not unpatentable under § 101. The Federal Circuit affirmed the Board's decision in all respects.

The Scope of Review on Appeal

As an initial matter, the Federal Circuit opined on whether it had jurisdiction to review the Board's determination that the '350 patent is a CBM patent and § 101 is a ground available for invalidation in a CBM review proceeding. In this case, the Government intervened and argued that the Board's determination that the '350 patent is a CBM patent was immune from judicial review. *Majority op.* at 15. Specifically, the Government contended that this determination was made by the Board at the institution stage and the Board's decision to institute is "final and non-appealable" under 35 U.S.C. § 324(e). *Id.* SAP went a step further and argued that not only is the Board's determination that the '350 patent is a CBM patent not reviewable but that the court may not review "*any* questions decided by the [Board] in the course of making its initial decision to institute review, including whether ineligibility under § 101 is a permissible ground for invalidation" in a CBM review. *Id.*



The court rejected the Government and SAP's above contentions regarding the court's jurisdiction. The court first noted that there is a strong presumption in favor of judicial review of administrative decisions and the Government faces a heavy burden to overcome that presumption. *Id.* at 24-25. The court then explained that "[i]nstitution and invalidation are two distinct actions by the" Board and while the text of § 324(e) might place a limit on review of the Board's authority to institute, "nothing in § 324(e) meets the high standard for precluding review of whether the PTAB has violated a limit *on its invalidation authority* under § 18." *Id.* at 22-25 (emphasis added), citing § 324(e) ("The determination by the Director *whether to institute* a post-grant review under this section shall be final and nonappealable."). The court explained that the Board's determination of the CBM status of the '350 patent at the institution stage does not insulate this issue from judicial review because qualification of a patent as a CBM patent is a "limit" on the Board's "ultimate invalidation authority." *Id.* at *26*. The court also distinguished *Cuozzo* by stating that *Cuozzo* "ruled only on review of the initiation decision itself, not about whether the final decision breached any limit on invalidation authority." *Id.* at 28-29.

The court also addressed whether it had jurisdiction to review the Board's determination that § 101 is an invalidation ground available for CBM review. For the same reasons that the court held that it had jurisdiction to review the Board's determination of the CBM status of the '350 patent, the court also held that it had jurisdiction to review the Board's determination that § 101 is an invalidation ground available for CBM review. *Id.* at 42-43.

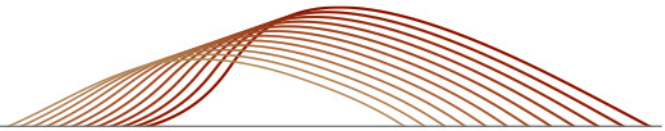
Patent Eligibility Under § 101

After addressing the jurisdiction issue, the court ruled that a challenge under § 101 is permissible in CBM and PGR proceedings. The grounds available for challenging a patent in CBM/PGR proceeding are limited to those "that could be raised under paragraph (2) or (3) of section 282(b) (relating to invalidity of the patent or any claim)." 35 U.S.C. § 321(b). The applicable provision here, § 282(b)(2), provides that a challenge may be mounted "on any ground specified in part II as a condition for patentability." Versata argued that only § 102 and § 103 are "conditions for patentability" because part II of the patent statute referenced in § 282(b)(2) lists them under the heading "conditions for patentability," whereas § 101 is listed under the heading "inventions patentable." *Majority op.* at 44. Hence, Versata submitted that § 101 is a ground unavailable in CBM/PGR proceedings based on the text of the governing statute. *Id.*

While the court gave some credit to Versata's textual argument, it held that only a strict "hyper-technical adherence to form rather than an understanding of substance" can result in the interpretation advocated by Versata. *Id.* at 44-45. Relying on the fact that § 101 is used frequently in challenging patents and "Congress is presumed to know the background against which it is legislating," the court held that it would be an improper reading of the law to not allow a challenger under § 101 in a CBM/PGR proceeding. *Id.* at 45.

