

**UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
Alexandria Division**

VERSATA DEVELOPMENT GROUP,)
INC.,)
)
Plaintiff,)
)
vs.)
)
TERESA STANEK REA,)
Acting Under Secretary of)
Commerce for Intellectual Property)
& Acting Director of the United)
States Patent & Trademark Office,)
)
Defendant.)
_____)

Civil Action No. 1:13cv328

DEFENDANT’S MOTION TO DISMISS

Pursuant to Federal Rules of Civil Procedure 12(b)(1) and (b)(6), defendant, through her undersigned counsel, hereby respectfully moves to dismiss plaintiff’s complaint in the above-captioned action for a lack of subject-matter jurisdiction and failure to state a claim. The grounds for this motion are fully explicated in the accompanying memorandum of law in support of the motion.

///

///

CERTIFICATE OF SERVICE

I hereby certify that on this date, I electronically filed the foregoing with the Clerk of Court using the CM/ECF system, which will send a notification of such filing (“NEF”) to the following:

Elizabeth Ferrill
Finnegan, Henderson, Farabow, Garrett & Dunner, L.L.P.
901 New York Avenue, N.W.
Washington, D.C. 20001
elizabeth.ferrill@finnegan.com

and I will send a true and correct copy of the foregoing by electronic mail to the following:

Robert Danny Huntington
Rothwell Figg Ernst & Manbeck
607 14th Street, N.W., Suite 800
Washington, D.C. 20005
dhuntington@rfem.com

Date: May 16, 2013

/s/
DENNIS C. BARGHAAN, JR.
Assistant U.S. Attorney
2100 Jamieson Avenue
Alexandria, Virginia 22314
Telephone: (703) 299-3891
Fax: (703) 299-3983
Email: dennis.barghaan@usdoj.gov

ATTORNEYS FOR DEFENDANT

**UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
Alexandria Division**

VERSATA DEVELOPMENT GROUP,)
INC.,)
)
Plaintiff,)
)
vs.)
)
TERESA STANEK REA,)
Acting Under Secretary of)
Commerce for Intellectual Property)
& Acting Director of the United)
States Patent & Trademark Office,)
)
Defendant.)
_____)

Civil Action No. 1:13cv328

MEMORANDUM OF LAW IN SUPPORT OF DEFENDANT’S MOTION TO DISMISS

Pursuant to Local Rule 7(F)(1), defendant, through her undersigned counsel, hereby respectfully submits the instant memorandum of law in support of her motion to dismiss in the above-captioned action.

INTRODUCTION

In 2011, through the America Invents Act (“AIA”), Congress created two new intricate schemes for administrative and judicial review of the validity of issued patents. It did so with a substantive goal in mind – to lessen the burdens (on both litigants and jurists alike) inherent in federal district court litigation over such issues. And as such, each of these systems provides for extremely streamlined review, including one level of administrative review (before the Patent Trial and Appeal Board (“PTAB”) at the United States Patent and Trademark Office (“USPTO”)) that must generally be completed within one year, and one level of appellate judicial review (before the Federal Circuit) at the termination of administrative proceedings.

But here, plaintiff Versata Development Group, Inc. asks this Court to create an enormous hole in this streamlined system, and allow each and every individual or entity dissatisfied with the PTAB's mere *institution* of administrative review proceedings to cross the street and *immediately* file a lawsuit in this Court challenging that decision through the Administrative Procedure Act ("APA"). Congress, recognizing the damage that such collateral federal litigation could cause its streamlined system, fortunately prevented this result in two ways. First, in the AIA itself, Congress explicitly provided that the decision "whether to institute" this type of administrative review proceeding – the very decision that Versata's own complaint concedes is the gravamen of this action – is "final and nonappealable." 35 U.S.C. § 324(e). And were this section, despite its clarity, somehow inapplicable here, the APA's general requirement that there be "final agency action," 5 U.S.C. § 704, would preclude the exercise of this Court's jurisdiction, because the PTAB's order to institute proceedings is interlocutory in nature. Finally, Versata has an "adequate remedy" in an appeal to the Federal Circuit at the end of the PTAB's proceedings, which it only need exercise should the PTAB ultimately reject the claims of its issued patent.

STATUTORY AND REGULATORY BACKGROUND

Versata's instant request for this Court to exercise interlocutory APA jurisdiction generally concerns new processes created by Congress through the AIA by which the USPTO reviews the validity of an issued patent. The courts have repeatedly recognized that the availability of these administrative options serve significant public interests, including, *inter alia*, "to correct errors . . . and if need be to remove patents that never should have been granted." Patlex Corp. v. Mossinghoff, 758 F.2d 594, 604 (Fed. Cir. 1985); see also Callaway Golf Co. v.

Kappos, 802 F. Supp. 2d 678, 686 (E.D. Va. 2011).

It is thus important to provide a threshold general discussion of the new processes created through the AIA. But to understand these processes (including that which is implicated here, “post-grant review”), it is similarly necessary to explore the evolution of those administrative processes that were previously available (before the AIA) for the review of issued patents. As will be seen, although the various systems that Congress has developed (and ultimately modified or eliminated) differ in many ways, this evolution reveals a single constant – Congress’s desire to develop a viable administrative system for patent review to *lessen* the amount of litigation in the federal courts.

I. PRE-AIA ADMINISTRATIVE REVIEW – PATENT REEXAMINATION

A. PATENT EXAMINATION

At the outset, an individual who seeks a patent on a particular invention must file an application with the USPTO that contains a specification and an oath by the applicant to the effect that he or she believe that they are the original inventor of the invention at issue. See 35 U.S.C. §§ 111(a); 115. A USPTO patent examiner thereafter reviews the application and makes a determination as to whether the application claims presents claims that are patentable. See id. § 131. If “it appears that the applicant is entitled to a patent under the law,” the USPTO “shall issue a patent.” Id.

