

809 F.3d 1307  
United States Court of Appeals,  
Federal Circuit.

[SIGHTSOUND TECHNOLOGIES, LLC](#), Appellant

v.

APPLE INC., Appellee

Nos. 2015–1159, 2015–1160.

|

Dec. 15, 2015.

### Synopsis

**Background:** Patentee appealed from final decision of Patent and Trademark Office, Patent Trial and Appeal Board, [2014 WL 5077171](#) and [2014 WL 5077172](#), in proceeding for covered business method (CBM) review of validity of patent claims, which found invalid on ground of obviousness the challenged claims in patents for methods for electronic sale and distribution of digital audio and video signals.

**Holdings:** The Court of Appeals, [Dyk](#), Circuit Judge, held that:

[1] it lacked jurisdiction to review Patent Trial and Appeal Board's decision to initiate CBM review;

[2] it had jurisdiction to review whether patents were CBM patents;

[3] Patent Trial and Appeal Board determinations that patents for methods for electronic sale and distribution of digital audio and video signals were covered business method (CBM) patents, and thus were subject to Board's review for validity, were not arbitrary or capricious and were supported by substantial evidence;

[4] Patent Trial and Appeal Board properly construed patents; and

[5] challenged claims were invalid on ground of obviousness.

Affirmed.

### Attorneys and Law Firms

\***1310** [Matthew Wolf](#), Arnold & Porter LLP, Washington, DC, argued for appellant. Also represented by [Jennifer Sklenar](#), Los Angeles, CA.

[Douglas Hallward-Driemeier](#), Ropes & Gray LLP, Washington, DC, argued for appellee. Also represented by Jon Steven Baughman, [Sharon Lee](#), [Megan Freeland Raymond](#), [Paul Michael Schoenhard](#), [Darrell Stark](#); [Ching-Lee Fukuda](#), New York, N.Y.; [James Richard Batchelder](#), [Lauren Nicole Robinson](#), East Palo Alto, CA.

[Benjamin T. Hickman](#), United States Patent and Trademark Office, Office of the Solicitor, Alexandria, VA, argued for intervenor Michelle K. Lee. Also represented by [Nathan K. Kelley](#), [Scott C. Weidenfeller](#).

Before [LOURIE](#), [DYK](#), and [HUGHES](#), Circuit Judges.

### Opinion

[DYK](#), Circuit Judge.

SightSound Technologies, LLC (“SightSound”) is the owner of [U.S. Patent No. 5,191,573 \(the “#573 patent”\)](#) and [5,966,440 \(the “#440 patent”\)](#). Apple Inc. (“Apple”) petitioned the United States Patent and Trademark Office (“PTO”) for covered business method (“CBM”) review of claims 1, 2, 4, and 5 of the [#573 patent](#) and claims 1, 64, and 95 of the [#440 patent](#). The PTO granted Apple's petition and instituted \***1311** CBM review. The Patent Trial and Appeal Board (“the Board”) issued a final decision finding all the challenged claims would have been obvious. SightSound appealed.

We hold that we lack jurisdiction to review the PTO's decision to consider issues not explicitly raised in the petitions. We do, however, have jurisdiction to review whether the patents qualify as CBM patents. We affirm the Board's determination that the [#573](#) and [#440 patents](#) qualify as CBM patents. Finally, we affirm the Board's final decision with respect to claim construction and obviousness.

### BACKGROUND

The [#573](#) and [#440 patents](#) owned by SightSound disclose methods for the electronic sale and distribution

