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Federal Circuit Finds CBM Eligibility Reviewable on Appeal

Sterne Kessler Goldstein Fox
ATTORNEYS AT LAW

Michelle K. Holoubek

The Federal Circuit yesterday issued a precedential opinion in *Versata Development Group v. SAP America, Inc.*, Appeal No. 2014-1194 (Fed. Cir. Jul. 9, 2015), finding the claims invalid under 35 U.S.C. § 101. In addition to the case-specific merits, the Federal Circuit addressed several threshold issues regarding CBM procedure.

CBM eligibility is reviewable on appeal

The Federal Circuit had previously held that the PTAB's institution decision is final and non-appealable (*In re Cuozzo Speed Technologies, LLC*, 778 F.3d 1271 (Fed. Cir. Feb. 4, 2015), *revised* Jul. 8, 2015). But even though CBM eligibility is determined at the institution stage, the *Versata* court held that CBM eligibility was nonetheless reviewable after final written decision.

The case turned on whether an issue – such as whether a patent qualifies as a "covered business method patent" under the statute – is "part of or a predicate to the ultimate merits" of the case. That is, does the issue affect whether the PTAB has authorization to invalidate a patent? Here, the majority panel stated that CBM eligibility is such a threshold issue. If a patent is not CBM eligible in the first place, then the PTAB would have no statutory authority to invalidate the patent – and any overstepping of authority by an agency is generally reviewable by the courts.

In reconciling this holding with *Cuozzo*, the court noted that the issues were different. In *Cuozzo*, the court said, the PTAB's ultimate "authority to invalidate" was not in question – only the appropriateness of the prior art grounds used to invalidate.

Judge Hughes dissented from this finding, reading the statute to bar review of <u>any</u> part of the institution decision. He felt that a presumption of judicial review was overcome by the statute, and that the majority effectively rewrote the statute in separating "invalidation authority" issues from the institution decision. It remains to be seen whether an *en banc* rehearing will be held to address this issue further.

CBM institution based on § 101 is reviewable on appeal

Using the same rationale, because the merits of the invalidity decision depend on the § 101 analysis, the majority panel also held that a decision to institute under § 101 is reviewable. "The authority of the PTAB under the relevant statutes to apply § 101 law to the claims under review goes to the power of the PTAB to decide the case presented to it." Further, the Federal Circuit confirmed that § 101 is a "condition of patentability" and thus a proper basis for CBM review, noting that to decide otherwise would be contrary to the purpose of § 18, the portion of the America Invents Act that provides for the CBM program.

The CBM definition is not limited to the financial sector

Versata had argued that the definition of a "covered business method patent" should be limited to products or services from the financial sector. The Federal Circuit disagreed. Though the court noted that the USPTO missed an opportunity to clarify the statute through its rulemaking, the court found no such limitations within the words of the definition. Instead, the definition "on its face covers a wide range of finance-related activities." The court again pointed out that such a restriction would be contrary to the purpose of § 18.

The Federal Circuit is also confused by the term "technological invention"

Patents directed to "technological inventions" are excepted from CBM eligibility. As defined in the USPTO rules, "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 technical problem using a technical solution.'" The Federal Circuit takes issue with this definition, saying that there is "little cause" to support the "novel and unobvious" determination at such early stages. Regarding the problem/solution factor, the court states, "[d]efining a term in terms of itself does not seem to offer much help." But, the court also notes that the USPTO was given broad authority to set the definition to its own liking. As such, the court declined to explore the outer bounds of the rule, noting that Versata's patent does not fall within the exception, "whatever that exception may otherwise mean."

CBM claims are construed under the broadest reasonable interpretation

In accordance with the *Cuozzo* decision, the court confirmed that the PTAB's use of BRI was proper.

For more information, please contact:

Michelle K. Holoubek, Director
Holoubek@skgf.com