B. PATENT REEXAMINATION

1. “Ex Parte” Reexamination

Until approximately 1980, individuals or entities seeking to challenge the validity of an issued patent were without any real administrative recourse. Congress concluded that this gap

forced many to file costly and time-consuming challenges to patent validity in the federal court system, when the same challenge “could be conducted with a fraction of the time and cost of formal legal proceedings.” See H.R. RPT. 96-1307, at 3 (Sept. 9, 1980), reprinted in 1980 U.S.C.C.A.N. 6460, 6462. Congress therefore created an administrative alternative to federal court litigation known as “*ex parte* reexamination,” which authorized third parties to make a request that the USPTO reexamine “the substantive patentability” of an issued patent. 35 U.S.C. § 302 (2010).¹

The use of the modifier “*ex parte*” to describe this form of reexamination was significant, and reflected the nature of that type of administrative reexamination. In short, if the USPTO accepted a third-party’s request (*i.e.*, concluded that there is a “substantial new question of patentability,” 35 U.S.C. § 303(a)), and instituted reexamination proceedings, the resulting proceedings would generally continue only between the USPTO and the patent owner. See Syntex (USA), Inc. v. USPTO, 882 F.2d 1570, 1573 (Fed. Cir. 1989). Other than “the right to reply to any statement submitted by the patent owner . . . [t]he statute [gave] third party requesters no further, specific right to participate in the reexamination proceeding.” Id.; see also 35 U.S.C. §§ 304-05. If the examiner responsible for conducting the reexamination discovered that the claims were not actually patentable, he or she would issue a final office action rejecting those claims. See 35 U.S.C. § 305.

2. “*Inter Partes*” Reexamination

¹Given the extensive amendments made to the Patent Act through the AIA – especially in the context of administrative and judicial review of issued patents – all statutory citations within this section (*i.e.*, concerning patent reexamination) are to the 2010 codification of the United States Code.

Almost twenty years later, in 1999, Congress – after reviewing whether progress had been made in reducing federal court litigation concerning the validity of issued patents in favor of USPTO reexamination – elected to modify the system once again. In this respect, Congress found that individuals and entities were not utilizing the existing reexamination procedure because “a third party who requests reexamination cannot participate at all after initiating the proceedings.” H.R. CONF. RPT. 106-464, at 133 (Nov. 9, 1999); see also id. (“Numerous witnesses have suggested that the volume of lawsuits in district courts will be reduced if third parties can be encouraged to use reexamination by giving them an opportunity to argue their case for patent invalidity in the USPTO.”). In 1999, Congress therefore created a new “*inter partes*” reexamination procedure that authorized the third-party requester to participate in the administrative reexamination proceedings. See 35 U.S.C. § 314. More specifically, in “*inter partes*” reexamination, “[e]ach time that the patent owner file[d] a response to an action on the merits . . . the third-party requester [had] one opportunity to file written comments addressing issues raised by the action . . . or the patent owner’s response.” Id. § 314(b)(2). And just like *ex parte* reexamination, if the examiner responsible for reexamining the patent concluded that the relevant claims were not patentable, he or she issued an office action rejecting the same. See id. § 314(a).

II. AIA ADMINISTRATIVE REVIEW – INTER PARTES REVIEW & POST-GRANT REVIEW

By 2011, however, Congress remained dissatisfied with the progress it had made in limiting federal court litigation over the validity of issued patents by enhancing the viability of USPTO administrative remedies:

Nearly 30 years ago, Congress created the administrative “reexamination” process, through which the USPTO could review the validity of already-issued patents on the

request of either the patent holder or a third party, in the expectation that it would serve as an effective and efficient alternative to often costly and protracted district court litigation. . . . The initial reexamination statute had several limitations that later proved to make it a less viable alternative to litigation for evaluating patent validity than Congress intended.

H.R. RPT. 112-98, at 45 (2011). In particular, Congress noted that despite the improvements that it had made to the procedure for the review of issued patents, the “[r]eexamination proceedings are [] often costly, taking several years to complete,” and as a result, less used the procedure (and reverted to federal district court litigation) than Congress desired. *Id.* As a result, through the AIA, see PUB. L. 112-29, 125 Stat. 284 (September 16, 2011), Congress, in yet another attempt to decrease federal court litigation, significantly streamlined the administrative process.

More specifically, Congress in the AIA created two new types of administrative proceedings through which an individual or entity could secure the USPTO’s review of an issued patent – (1) post-grant review; and (2) inter partes review. Both mechanisms create a streamlined and thus more efficient process for both administrative and judicial review of patent validity questions by eliminating one level of review at the USPTO, while ensuring that patent owners and challengers alike have the ability to seek appellate review at the Federal Circuit at the conclusion of the proceedings (and thus avoiding costly federal district court litigation).

A. POST-GRANT REVIEW

1. Generally

First, Congress created a new administrative mechanism for the review of issued patents called “post-grant review.” See generally 35 U.S.C. §§ 321-25 (2013). Anyone “who is not the owner of the patent” may petition the USPTO “to institute a post-grant review of the patent,” *id.* § 321(a), so long as the petition is filed within the first *nine months* after the patent in question

issued, id. § 321(c).² Congress thus intended the post-grant review system “to enable early challenges to patents, while still protecting the rights of inventors and patent owners against new patent challenges unbounded in time and scope.” H.R. RPT. 112-98, at 47-48.

In the previously discussed reexamination procedure, an initial review was conducted by a patent examiner, before administrative appeal within the USPTO, and then Article III appellate review at the Federal Circuit. But in post-grant review, all administrative review at the USPTO is conducted by a single entity – the Patent Trial and Appeal Board (“PTAB”).³ See 35 U.S.C. § 326(c).