of digital audio and video signals. Each of the relevant claims requires (1) forming a connection, through telecommunications lines, between a first party's first memory and a second party's second memory; (2) selling the desired digital video or digital audio signals to the second party for a fee through telecommunications lines; (3) transmitting the desired signal from the first memory to the second memory via telecommunications lines; and (4) storing the transmitted signal in the second memory. *E.g.*, [#440 patent](#) col. 8 ll. 44–64; [#573 patent](#) col. 6 ll. 4–24. Dependent claim 2 of the [#573 patent](#) adds the step of searching for and selecting a signal from the first memory after the signal has been transferred. [#573 patent](#) col. 6 ll. 25–29. Claims 4 and 5 of the [#573 patent](#) are the same as claims 1 and 2 respectively, but substitute digital video for audio signals. *Id.* col. 6 ll. 36–59. Claims 64 and 95 of the [#440 patent](#) recite additional limitations, including storing digital signals “in the second party hard disk.” [U.S. Patent No. 5,966,440 C1](#) (re-examination certificate) (“#440 C1 patent”) col. 8 ll. 14–44, col. 13 ll. 14–51.

On May 6, 2013, Apple filed petitions with the Board seeking CBM review of the [#573](#) and [#440 patents](#) under AIA § 18. *See* Leahy–Smith America Invents Act (“AIA”), [Pub.L. 112–29, 125 Stat. 284](#), 329–31 (2011).<sup>1</sup> Apple argued that claims 1, 2, 4, and 5 of the [#573 patent](#) and claims 1, 64, and 95 of the [#440 patent](#) were invalid as anticipated under [35 U.S.C. § 102](#). The Board instituted CBM review. In instituting review, the Board applied the definition of CBM in the statute and regulations. *See* AIA § 18(d); [37 C.F.R. § 42.301](#). The Board first determined that the [#573](#) and [#440 patents](#) are CBM patents because they recite the electronic movement of money between financially distinct entities, an activity that is “financial in nature,” and do not include novel and non-obvious technological features that would otherwise excluded them from CBM treatment. J.A. 556–59, 987–94. The Board then determined that there was a reasonable likelihood that the asserted claims were anticipated or rendered obvious by a series of disclosures relating to a computer system developed by CompuSonics in the 1980s. Although Apple's petitions included the grounds on which the PTO instituted review with respect to anticipation and alleged facts to support obviousness, the petitions did not specifically allege obviousness over CompuSonics. The Board nonetheless held that it was appropriate to initiate review on obviousness grounds: “[I]n addition to Petitioner's asserted ground of anticipation ... we exercise our discretion to institute a covered business method

review ... on the \*1312 ground of unpatentability over the CompuSonics publications under [35 U.S.C. § 103\(a\)](#).” J.A. 571.

<sup>1</sup> In general, the AIA is codified in various parts of Title 35 of the U.S.Code. Section 18 of the AIA, however, is not codified; it is found in pages 329–31 of 125 Stat. References to § 18 in this opinion are to the statutes at large.

During the CBM proceedings SightSound argued that it had been deprived of a fair opportunity to respond to the obviousness grounds on which the CBM review had been instituted. The Board granted SightSound additional time for argument and authorized it to file sur-replies and new declaration testimony on the issue of obviousness, “to ensure that Patent Owner has a full and fair opportunity to be heard on the issue of obviousness.” J.A. 709, 1003.

In its final decision on the merits, the Board rejected SightSound's contention that the term “second memory” is limited to non-removable media, relying on the claim language, specification, and prosecution history to conclude that under the broadest reasonable interpretation standard the term encompasses any second storage space in a computer medium that is capable of retaining data or instructions and is not limited to hard disks. The Board reaffirmed the initiation decision that the Board did not exceed its jurisdiction when it initiated CBM review, explaining that, while Apple's petitions did not assert obviousness explicitly, they nevertheless “supported [such] a ground” based on their detailed explanation of the various CompuSonics references. J.A. 25–27, 92–94. The Board held claims 1, 2, 4, and 5 of the [#573 patent](#) and claim 1 of the [#440 patent](#) invalid as obvious. It found that “Apple explains in detail in its Petition[s] how the CompuSonics publications teach every limitation” of the claims, J.A. 31, 98, and that the reason to combine was manifested by the references themselves. The Board also held claims 64 and 95 of the [#440 patent](#) invalid as obvious, finding that the CompuSonics publications would have suggested to an ordinary artisan the desirability of using a hard disk in connection with the other claimed aspects of the invention. SightSound appealed. The PTO intervened. We have jurisdiction to review the Board's final decision under [28 U.S.C. § 1295\(a\)\(4\)\(A\)](#) and [35 U.S.C. § 329](#).

