

2013 WL 3167735 (Patent Tr. & App. Bd.)

Patent Trial and Appeal Board

Patent and Trademark Office (P.T.O.)

SAP AMERICA, INC. PETITIONER,

v.

VERSATA DEVELOPMENT GROUP, INC. PATENT OWNER.

Case CBM2012-00001 (MPT)

Patent 6,553,350

June 11, 2013

**PETITIONER:**

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Before [SALLY C. MEDLEY](#), [MICHAEL P. TIERNEY](#), and RAMA G. ELLURU

Administrative Patent Judges

[TIERNEY](#)

Administrative Patent Judge

FINAL WRITTEN DECISION

*37 C.F.R. § 42.73*

SAP filed a petition seeking a covered business method patent review of Versata's 6,553,350 ('350) patent pursuant to section 18 of the Leahy-Smith America Invents Act (AIA).<sup>1</sup> An oral hearing was held on April 17, 2013. This decision is a final written decision under [35 U.S.C. § 328\(a\)](#) as to the patentability of the challenged claims. Based on the record presented, we hold that Versata's '350 claims 17, and 26-29 are unpatentable under [35 U.S.C. § 101](#).

I. Background

In 2007, Versata sued SAP for infringement of the '350 patent. The case proceeded to trial and a jury found infringement by SAP and awarded damages. Ex. 2039 (Jury Verdict). The district court denied SAP's post trial motion challenging the infringement verdict, but held a new trial on damages. In the second trial, the jury awarded lost-profits and reasonable royalty damages. The district court upheld those awards. Patent Owner Preliminary Response 7 ("Prel. Resp."), Paper 29.

Both parties appealed the district court's final judgment to the U.S. Court of Appeals for the Federal Circuit on October 11, 2011. *Versata Software, Inc. v. SAP America, Inc.*, Nos. 2012-1029, -1049. Of note, SAP did not appeal the district court's claim construction, and the validity of the '350 patent was not an issue on appeal. Prel. Resp. 8. The Federal Circuit affirmed the jury's infringement verdict and damages award but vacated and remanded a permanent injunction as overbroad. *Versata Software Inc. v. SAP America Inc.*, 106 USPQ2d 1649 (Fed. Cir. 2013).

SAP filed a petition with the United States Patent and Trademark Office ("Office") on September 16, 2012, challenging claims 17 and 26-29 of the '350 patent as unpatentable for failing to comply with 35 U.S.C. §§ 101, 102, and 112, 1<sup>st</sup> and 2<sup>nd</sup> paragraphs. Petition ("Pet."), Paper 1. Versata filed a patent owner preliminary response opposing the institution of the review. On January 9, 2013, the Patent Trial and Appeal Board ("Board") granted the petition and instituted the trial proceeding. The Board concluded that SAP demonstrated that claims 17 and 26-29 were more likely than not unpatentable under 35 U.S.C. §§ 101 and 102, but denied the petition as to 35 U.S.C. § 112, 1<sup>st</sup> and 2<sup>nd</sup> paragraphs. Decision on Institution of a Covered Business Method Patent Review ("Decision"), Paper 36.

\*2 SAP requested that the trial be expedited with respect to the patentability of Versata's claims under 35 U.S.C. § 101. Motion, Paper 40. Versata opposed the request, alleging that bifurcating the § 101 and § 102 issues had the potential to prolong the proceeding and increase costs, contrary to the purposes of the AIA. Opposition, Paper 42. SAP, however, agreed to forgo its challenge on the ground of unpatentability under § 102, if the Board were to enter the requested expedited schedule. Renewed Request, Paper 44. In light of SAP's agreement to forgo the § 102 challenge, the Board granted SAP's request to expedite the trial schedule. Decision Conduct of the Proceeding, Paper 45.

Versata filed a patent owner response to the petition, contending that the challenged claims are patentable under § 101 and that the Board had employed an incorrect claim construction standard in construing the '350 patent claims. Response ("PO Resp."), Paper 51. SAP's reply to the patent owner response maintained that the claims are unpatentable and that the Board had construed the claims properly. "Pet. Reply," Paper 58.

Both parties requested an oral hearing. See 35 U.S.C. § 326(a)(10) and 37 C.F.R. § 42.70(a). A hearing was held on April 17, 2013, a transcript of which appears in the record. Record of Oral Hearing, Paper 66.

## II. Versata's '350 Patent<sup>2</sup>

Versata's '350 patent is directed to a method and apparatus for pricing products and services. Ex. 1001, '350 patent, 3:9-13. The central concept of the '350 patent involves hierarchies and the hierarchal arrangement of data. Ex. 1005, ¶ 20.