Congress provided a streamlined process for the administrative and judicial consideration of post-grant review. First, the PTAB must adjudicate a petition seeking to “institute a post-grant review” – a decision that is “final and nonappealable,” id. § 324(e) – within three months of the filing of a response to the petition. Id. § 324(c). Next, all post-grant review proceedings, including the PTAB’s final written determination on the validity of the challenged patent claims, must generally be completed within *one year* of the institution of the proceeding. See id. § 326(a)(11). Finally, Congress provided for appellate review at the Federal Circuit at the conclusion of post-grant review proceedings before the USPTO. See id. § 329 (“A party dissatisfied with the final written decision of the [PTAB] . . . may appeal the decision . . .”).

²The petitioner in these circumstances is entitled to raise “any ground” concerning patent validity “that could be raised” in a federal court action under 35 U.S.C. §§ 282(b)(2)-(3) concerning patent validity. See 35 U.S.C. § 321(b)

³The PTAB is a newly-constituted administrative tribunal within the agency that has taken the place of the former Board of the Patent Appeals and Interferences. See 35 U.S.C. §§ 6(a)-(b).

2. “Covered Business Method” Patents (AIA § 18)

As stated above, post-grant review is generally available only within the first nine months after a patent issues. But Congress remained significantly concerned with the validity of a large swath of so-called “business method” patents, see generally *Bilski v. Kappos*, 130 S. Ct. 3218 (2010), that the USPTO issued “during the late 1990’s through the early 2000’s.” H.R. RPT. 112-98, at 54. Despite the age of these patents, Congress thus created a limited ability to obtain post-grant review for certain defined “covered business method” patents, so long as the individual or entity seeking the institution of the review “has been sued for infringement of the patent or has been charged with infringement under th[e] patent.” PUB. L. 112-29, § 18(a)(1)(B), 125 Stat. at 329-30. With the exception of specific circumstances not pertinent to the instant civil action, id. § 18(a)(1)(A), 125 Stat. at 329, post-grant review of a “covered business method” patent proceeds as above.

B. INTER PARTES REVIEW

Congress also transformed the former inter partes *reexamination* into a new type of proceeding known as inter partes *review*. In direct contrast to post-grant review, an individual or entity may only seek inter partes review – by petition – *after* the initial nine month period from patent issuance, or the termination of a post-grant review proceedings (whichever is later). See 35 U.S.C. § 311(b). The grounds on which one may seek inter partes review are, however, more limited than with its post-grant review sibling. See id. § 311(b) (providing that inter partes review is only available to challenge patentability under 35 U.S.C. §§ 102-03).

At least for instant purposes, beyond these distinctions, inter partes review proceedings are conducted – again, entirely by the PTAB, see id. § 316(c) – pursuant to the identical

streamlined process created for post-grant review. First, the PTAB must adjudicate a petition seeking to “institute an inter partes review” – a decision that is “final and nonappealable,” *id.* § 314(d) – within three months of the filing of a response to the petition. *Id.* § 314(b). Next, all inter partes review proceedings, including the PTAB’s final written determination on the validity of the challenged patent claims, must generally be completed within *one year* of the institution of the proceeding. *See id.* § 316(a)(11). Finally, Congress provided for appellate review at the Federal Circuit at the conclusion of inter partes review proceedings before the USPTO. *See id.* § 319 (“A party dissatisfied with the final written decision of the [PTAB] . . . may appeal the decision . . .”).

* * *

In sum, motivated by an unequivocal desire to limit federal district court litigation, Congress created two virtually identical systems that would streamline administrative and judicial reconsideration of the validity of issued patents. The PTAB is vested with the authority to adjudicate all issues encompassed within a post-grant or inter partes review, and within *one year*, concludes that review with a written determination. Any dissatisfied party in such a review can then seek Article III appellate review of the PTAB’s action in the Federal Circuit.

PROCEDURAL HISTORY

a. The instant civil action generally concerns United States Patent No. 6,553,350 (“the ’350 patent”), entitled “Method and Apparatus for Pricing Products in Multi-Level Product and Organizational Groups,” which the USPTO issued on April 22, 2003, and to which Versata” claims to be the assignee. *Complaint* (Dkt. No. 1), ¶¶1, 8-9. In 2007, Versata sued another entity, SAP America, Inc. (“SAP”), in the United States District Court for the Eastern District of

Texas, alleging that SAP had, *inter alia*, infringed the '350 patent. Id. ¶13. Although the specifics of that litigation are generally irrelevant to the issues presented in this memorandum, those district court proceedings resulted in a jury verdict in Versata's favor, which the Federal Circuit recently affirmed. See Versata Software, Inc. v. SAP America, Inc., 2013 WL 1810957 (Fed. Cir. May 1, 2013).

b. But during the pendency of the aforementioned Federal Circuit appeal, on September 16, 2012, SAP filed a petition with the PTAB seeking the institution of post-grant review proceedings with respect to claims 17 and 26-29 of the '350 patent, because – it argued – those claims constituted a “covered business method” pursuant to § 18 of the AIA. Complaint, ¶20; DEX A. Through the petition, SAP sought post-grant review on whether those claims constituted patentable subject-matter pursuant to 35 U.S.C. § 101, were sufficiently definite pursuant to § 112, and were anticipated pursuant to § 102. DEX A.

On November 30, 2012, Versata filed a response to the petition. DEX B.⁴ In that response, Versata included a lengthy statement (over seventy pages in length) explaining “why no post-grant review should be instituted under 35 U.S.C. § 324.” Id. at ii. More specifically, Versata presented the very same arguments that are the gravamen of its instant civil action; namely, *inter alia*, (1) the '350 patent was not a “covered business method” patent subject to post-grant review pursuant to AIA § 18, and (2) review of whether the '350 patent recited patentable subject-matter pursuant to 35 U.S.C. § 101 was unavailable in § 18 post-grant proceedings. Id. at 10-45; 68-80.

⁴Although the title page to this paper indicates that it was filed under seal, the PTAB ultimately denied Versata's motion to seal its response to the petition. DEX C.

