

Keywords: covered business method; AIA § 18, 35 U.S.C. § 101; 35 U.S.C. § 324(e); 35 U.S.C. § 282(b)

General: The decision to institute CBM review is not appealable, however issues decided during the CBM review process, regardless of when they first arose, are reviewable on appeal if they are part of or predicate to the ultimate merits. Also, the requirements of § 101 apply in a § 18 CBM review.

Versata Development Group, Inc. v. SAP America, Inc., SAP AG
2014-1194 (Fed. Cir. July 9, 2015)

I. Facts

Covered Business Method Review (“CBM review”) is provided for in § 18 of the Leahy-Smith America Invents Act (“the AIA”), the Transitional Program for Covered Business Method Patents. This is a special program under which the USPTO conducts post-grant review proceedings concerning the validity of covered business method patents only. A covered business method patent is defined as a patent that claims a method or corresponding apparatus for performing data processing or other operations used in practice, administration, or management of a financial product or service.

The patent, U.S. Patent No. 6,553,350 (“the ‘350 patent”), owned by Versata Development Group, which is central to this case, concerns a method and apparatus for pricing products in multi-level product and customer groups. The patent is said to reduce the need for large data tables, which are required in the prior art, by arranging customers into a hierarchy of customer groups and products into a hierarchy of product groups. The claims in dispute are claims 17, and 26-29.

Versata filed an infringement action against SAP in 2007. During this litigation in September 2012, SAP petitioned the PTAB to institute a CBM review of Versata’s ‘350 patent on the grounds that claims 17 and 26-29 were unpatentable for failure to comply with 35 U.S.C §§ 101, 102, and 112. In January 2013, the PTAB granted SAP’s petition and instituted a covered business method review of the ‘350 patent. The PTAB determined that claims 17 and 26-29 were more likely than not unpatentable under §§ 101 and 102, which is the statutory standard for instituting review. However, SAP had not met the standard for review under §112 and the PTAB declined review under that section. Subsequently, at SAP’s request, the PTAB agreed to forego the § 102 review and expedite the § 101 review. In June 2013, the PTAB issued its final written decision cancelling claims 17 and 26-29 as unpatentable under § 101. Versata sought rehearing of the final written decision, which the PTAB denied. Versata then appealed the final written decision to the Federal Circuit, where the USPTO has intervened.

Also, while the PTAB was conducting its CMB review, Versata brought an action against the USPTO in U.S. District Court seeking to set aside the PTAB’s decision to institute CMB review in order to prevent PTAB from proceeding. SAP intervened and both SAP and the USPTO moved to dismiss for lack of subject matter jurisdiction, which the district court granted.

II. Issues

1. Whether the decision by the PTAB to institute a covered business method review and the PTAB’s final written decision are reviewable on appeal?
2. Whether, under the governing statutes, it is within the authority of the PTAB to invoke § 101 as a test of validity?

III. Discussion

1. No, concerning the decision to institute; yes, concerning the final written decision. With regard to what parts of the PTAB's covered business method review are reviewable on appeal, the Federal Circuit concluded that the decision to institute a covered business method patent is not reviewable, but the merits of the PTAB's final written decision are reviewable. The first portion of this issue proved to be simple. In deciding that the decision to institute review by the PTAB is not reviewable on appeal, the Federal Circuit states that 35 U.S.C § 324(e) (applicable to the institution of post-grant reviews and CBM proceedings) expressly instructs them not to review the determination by the PTAB whether to institute a CMB review stating:

The determination by the Director whether to institute a post-grant review under this section shall be final and nonappealable.

The Federal Circuit further notes, however, that this is the first case to challenge the scope of § 324(e) at the final written decision stage. This being the case, the court turned to several of its recent cases construing a parallel statutory review bar, § 314(d) under separate chapter 31 of the AIA, Inter Partes Review, as well as two other recent cases arising under chapter 32 and § 18 concerning requests for stays. These previous cases generally only cautioned reviewing a determination to institute, and some even suggested that the time to challenge the authority to conduct such a review would be in the context of an appeal of the final written decision. The court further noted that in the district court action challenging authority to institute review, the USPTO argued, consistent with the suggestions of the aforementioned previous cases, that the issues decided by the PTAB at the institution stage are preserved for review at the time of an appeal to the Federal Circuit of the PTAB's final written decision.