## DISCUSSION

## I

[1] We first address the question of jurisdiction. CBM patents are governed by the special provisions of AIA § 18. For purposes of conducting proceedings and appellate review, section 18 is considered part of the broader chapter 32 provisions of title 35 of the U.S.Code, governing post-grant review (“PGR”).<sup>2</sup> Decisions relating to the institution of CBM review are not reviewable. “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\(e\)](#). As noted, this provision is applicable to both PGR and CBM proceedings; the Board acts for the Director in deciding whether to institute a review. *See* AIA § 18(a)(1); [37 C.F.R. § 42.4](#). After CBM review is instituted, CBM review proceeds before the Board, and concludes with the Board's “final written decision” pursuant to [35 U.S.C. § 328\(a\)](#). [Section 329](#) provides for appeal of that decision to this court. Thus the decision whether to initiate is not appealable, but the final decision is subject to review. *See In re Cuozzo Speed Techs., LLC*, 793 F.3d 1268, 1273(Fed.Cir.2015).

<sup>2</sup> “The transitional proceeding implemented pursuant to this subsection shall be regarded as, and shall employ the standards and procedures of, a post-grant review under chapter 32 of title 35.” AIA § 18(a)(1). *See also Versata Dev. Grp., Inc. v. SAP Am., Inc.*, 793 F.3d 1306, 1315 (Fed.Cir.2015) (“*Versata II*”).

## \*1313 A

[2] SightSound contends that we should set aside the final decision because the proceedings were improperly initiated since Apple did not explicitly raise the issue of obviousness in its petitions.<sup>3</sup> The Board rejected this argument, explaining that Apple's petitions supported review for obviousness because they explained in detail how the CompuSonics disclosures “teach every limitation of the claims ... and describe similar features and relate to each other.” J.A. 26. Because the CompuSonics references described various advantages of a system that would enable electronic music processing, “the references themselves demonstrate that a person of ordinary skill in

the art would have been led to create a system for users to purchase and download music.” *Id.* at 40. The PTO and Apple argue that the statute and our prior decision in *In re Cuozzo Speed Technologies.*, 793 F.3d at 1268, bars this Court from reviewing whether the Board properly initiated review when obviousness was not explicitly raised in the petitions. We agree.

<sup>3</sup> SightSound relies on [35 U.S.C. § 322\(a\)\(3\)](#), which requires that a petition must recite “in writing and with particularity, each claim challenged, the grounds on which the challenge to each claim is based, and the evidence that supports the grounds for the challenge to each claim,” and [37 C.F.R. § 42.204\(b\)](#), which requires a petition to include the “specific statutory grounds ... on which the challenge to [each] claim is based.”

In *Cuozzo* we considered § 314(d), applicable to inter partes review proceedings, which mirrors the bar on appeal in [§ 324\(e\)](#). It provides that “[t]he determination by the Director whether to institute an inter partes review under this section shall be final and nonappealable.” [35 U.S.C. § 314\(d\)](#). There, *Cuozzo* argued that the PTO improperly instituted inter partes review with respect to certain claims because it relied on prior art references not identified by the petitioner in its petitions contrary to the requirements of [35 U.S.C. § 312\(a\)\(3\)](#). *Cuozzo*, 793 F.3d at 1272. We rejected *Cuozzo*'s challenge as barred by the statute. *Id.* at 1274. We held that [§ 314\(d\)](#) “bar[s] review of all institution decisions, even after the Board issues a final decision.” *Id.* at 1273. We explained that generally institution decisions are not reviewable, and in particular a challenge based on a defect in the initiation that could have been cured by a proper pleading is not reviewable. *Id.* at 1274. Only limitations on the Board's authority to issue a final decision are subject to review.