After considering both of the parties' submissions, on January 9, 2013, the PTAB issued a forty-four page opinion granting SAP's petition in part. DEX D. In particular, the PTAB rejected Versata's argument that it could not institute post-grant review proceedings – and thus review the validity of the asserted claims – because the '350 patent was not a "covered business method" patent, and that § 101 is not a ground for review in an AIA § 18 proceeding. Id. at 20-28; 32-36.⁵ And as a result, the PTAB entered the following order:

In consideration of the foregoing, it is hereby :

ORDERED that the Petition is granted as to claims 17 and 26-29 of the '350 patent.

FURTHER ORDERED that pursuant to 35 U.S.C. § 324(a), *a covered business method review* of the '350 patent *is hereby instituted* commencing on the entry date of this Order, and pursuant to 35 U.S.C. § 324(d) and 37 C.F.R. § 42.4, notice is hereby given of the institution of a trial.

Id. at 43.

After the PTAB entered its order instituting post-grant review, proceedings have continued in earnest. In particular, both Versata and SAP have engaged in discovery; indeed, the PTAB was required to intervene and adjudicate a dispute about the conduct of the deposition of Versata's expert witness. DEX E. And on February 21, 2013, the PTAB ordered that – in the interest of economy – part of the post-grant proceedings (including the submission of briefs on the § 101 issue) be expedited. DEX F. Finally, on April 17, 2013, the PTAB conducted a two-hour-long oral hearing on the question of whether the cited claims of the '350 patent recited patentable subject matter pursuant to § 101. DEX G. The PTAB reserved decision at the conclusion of the hearing, and its decision could be issued at any time.

⁵The PTAB rejected SAP's petition to the extent that it sought review of the '350 patent pursuant to 35 U.S.C. § 112. DEX D, at 41-42.

c. As those proceedings continued, however, on March 13, 2013, Versata filed the instant action, which – more than two months after entry of the PTAB’s order – asks this Court to conduct interlocutory review of the PTAB’s decision to institute post-grant review proceedings.

Complaint (Dkt. No. 1). As Versata itself explains the gravamen of its civil action:

The ’350 patent is not a covered business method patent. The claims are not related to a financial product or service, nor the practice, administration or management thereof. *The institution of that proceeding* is thus contrary to law and exceeds Defendant’s statutory authority. Additionally, Defendant has no authority to entertain challenges to the claims of the ’350 patent under 35 U.S.C. § 101 and *its institution of a proceeding* on that basis is also contrary to law and exceeds Defendant’s statutory authority.

Id. ¶1 (emphasis added). Versata maintains that this Court can exercise this interlocutory jurisdiction, and engage in judicial review of the PTAB’s order instituting proceedings, pursuant to the Administrative Procedure Act (“APA”). Id. ¶¶40-57.

ARGUMENT

I. GENERAL STANDARDS

A. FEDERAL RULE 12(b)(1)

Federal Rule 12(b)(1) serves as the appropriate vehicle to challenge the court’s subject matter jurisdiction in a particular matter. See, e.g., Coulter v. United States, 256 F. Supp. 2d 484, 486 n.3 (E.D. Va. 2003), aff’d, 90 Fed. Appx. 60 (4th Cir. 2004). The plaintiff bears the burden of establishing the court’s subject matter jurisdiction, and although this Court may utilize the allegations contained within the four corners of the plaintiff’s complaint as *evidence* in determining whether it possesses jurisdiction over a dispute, it may also consider other evidence outside the pleadings if necessary. See Richmond, Fredericksburg, & Potomac R.R. Corp. v. United States, 945 F.2d 765, 768 (4th Cir. 1991); Coulter, 256 F. Supp. 2d at 486 n.3.

B. FEDERAL RULE 12(b)(6)

To the contrary, a motion pursuant to Rule 12(b)(6) serves to test the legal sufficiency of the plaintiff's complaint in relation to the factual averments he or she puts forward. Although a court must accept as true all well-pled allegations in adjudicating such a motion, it need not credit allegations that are merely conclusory. See Ashcroft v. Iqbal, 556 U.S. 662, 675 (2009).

In Iqbal, the Supreme Court continued its redevelopment of the proper Rule 12(b)(6) standard that it began two years earlier. See Bell Atlantic Corp. v. Twombly, 550 U.S. 544 (2007) (holding that court adjudicating Rule 12(b)(6) motion must determine whether complaint alleges facts that state a "plausible" claim for relief). In this respect, the Iqbal court rejected the notion that Twombly was limited to the antitrust context, see Iqbal, 556 U.S. at 684, and held as follows with respect to the proper standard of review:

To survive a motion to dismiss, a complaint must contain sufficient factual matter, accepted as true, to "state a claim to relief that is plausible on its face." A claim has factual plausibility when the plaintiff pleads factual content that allow the court to draw the reasonable inference that the defendant is liable for the misconduct alleged.

Id. at 678 (quoting Twombly, 550 U.S. at 570). Accordingly, although (as before) a court is required to adjudge the factual averments contained within a complaint against the substantive law governing the claim, now "where the well-pleaded *facts* do not permit the court to infer more than the *mere possibility* of misconduct," the complaint fails. Id. at 679 (emphasis added).

II. ANALYSIS & APPLICATION

A. CONGRESS PRECLUDED JUDICIAL REVIEW OVER ORDERS "INSTITUTING" POST-GRANT REVIEW PROCEEDINGS

To be sure, as the Supreme Court has noted, the "APA confers a general cause of action" on aggrieved persons to obtain judicial review of agency action. See Block v. Community Nut.

Inst., 467 U.S. 340, 345 (1984). But given that “Congress is absolutely free to limit the extent to which it consents to suit against the United States,” McDougal-Saddler v. Herman, 184 F.3d 207, 211-12 (3rd Cir. 1999), the APA also contains a series of express “limitations on the grant of judicial review.” Pregis Corp. v. Kappos, 700 F.3d 1348, 1356 (Fed. Cir. 2012). One such limitation is an explicit statutory provision in the APA that prevents its use when other “statutes preclude judicial review.” 5 U.S.C. § 701(a)(1); see Block, 467 U.S. at 345 (holding that § 701(a)(1) “withdraws [the APA] cause of action to the extent the relevant statute precludes judicial review”).