Finally, the Federal Circuit concluded that the language of § 324(e) does not by its terms apply to limits on the authority to enter a final written decision invalidating a patent. Further, institution and invalidation are two distinct actions by the PTAB. Therefore, the court held that issues decided by the PTAB, regardless of when they first arose in the process, are reviewable on appeal if they are part of or a predicate to the ultimate decision of the PTAB on the merits. The court notes that this includes review of whether a patent is a covered business method, and whether § 101 is an available ground for invalidation under § 18, regardless of when the PTAB considered those issues.

In reviewing whether the '350 patent is a covered business method, the Federal Circuit affirmed the PTAB's determination that the '350 patent is a covered business method patent, and declined to interpret that term as limited to products or services of the financial industry only. Further the Federal Circuit also affirmed the PTAB's determination that the '350 patent is not a "technological invention" and is therefore does not fit the exception to the definition of a covered business method patent. A "technological invention" is one in which the claimed subject matter as a whole recites a technological feature that is novel and unobvious over the prior art, and solves a technological problem using a technological solution.

2. Yes. A look at several governing statutes was necessary to determine whether it was within the authority of the PTAB to invoke § 101 as a test of validity during a CBM review. Section 18 of the AIA which provides for CBM review, states that the proceeding implemented pursuant to this section "shall be regarded as, and shall employ the standards and procedures of, a post-grant review under chapter 32 of title 35, United States Code." Under chapter 32, § 321(b), entitled "Scope," states that a petitioner in a post-grant review "may request to cancel as unpatentable one or more claims of a patent *on any ground that could be raised under paragraph (2) or (3) of section 282(b)* (relating to invalidity of the patent or any claim)." In turn, § 282(b) specifies the defenses that may be raised in an action involving the validity or infringement of a patent. Paragraphs (2) and (3) of § 282(b) reads as follows:

(b)(2) – Invalidity of the patent or any claim in suit on any ground specified in part II as a *condition for patentability*.

(b)(3) – Invalidity of the patent of any claim in suit for failure to comply with –

- (A) any requirement of section 112 (except best mode); or
- (B) any requirement of section 251.

Versata argued that a CMB review must be limited to a ground that could be raised in paragraphs (2) or (3) of § 282(b). Versata reasoned that § 282(b)(2) authorizes defenses on any ground specified in part II as a condition for patentability, and that the part II reference includes only § 102 and § 103 under the title “conditions for patentability,” but not § 101. SAP and the USPTO countered that it is generally understood that § 101 is an invalidity defense under § 282.

The Federal Circuit did not undertake a statutory interpretation analysis of the governing sections, rather the court simply agreed with SAP and the USPTO. The court stated, “Versata is correct that a strict adherence to the section titles can support an argument that § 101 is not listed as a “condition for patentability,” but rather has the heading of “inventions patentable.” . . . It would require a hyper-technical adherence to form rather than an understanding of substance to arrive at a conclusion that § 101 is not a ground available to test patents under either the post-grant review or § 18 processes.” The court also noted that both its opinions and the opinions of the Supreme Court have established that § 101 challenges constitute validity and patentability challenges. Therefore, the court held that the PTAB acted within the scope of its authority in permitting a § 101 challenge under AIA § 18.

Having determined that the PTAB had authority to test the validity of the challenged claims under § 101, the Federal Circuit then reviewed whether the conclusion reached by the PTAB with regard to that test was correct. The court concluded that the PTAB correctly applied the Supreme Court test in *Alice* and *Mayo* in its decision, and that the § 101 analysis applied by the PTAB was not legally erroneous under *Alice* and *Mayo*. Therefore, the Federal Circuit affirmed the decision of the PTAB that claims 17 and 26-29 of the ‘350 patent were unpatentable as abstract ideas under § 101.

Judge Hughes wrote separately, concurring-in-part and dissenting-in-part. He agreed with the majority that the PTAB properly held that the ‘350 patent claims at issue were invalid under § 101. However, he disagreed that the Federal Circuit has the authority to review the PTAB’s initial determination that the patent at issue is a covered business method patent. He reasoned that the majority impermissibly reframed this issue as a question of the PTAB’s “ultimate authority to invalidate.”

IV. Conclusion

On appeal of the final written decision by the PTAB in a CBM review, the Federal Circuit 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. However, the decision by the PTAB to institute a CMB review is not reviewable on appeal. Further, the requirements of § 101 apply in a § 18 CBM review.