In *Achates Reference Publishing, Inc. v. Apple Inc.*, 803 F.3d 652 (Fed.Cir.2015), we again considered alleged defects in the initiation of inter partes review. There, *Achates* argued that the Board improperly instituted inter partes review because the underlying petitions were time-barred under [35 U.S.C. § 315\(b\)](#). Once again, we rejected the argument as barred by the statute. *Achates*, 803 F.3d at 658. We explained that just as the pleading in *Cuozzo* could have been made “sufficient by the inclusion of the missing prior art reference ... the [alleged] timeliness issue here could have been avoided if Apple's petition had been filed a year earlier or if a petition identical to Apple's were

filed by another party.” *Id.* at 657. Achates' argument thus challenged nothing more than the Board's determination to institute inter partes review.

The same is true here. SightSound argues that the Board erred in considering obviousness because Apple failed to include such argument in its petitions. As in *Cuozzo*, the statute does not limit the Board's authority at the final decision stage to grounds alleged in the CBM petitions.

\*1314 The reasoning of *Cuozzo* and *Achates* applies not only to § 314(d), involved in *Cuozzo* and *Achates*, but also to § 324(e), the identical provision applicable to CBM review. SightSound argues that the “under this section” language in § 324(e) only bars review of challenges to institution decisions based on the grounds specified in § 324(a) and (b). We reject this argument. Section 324(e) bars review of any institution decision. *Cuozzo* and *Achates* control, and the challenge is therefore barred by § 324.<sup>4</sup> We also see no basis for mandamus relief on the Board's initiation decision, because “the situation here is far from satisfying the clear-and-indisputable requirement for mandamus.” *Cuozzo*, 793 F.3d at 1275.

<sup>4</sup> We see no merit in SightSound's contention that the Board's approach deprived it of due process, particularly in light of the Board's care in giving SightSound multiple opportunities to comment on the obviousness issue beyond what was required.

## B

[3] SightSound also contends that the #573 and #440 patents are not CBM patents, and therefore the Board lacked authorization to review them. The PTO and Apple again argue that we are barred from reviewing this question. Here we disagree.

We previously addressed our jurisdiction to review the Board's determination of whether patents are CBM patents in *Versata II*. There we held that the question of whether a patent falls within the scope of the Board's authority under AIA § 18 as a CBM patent is a limitation on the Board's authority to issue a final decision and may be reviewed on appeal from a final written decision of the Board. *Id.* at 1319. While *Versata II* is limited to our review of Board determinations of whether a patent falls within its § 18 authority as a CBM patent, that is precisely the issue here. Accordingly, *Versata II* controls, and SightSound's contention that the Board

lacked jurisdiction to review the #573 and #440 patents because they are not CBM patents is not barred by § 324(e).

## II

CBM review is available only for patents that fall under the definition of a “covered business method patent.” The statute defines that term:

For the purposes of this section, the term “covered business method patent” means 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 or service, except that the term does not include patents for technological inventions.

AIA § 18(d). There are three sources of PTO rulemaking relevant to CBM review. First, 35 U.S.C. § 326, which is applicable to CBM review through the PGR provisions, grants the PTO authority to “prescribe regulations ... setting forth the standards for the showing of sufficient grounds to institute a review.” 35 U.S.C. § 326(a)(2). Second, AIA § 18 grants the PTO general authority to “issue regulations establishing and implementing a transitional post-grant review proceeding for the review of the validity of covered business method patents.” AIA § 18(a)(1). Third, AIA § 18 grants the PTO specific authority with respect to the “technological inventions” element of the covered business method patent definition:

To assist in implementing the transitional proceeding authorized by this subsection, the Director shall issue regulations \*1315 for determining whether a patent is for a technological invention.

AIA § 18(d)(2).