The Supreme Court framed this Court’s § 701(a)(1) inquiry as follows:

Whether and to what extent a particular statute precludes judicial review is determined not only from its express language, but also from the structure of the statutory scheme, its objectives, its legislative history, and the nature of the administrative action involved.

Block, 467 U.S. at 345-46 (citations omitted). And as the Block Court made clear, one analyzes the question of whether Congress intended to foreclose judicial review of a given agency action through “inferences of intent drawn from the statutory scheme *as a whole*.” Id. at 349 (emphasis added). Where such “congressional intent is ‘fairly discernible’ in the detail of the legislative scheme, APA review is not available.” Id. at 351.

1. And here, one need go no further than the actual text of the pertinent statutory language, because Congress has unequivocally precluded judicial review of the PTAB’s decision to “institute” post-grant review proceedings:

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

35 U.S.C. § 324(e).⁶ Initially, Versata rather clearly concedes that it is attempting to secure judicial review of the PTAB’s decision “to institute a post-grant review” for purposes of § 324(e). In the first paragraph of its complaint, it states – on two separate occasions – that the PTAB’s “*institution of that proceeding*” is both the gravamen of its instant claim, and the action taken by the agency that was “contrary to law and exceeds the [agency’s] authority.” Complaint, ¶1 (emphasis added).⁷ Moreover, and perhaps more importantly, Versata unequivocally provides the decision at issue here falls within the ambit of § 324(e). Id. ¶¶5; 33 (“The PTAB’s decision to initiate the review of the ’350 patent is final and nonappealable.”).

Versata’s position here must therefore be that seeking APA review in this Court does not constitute an “appeal” for purposes of § 324(e). But decades of jurisprudential authority give the lie to that position, as it is by now well-established that APA review – albeit in a federal district court – serves as an “appeal” of the agency action in question. As one court has cogently noted:

Appellants misunderstand the role the district court plays when it reviews agency action.

The district court sits as an appellate tribunal, not as a court authorized to determine in a trial-type proceeding whether the Secretary’s study was factually flawed. . . .

Marshall County Health Care Auth. v. Shalala, 988 F.2d 1221, 1226 (D.C. Cir. 1993); see also Rempfer v. Sharfstein, 583 F.3d 860, 865 (D.C. Cir. 2009) (same). Many federal statutes

⁶As stated above, Congress provided that with certain exceptions not relevant here, see PUB. L. 112-29, § 18(a)(1)(A), 125 Stat. at 329, “covered business method” patent proceedings “shall employ the standards and procedures of[] a post-grant review under chapter 32 of title 35 [35 U.S.C. §§ 321-29].” Id. § 18(a)(1), 125 Stat. at 329.

⁷Indeed, before the PTAB, Versata argued that both of the substantive challenges at issue here – *i.e.*, whether the ’350 patent is directed to a “covered business method,” and whether AIA § 18 post-grant review can encompass challenges under 35 U.S.C. § 101 – were reasons why the PTAB should not “institute . . . a post-grant review proceeding.” DEX B.

themselves characterize APA actions in a federal district court as “appeals” of agency decisions. See, e.g., 25 U.S.C. § 2713(c) (providing that Commission’s approval of fines “shall be appealable to the appropriate Federal district court pursuant to chapter 7 of title 5”); 20 U.S.C. § 107d-2(a) (providing that decision of arbitration panel is “subject to appeal and review as final agency action for purposes of chapter 7 of such Title 5”). And significantly, the Patent Act’s authorization of review (exclusively in this Court) of USPTO patent term adjustment determinations, which are governed by “[c]hapter 7 of title 5,” is codified in a section entitled “[a]ppeal of patent term adjustment determination.” 35 U.S.C. § 154(b)(4)(A) (emphasis added).

Nor, to presume Versata’s retort, would this preclude *any and all* judicial review of the asserted substantive questions here – *i.e.*, whether the ’350 patent is a “covered business method” for purposes of, and whether § 101 review is available in, AIA § 18 proceedings. Far to the contrary, as the plain language of the statutory text provides, judicial review is only unavailable from the decision to “institute” post-grant review proceedings. See 35 U.S.C. § 324(e). The post-grant review scheme (as with its inter partes sibling) retains the right of judicial review – in the Federal Circuit – for any party “dissatisfied” by the PTAB’s ultimate “written determination” on the post-grant review. See id. § 329. Nothing in the statutory scheme limits the reasons that a party might be so “dissatisfied,” and this could include the fact that the PTAB lacked the authority to issue a written determination rejecting Versata’s patent claims because, in Versata’s view, the ’350 patent is not a “covered business method” patent for purposes of AIA § 18. And thus, nothing in the statutory scheme precludes Versata from presenting these issues to the Federal Circuit from a *potential* adverse written determination on the ’350 patent by the PTAB.

2. Moreover, the other factors relevant to an analysis under § 701(a)(1) – “the structure of the statutory scheme, its objectives, its legislative history, and the nature of the administrative action involved,” Block, 467 U.S. at 345 – all confirm the unmistakable conclusion that § 324(e) precludes APA judicial review in a district court to challenge the PTAB’s decision to institute a post-grant review proceeding. Put succinctly, § 324(e) is a major part of a comprehensive legislative scheme designed to resolve disputes over the validity of an issued patent both quickly and inexpensively. Authorizing interlocutory review of administrative post-grant proceedings, and thus opening up a new “front” in this Court in the overall patent validity “war” would destroy the hallmark of that legislative scheme.

