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FEDERAL CIRCUIT CASES

The Federal Circuit Rules that the PTAB's Decision to Institute a CBM Cannot Be Challenged in Court

This week, the Federal Circuit decided Versata II, a companion case to *Versata Development Group, Inc. v. SAP America, Inc*., No. 2014-1194 (Versata I) that issued last week. Versata I held that the proper claim construction standard for a CBM is broadest reasonable interpretation, and the PTAB's CBM validity determinations are appealable. Versata II decided whether the PTAB's decision to institute a CBM can be challenged.

In this case, the patent owner sued the United States Patent Office in the U.S. District Court for the Eastern District of Virginia, and sought to set aside the PTAB's decision to institute a CBM review on its patent. The district court held that it lacked subject matter jurisdiction to decide the issue; the Federal Circuit affirmed.

AIA §18, which covers reviews of CBM patents, does not articulate a rule on this issue. But 35 U.S.C. § 324, which is part of the Post Grant Review chapter, does articulate the following rule: "[t]he determination [by the PTAB] whether to institute a post-grant review under this section shall be final and nonappealable." The Federal Circuit held that the PTAB's decision to institute a CBM cannot be challenged in the courts because AIA §18(a)(1) incorporates the relevant procedures from § 324.

Versata Development Group, Inc. v. Michelle K. Lee, No. 2014-1145 (July 13, 2015).

- *Author*: Samar Shah

Federal Circuit Affirms District Courts' Ruling Denying Exceptional Case Designation

Under the Supreme Court's standard for an exceptional case, the Federal Circuit found that a Texas district court did not abuse its discretion in denying a request from defendant Newegg for more than $1.2 million in attorneys' fees from plaintiff. SFA Systems based on Newegg's allegation that SFA filed suit in bad faith with no intent to try the case on the merits but instead filed solely to extract a settlement.

Here, Newegg argued that SFA "engaged in a vexatious litigation strategy based on evidence that: (1) SFA dismissed its claims against Newegg once it was faced with the prospect of a trial in which the merits of its claims would be tested; (2) SFA sued many defendants for infringement of the same patents; and (3) SFA frequently settled with prior defendants for relatively small amounts.

The Federal Circuit found that "although SFA dismissed this suit after the court had ruled in its favor on claim construction and only six months before trial, Newegg presented no evidence that the dismissal was because SFA knew that Newegg was not going to settle." SFA also argued that its decision to dismiss its claims against Newegg was a business decision, made when SFA determined that risk and expense of trial outweighed the potential financial benefit of continuing this action.

Ultimately, the Federal Circuit determined that the district court had not abused its discretion while noting the following:

> We agree with Newegg … that a pattern of litigation abuses characterized by the repeated filing of patent infringement actions for the sole purpose of forcing settlements, with no intention of testing the merits of one's claims, is relevant to a district court's exceptional case determination under § 285. And, we agree with Newegg, moreover, that to the extent the district court's opinion in this case can be read to discount the motivations behind a patentee's litigation history, the district court was wrong. The problem with Newegg's request that we reverse the district court's exceptional case determination on these grounds, however, is its

failure to make a record supporting its characterization of SFA's improper motivations.

Under the new, lower standard for an exceptional case designation, courts will still require defendants prove that plaintiff demonstrated a pattern of filing repeated lawsuits but then settled only for nuisance value. In this instance, Newegg did not provide this evidence supporting an exceptional case.

SFA Systems, LLC v. Newegg, Inc., No. 2014-1712 (Fed. Cir. July 10, 2015).

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