## A



[4] We need not decide whether *Chevron* deference applies because the only legal questions regarding application of AIA § 18 to the patents-at-issue were decided by *Versata II*. SightSound primarily contends that its patents are not CBM patents because to “relate to a financial product or service the invention as a whole must be directed to the management of money, banking, or investment or credit.” Appellant’s Br. 30. *Versata II* foreclosed this interpretation: “as a matter of statutory construction, the definition of ‘covered business method patent’ is not limited to products and services of only the financial industry, or to patents owned by or directly affecting activities of financial institutions.” 793 F.3d at 1325. We explained that the interpretation proposed by SightSound would “require reading limitations into the statute that are not there.” *Id.* Here, the Board concluded that a “financial activity” not directed to money management or banking can constitute a “financial product or service” within the meaning of the statute. J.A. 988; accord J.A. 556. *Versata II* directly supports this conclusion.

[5] SightSound also contends that its patents are not CBM patents because they claim technological inventions, since they “recite a computer to transmit, and a second memory to store, digital signals in a way that prior art hardware units did not.” Appellant’s Br. 35 n. 9. *Versata II* again foreclosed this interpretation: “the presence of a general purpose computer to facilitate operations through uninventive steps” in a patent does not render it a technological invention within the meaning of the statute. *Id.* at 1327. Claiming a computer without “specific, unconventional software, computer equipment, tools or processing capabilities” is insufficient. *Id.* Here, the Board concluded that a combination of known technologies does not amount to a “technological invention” within the meaning of the statute. J.A. 559–60, 993–94. *Versata II* also directly supports this conclusion.

## B

[6] [7] We next address the Board’s determinations that the particular patents at issue are CBM patents. In this respect, we review the Board’s reasoning under the arbitrary and capricious standard and its factual determinations under the substantial evidence standard. “A reviewing court reviews an agency’s reasoning to determine whether it is ‘arbitrary’ or ‘capricious,’ or,

if bound up with a record-based factual conclusion, to determine whether it is supported by ‘substantial evidence.’ ” *Dickinson v. Zurko*, 527 U.S. 150, 164, 119 S.Ct. 1816, 144 L.Ed.2d 143 (1999). See also *In re Gartside*, 203 F.3d 1305, 1313–14 (Fed.Cir.2000); Harry T. Edwards & Linda A. Elliot, *Federal Standards of Review: Review of District Court Decisions and Agency Actions* 167–169 (2007). In concluding that the #573 and # 440 patents claim a method used in a financial product or service, the Board explained that claim 1 of both the #573 and #440 patents is “directed to activities that are financial in nature, namely the electronic sale of digital audio.” J.A. 554, 988. The Board looked to the specifications, which repeatedly refer to electronic “sale,” “purchase,” and “money,” e.g., #573 patent col. 1 ll. 9–14; col. 2 ll. 26–30; col. 2 ll. 51–58, and claims 3 and 4 of the #573 and #440 patents respectively, which recite “providing a credit card number of the second party ... so the second party is charged money.” J.A. 555, 988. The Board concluded that “the \*1316 electronic sale of something, including charging a fee to a party’s account, is a financial activity, and allowing such a sale amounts to providing a financial service.” J.A. 988; accord J.A. 556. The Board’s reasoning is not arbitrary or capricious and its findings are supported by substantial evidence.

The Board next explained that the #573 and #440 patents do not claim a “technological invention.” J.A. 560, 994. It found that, while the claims of both the #573 and #440 patents utilize technical components such as a “first memory,” “second memory,” “telecommunications line,” “transmitter,” and “receiver,” those components were all “generic hardware devices known in the prior art.” J.A. 559, 992. The Board also found that the combination of steps recited in the #573 and #440 patents did not amount to a technological feature that is novel and non-obvious over the prior art, because the steps would have been obvious in light of the CompuSonics references. The Board explained that “while we agree with Patent Owner that the steps in claim 1 must be implemented using the recited hardware ... that does not mean necessarily that the patent is for a technological invention because the components themselves were known in the art.” J.A. 560, 993. Finding that the claims merely recited “known technologies to perform a method” and the “combination” of those technologies would have been obvious, the Board concluded that the # 573 and #440 patents did not claim a “technological invention.” J.A. 559–60, 993–94. The Board’s reasoning is not arbitrary or

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