As stated earlier, recognizing the time and cost inherent in litigating issues related to the validity of an issued patent, Congress revamped the available administrative mechanisms at the USPTO in order to provide a speedier, and thus cheaper, alternative to federal court adjudication of such issues. Put simply, the abject congressional goal was to *limit* federal court litigation. And to accomplish this goal, Congress created a streamlined system for administrative and judicial review – one that provides a single level of administrative review (the PTAB) that generally must be completed within one year, and a single level of judicial review (the Federal Circuit). Indeed, during the congressional debates on the AIA, Congress placed great importance on meeting this temporal deadline, which it expected to be a major improvement over the old system, which “usually last[ed] for 3 to 5 years.” 157 Cong. Rec. S1376 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl).

Other provisions of the AIA, and its legislative history, require and emphasize that features of the new review proceedings must be applied in a way that ensures compliance with

this deadline. Initially, when prescribing regulations for implementing post-issuance proceedings, the USPTO must consider “the ability of the [USPTO] to timely complete [such] proceedings.” 35 U.S.C. §§ 316(b); 326(b). During the congressional debates, legislators noted that Congress’s adoption of this “timely complete” factor reflected “a legislative judgment that it is better that the [USPTO] *turn away some petitions* ... than it is to allow the USPTO to develop a backlog of instituted reviews that precludes the Office from timely completing all proceedings.” 157 Cong. Rec. S1377 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl) (emphasis added).⁸ Perhaps most importantly, the AIA streamlined the actual review by eliminating one administrative level of review; thus, “[b]y reducing two levels of appeal to just one,” this change made by the AIA was expected to “substantially accelerate the resolution of inter partes cases.” 157 Cong. Rec. S1376 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl).

It is hard to imagine something more antithetical to these goals than authorizing *in this Court* the type of interlocutory APA review that Versata seeks here. First, there is the obvious notion that Congress – in attempting to *limit* federal court litigation over patent validity issues – would hardly have desired to *increase* such litigation by allowing a separate and collateral lawsuit seeking APA review of certain issues. But far more importantly, one cannot overstate the damage that would be done to the AIA’s goals of speed and efficiency were individuals or entities able to seek immediate district court review of a decision to institute post-grant review proceedings, rather than having to wait until the conclusion of those proceedings to obtain

⁸The same focus on compliance with the one-year deadline is also reflected in commentary on the standards for allowing discovery in post-issuance reviews: “[g]iven the deadlines imposed on these proceedings, it is anticipated that ... [the US]PTO will be conservative in its grants of discovery.” 154 Cong. Rec. S9988 (daily ed. Sept. 27, 2008) (statement of Sen. Kyl).

judicial review.

Leaving aside the obvious “slowing” that would occur in order to accommodate a separate district court action, it would completely destroy the streamlined system Congress created for administrative and judicial review of issued patents (*i.e.*, from the PTAB to the Federal Circuit) – the very purpose of § 324(e). See Pregis Corp., 700 F.3d at 1358 (“The Patent Act expressly provides an intricate scheme for administrative and judicial review of [US]PTO patentability determinations that evinces a clear Congressional intent to preclude actions under the APA seeking review of the [US]PTO’s reasons for deciding to issue a patent.”). As the Supreme Court has long held, “[i]t would require the suspension of disbelief to ascribe to Congress the design to allow its careful and thorough remedial scheme, to be circumvented by artful pleading.” Brown v. GSA, 425 U.S. 820, 833 (1976); see Block v. North Dakota, 461 U.S. 273, 285-86 (1983) (holding that litigants may not utilize the general judicial review provisions of the APA in order to avoid the limitations inherent in other remedies).

It also, in this same regard, strains credulity that Congress would have intended § 324(e) to preclude an immediate appeal to the Federal Circuit, while at the same time *allowing* a separate APA action to be litigated in federal district court, which – upon final judgment – would *then* be appealed to the Federal Circuit in any event. See 28 U.S.C. § 1295(a)(1) (vesting the Federal Circuit with jurisdiction over any final judgment of a federal district court in an action “arising under . . . any Act of Congress relating to patents”); see also Complaint, ¶4. Indeed, given that the APA incorporates a six-year statute of limitations, see 28 U.S.C. § 2401(a), acceptance of jurisdiction here would allow one in Versata’s position to complete post-grant review in its entirety (including an appeal to the CAFC) and then, *years later*, file an APA action

in this Court to challenge the threshold institution of post-grant proceedings. Simply to state the proposition is to demonstrate its absurdity.

* * *

Versata’s attempt to open a second front in the dispute over the validity of the ’350 patent in this Court runs directly counter to the AIA’s “fundamental purpose” of providing “a cost-efficient alternative to litigation,” and eliminating the need to fight in “two fora at the same time.” 157 Cong. Rec. S1364. Whether as a function of the plain statutory language, or the AIA’s unmistakable structure and purpose of consolidating all proceedings involving a patent in one proceeding, APA challenges in this Court to the PTAB’s decision to institute a post-grant review proceeding are precluded by 5 U.S.C. § 701(a)(1).⁹

II. THE PTAB’S ORDER DOES NOT CONSTITUTE A “FINAL AGENCY ACTION” UNDER THE APA

The APA also provides judicial review only for “final agency action for which there is no other adequate remedy in a court,” 5 U.S.C. § 704; similarly, “[a] preliminary, procedural, or intermediate agency action or ruling” is not subject to APA judicial review. *Id.* Of course, this Court need only reach this “final agency action” question if it concludes that Congress’s clear statement – that a PTAB order instituting post-grant review proceedings is “*final* and

⁹Courts that have confronted § 701(a)(1) issues have treated them jurisdictionally. See Syntex, 882 F.2d at 1576 (affirming Eastern District of Virginia jurisdictional dismissal); Hallmark Cards, Inc. v. Lehman, 959 F. Supp. 539, 542-44 (D.D.C. 1997). With that said, however, the Supreme Court has been less than clear in its treatment of the issue. Compare Block v. Comm. Nut. Inst., 467 U.S. 340, 352 n.4 (1984) (considering issues of preclusion pursuant to § 701(a)(1) as jurisdictional) with Air Courier Conf. v. Am. Postal Workers Union, 498 U.S. 517, 523 n.3 (1991) (considering similar issues as non-jurisdictional). As such, in the interest of completeness, defendant seeks dismissal pursuant to both Federal Rules 12(b)(1) and 12(b)(6).

nonappealable,” 35 U.S.C. § 324(e) (emphasis added) – is somehow inapplicable in these circumstances.