The Scope of "Covered Business Method Patent" and "Technological Invention"

The court next turned to the scope of the term "covered business method patent," which is defined in § 18(d)(1) 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 to service . . . ." According to Versata, § 18(d)(1) limits a CBM patent to patents covering "products or services *from the financial sector*." *Id.* at 34. The court, however, sided with SAP and the Government on this issue holding that the plain text of § 18(d)(1) does not limit a CBM patent "to



products and services of the financial industry, or to patents owned by or directly affecting the activities of financial institutions such as banks and brokerage houses." *Id.* at 34-36.

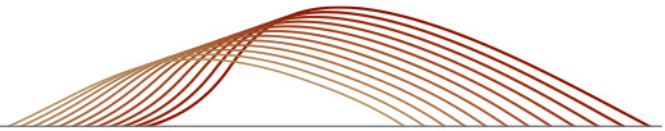
The court also addressed the "technological invention" exception to the CBM definition. The court noted that Congress left the definition of the term "technological invention" to the USPTO. *Id.* at 36. According to the rules promulgated by the USPTO, whether a patent recites a "technological invention" is determined on a case-by-case basis based on the following considerations: "whether the claimed subject matter as a whole recites a technological feature that is novel and unobvious over the prior art; and solves a technical problem using a technical solution." 37 C.F.R. § 42.301(b). The court did not find the first consideration—whether the claimed subject matter as a whole recites a technological feature that is novel and unobvious over the prior art—helpful in determining whether a patent recites a "technological invention." Majority op. at 36-37. While the court also did not find helpful the second consideration—whether the claimed subject matter . . . solves a technical problem using a technical solution—it nevertheless agreed with the USPTO that the '350 patent did not offer a technical solution and did not fall within the "technological invention" exception. *Id.* at 38-39 ("we conclude that whatever may be the full sweep of the term 'technological invention,' the invention that comprises the '350 patent is essentially not a technological one as that term ordinarily would be understood").

Judge Hughes' Dissent

Judge Hughes dissented from the majority's holding that the Federal Circuit can review the Board's determination of whether a patent is a CBM patent.[2] According to him, "[t]he plain language of § 324(e) unambiguously bars judicial review—at any time— of the Board's decision to institute" and that Congress only desired for the Federal Circuit to "review the substantive issues of patentability addressed by the Board in a final written decision." Dissenting op. at 4-5. Judge Hughes found support for this interpretation in other provisions (§§ 328 and 329), which allow the court to review a final written decision "*with respect to the patentability* of any patent claim challenged . . . ." *Id.* at 5. According to Judge Hughes, if the Board makes a determination as part of its institution decision, and does not revisit the issue during the merits phase, § 324(e) bars review of such a determination. *Id.* at 7.

Conclusion

This is an important decision as it addresses what aspects of a post-grant proceeding starting from institution to final written decision are appealable. The majority view is that the Board's determination of an issue, which a "limit" on the Board's invalidation authority, is reviewable. While the majority agreed that qualification of a patent as a CBM patent and availability of § 101 as a ground for unpatentability in PGR and CBM review are such "limits," it left for future cases to identify other such "limits."



✧ ✧ ✧

If you have any questions concerning these developing issues, please do not hesitate to contact any of the following Paul Hastings Washington, D.C. professionals:

Naveen Modi
1.202.551.1990
naveenmodi@paulhastings.com

Joseph E. Palys
1.202.551.1996
josephpalys@paulhastings.com

Chetan Bansal
1.202.551.1948
chetanbansal@paulhastings.com

[1] The Court also reaffirmed the Board's application of the broadest reasonable interpretation standard in such proceedings.

[2] Judge Hughes, however, limits his dissent to the CBM question and does not address whether the Federal Circuit has jurisdiction to review the Board's determination regarding availability of § 101 as a ground in a CBM/PGR proceeding.

Paul Hastings LLP

Stay Current is published solely for the interests of friends and clients of Paul Hastings LLP and should in no way be relied upon or construed as legal advice. The views expressed in this publication reflect those of the authors and not necessarily the views of Paul Hastings. For specific information on recent developments or particular factual situations, the opinion of legal counsel should be sought. These materials may be considered ATTORNEY ADVERTISING in some jurisdictions. Paul Hastings is a limited liability partnership. Copyright © 2015 Paul Hastings LLP.