The PTAB’s interlocutory decision here meets neither of the two prongs of § 704. First, the PTAB’s decision to institute proceedings is not a “final agency action”; it marks the beginning, not the end, of the PTAB’s actions. Second, Versata has an “adequate remedy in a court” – one specifically chosen by Congress for these proceedings – through a direct appeal of the PTAB’s final written determination to the Federal Circuit. See 35 U.S.C. § 329. Because the requirements found in § 704 are part of the United States’s waiver of sovereign immunity, Versata’s failure to demonstrate its existence deprives this Court of subject matter jurisdiction over its claims. See, e.g., Invention Submission Corp. v. Rogan, 357 F.3d 452, 460 (4th Cir. 2004). As a result, even were this Court to determine that Congress did not specifically preclude judicial review of the PTAB’s determination to institute proceedings, this Court still lacks jurisdiction to review that determination under the APA.

A. THE PTAB’S INTERLOCUTORY DECISION IS NOT A FINAL AGENCY ACTION

The APA only permits review of final agency action. The rationale behind this strict limitation is clear – review of a non-final agency decisions “interfere[s] with the proper functioning of the agency and [is] a burden for the courts.” FTC v. Standard Oil Co., 449 U.S. 232, 242 (1980). Allowing district courts to exercise APA jurisdiction over such action “leads to piecemeal review which at the least is inefficient and upon completion of the agency process might prove to have been unnecessary.” Id. Permitting immediate review here of the PTAB determination to institute proceedings strikes at the very the core of this authority.

Through the AIA, as stated earlier, Congress specifically sought to streamline

administrative proceedings regarding the validity of issued patents, requiring that such proceedings generally be completed within one year of institution. See 35 U.S.C. §§ 316(a)(11); 326(a)(11). If this Court authorizes Versata's instant APA claim to go forward, a flood of APA actions in this Court will follow, as anyone dissatisfied with the PTAB's decision to initiate proceedings will immediately open a new litigative front in this Court under the APA. The undeniable effect will be significant interference with the PTAB's ability to comply with Congress's express demand that such proceedings be completed within twelve months. This collateral district court litigation would occur either before or during substantive post-grant review proceedings and, more importantly, before any party to the proceeding even knows whether it will be dissatisfied with the final agency decision (and thus whether review will be necessary at all). This serves as the epitome of improper interference with the proper functioning of the USPTO, an unnecessary burden on this Court, and an inefficient waste of resources where the statutory scheme does not preclude judicial review of the very issue Versata challenges here at the Federal Circuit at the culmination of the proceedings.

With respect to the "final agency action" requirement of § 704, the Supreme Court has held as follows:

As a general matter, two conditions must be satisfied for agency action to be "final": First, the action must mark the 'consummation' of the agency's decisionmaking process - it must not be of a merely tentative or interlocutory nature. And second, the action must be one by which "rights or obligations have been determined," or from which "legal consequences will flow."

Bennett v. Spear, 520 U.S. 154, 177-78 (1997) (citations omitted). Neither of these conditions is satisfied here.

First, the PTAB's interlocutory decision to institute proceedings is plainly not the

“consummation” of its decisionmaking process. To the contrary, it is just the beginning of the post-grant review process, which will ultimately consummate with a final PTAB decision. The situation here is no different than the circumstances in Heinl v. Godici, 143 F. Supp. 2d 593 (E.D. Va. 2001) (Ellis, J.), in which this Court’s Eastern District colleague held that the decision to grant ex parte reexamination was not a final agency action, but only the “initial” step in the agency process of reexamining a patent. Id. at 597. Courts have repeatedly held that similar decisions to initiate agency proceedings do not constitute final agency action, but rather are only tentative or interlocutory. See, e.g., Standard Oil, 449 U.S. at 241-43 (holding issuance of administrative complaint to initiate agency proceedings not final agency action); Tokyo Kikai Seisakusho, Ltd. v. United States, 529 F.3d 1352, 1363 (Fed. Cir. 2008) (holding decision to reopen a prior sunset review not final agency action); Mobil Exploration & Producing U.S., Inc. v. Dep’t of Interior, 180 F.3d 1192, 1198 (10th Cir. 1999) (holding letter initiating an audit not final agency action); Veldhoen v. U.S. Coast Guard, 35 F.3d 222, 225 (5th Cir. 1994) (“An agency’s initiation of an investigation does not constitute final agency action.”); CEC Energy Co. v. Public Serv. Comm’n, 891 F.2d 1107, 1110 (3d Cir. 1989) (holding agency’s determination that it had jurisdiction to investigate a public utility contract was not definitive but merely a determination to commence an investigation).

Indeed, “[c]ourts have analogized the requirement of ‘final agency action’ in [] the APA to the final judgment requirement of 28 U.S.C. § 1291.” American Airlines, Inc. v. Herman, 176 F.3d 283, 288 (5th Cir. 1999); see also DRG Funding Corp. v. Secretary, 76 F.3d 1212, 1220 (D.C. Cir. 1996) (Ginsburg, J., concurring) (“Our analysis of the finality requirement imposed by the APA is properly informed by our analysis of that requirement in § 1291.”). Were an action to

be litigated in district court, and a defendant files a Federal Rule 12(b)(1) motion attacking the court's jurisdiction, an adverse ruling on that motion plainly is not a final appealable order. See, e.g., Catlin v. United States, 324 U.S. 229, 233 (1945) (“A ‘final decision’ generally is one which ends the litigation on the merits and leaves nothing for the court to do but execute the judgment.”). This is true regardless of whether that issue is unlikely to be addressed again by the court and regardless of the expense inherent in litigating on the merits. Similarly, the PTAB's decision to institute proceedings, including its initial determination that it has jurisdiction to proceed, concerns a nearly identical decision that is plainly interlocutory in nature.

Second, the PTAB's decision to institute proceedings is not final because it does not determine any substantive rights or obligations, and legal consequences do not flow from the decision. See Bennett, 520 U.S. at 177-78. As another of this Court's colleagues has recognized, “[t]he ‘legal rights or consequences’ that make an agency determination ‘final’ under the APA generally have an immediate legal impact on the party in question . . . [and] usually require some positive action on the part of the affected party or a concrete and immediately-felt harm.” Wollman v. Geren, 603 F. Supp. 2d 879, 885 (E.D. Va. 2009) (emphasis added). Indeed, such legal consequences generally must have “the status of law” and a “direct impact on the day-to-day business of plaintiff.” NRDC v. EPA, 16 F.3d 1395, 1407 (4th Cir. 1993) (citing Standard Oil, 449 U.S. at 239-40); see also Reliable Automatic Sprinkler Co., Inc. v. CPSC, 324 F.3d 726, 731 (D.C. Cir. 2003) (holding agency action final if “‘direct and immediate . . . effect on the day-to-day business’ of the party challenging the agency action”). Inherent in this rule is that the agency action must have a direct and immediate effect on the challenging party's substantive legal rights. Cf. Consol. Gas Supply Corp. v. FERC, 611 F.2d 951, 958 (4th Cir.

1979) (“[N]o court, having the power of review of the actions of an administrative agency, should exercise that power to ‘review mere preliminary or procedural orders or orders which do not finally determine some substantive rights of the parties.’”). Simply stated, a decision to institute post-grant review proceedings, as here, that “does not itself adversely affect complainant but only affects his rights adversely on the contingency of future administrative action,” Rochester Tel. Corp. v. United States, 307 U.S. 125, 130 (1939), is not a final agency action for APA purposes. See Herman, 176 F.3d at 288. The PTAB’s decision to initiate proceedings has absolutely no legal effect on Versata’s patent or its ability to enforce its patent.

Moreover, the fact that, as a practical matter, Versata is forced to participate in post-grant review proceedings does not render the decision final for purposes of the APA. Courts have, time and again, held that “the rights and obligations flowing from an order to participate in a proceeding are not ‘the sorts of rights and obligations’ that make an order final.” Burlington Northern R. Co. v. Surface Transp. Bd., 75 F.3d 685, 690 (D.C. Cir. 1996) (quoting Aluminum Co. v. United States, 790 F.2d 938, 941 (D.C. Cir. 1986) (“It is firmly established that agency action is not final merely because it has the effect of requiring a party to participate in an agency proceeding.”)). As the Supreme Court has made clear, imposing a burden to participate in such proceeding, even if substantial, “is different in kind and legal effect from the burdens attending to what heretofore has been considered to be final agency action.” Standard Oil, 449 U.S. at 242.

Simply stated, there is no legal effect to the Board’s decision to institute proceedings; it is simply the beginning of a process whereby the parties’ rights and obligations will ultimately be determined.

B. CONGRESS HAS PROVIDED AN ADEQUATE REMEDY THROUGH REVIEW BY THE FEDERAL CIRCUIT OF THE PTAB'S FINAL DECISION

The APA further does not provide this Court with jurisdiction because Versata has another alternative and adequate remedy – one Congress specifically chose – through direct review of the PTAB's final written determination to the Federal Circuit. See 35 U.S.C. § 329. By its express terms, § 704 “does not provide additional judicial remedies in situations where the Congress has provided special and adequate review procedures.” Bowen v. Massachusetts, 487 U.S. 879, 903 (1988). As one court has held, “the alternative remedy need not provide relief identical to relief under the APA, so long as it offers relief of the ‘same genre.’” Garcia v. Vilsack, 563 F.3d 519, 522 (D.C. Cir. 2009). In other words, the inquiry is not whether the remedy is “as effective” as APA review, but rather simply whether it is adequate. Id. at 315-16.

Here, Congress has chosen an adequate, alternative remedy of direct Federal Circuit review at the culmination of the PTAB proceedings to streamline the review process while maintaining the parties' full rights to judicial review. See, e.g., 157 Cong Rec. S1376 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl) (“The bill also eliminates intermediate administrative appeals of inter partes proceedings . . . instead allowing parties to only appeal directly to the Federal Circuit. By reducing two levels of appeal to just one, this change will substantially accelerate the resolution of inter partes cases.”); H.R. RPT. 112-98, at 47 (“Inter partes reviews will be conducted before a panel of three APJs. Decisions will be appealed directly to the Federal Circuit.”)

And the Federal Circuit has full jurisdiction to review the PTAB's final decision. The structure of the statutory scheme makes clear that any alteration to Versata's patent arising from the proceeding will not go into effect until Versata's appellate rights have been fully exhausted.

CERTIFICATE OF SERVICE

I hereby certify that on this date, I electronically filed the foregoing with the Clerk of Court using the CM/ECF system, which will send a notification of such filing (“NEF”) to the following:

Elizabeth Ferrill
Finnegan, Henderson, Farabow, Garrett & Dunner, L.L.P.
901 New York Avenue, N.W.
Washington, D.C. 20001
elizabeth.ferrill@finnegan.com

and I will send a true and correct copy of the foregoing by electronic mail to the following:

Robert Danny Huntington
Rothwell Figg Ernst & Manbeck
607 14th Street, N.W., Suite 800
Washington, D.C. 20005
dhuntington@rfem.com

Date: May 16, 2013

/s/
DENNIS C. BARGHAAN, JR.
Assistant U.S. Attorney
2100 Jamieson Avenue
Alexandria, Virginia 22314
Telephone: (703) 299-3891
Fax: (703) 299-3983
Email: dennis.barghaan@usdoj.gov

ATTORNEYS FOR DEFENDANT