The '350 patent states that its "invention operates under the paradigm of WHO (the purchasing organization) is buying WHAT (the product)." The '350 patent, 3:24-25. An example of the WHO/WHAT paradigm is depicted in Figure 1 of the '350 patent below:

*FIG. 1*

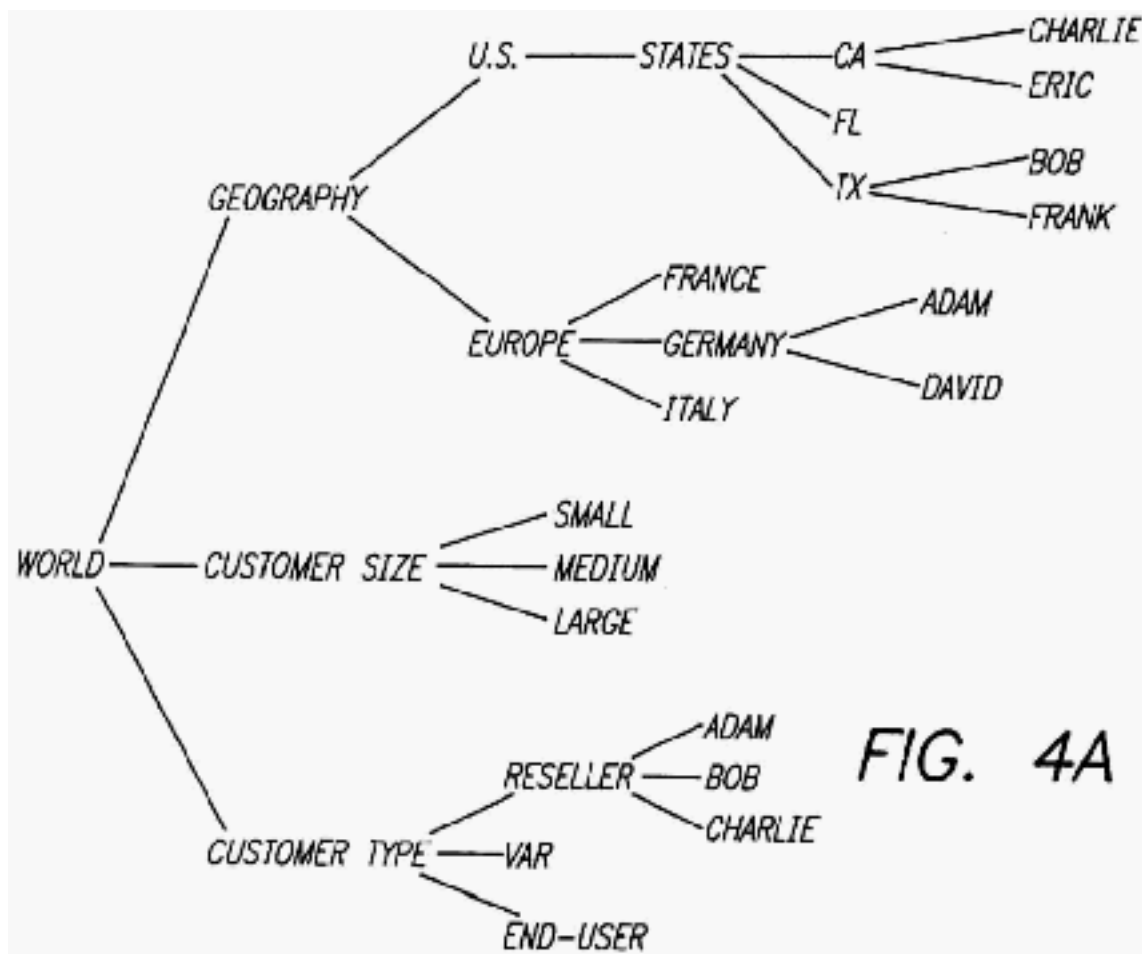
**FIG. 1**  
PRIOR ART

WHAT WHO	486/33 CPU	486/50 CPU	486/66 CPU
ADAM	\$40	\$60	\$80
BOB	\$42	\$58	\$72
CHARLIE	\$44	\$68	\$92

According to the '350 patent, the WHO/WHAT paradigm was known in the prior art. *Id.*, Fig. 1, 4:16-18. The '350 patent, however, states that prior art pricing tables for WHO/WHAT (customer/products) required large tables of data. *Id.*, 1:52-59.

The '350 patent invention is said to improve upon the prior art and reduce the need for large tables of data by arranging customers into a hierarchy of customer groups and products into a hierarchy of product groups. *Id.*, 3:24-27, 41-42. Specifically, in the '350 patent, WHO is defined by creating an organizational hierarchy of organizational groups, where each group represents a characteristic of the organizational group. *Id.* An example of an arrangement of an organization customer group is depicted below in Fig. 4A of the '350 patent:

FIG. 4A



\*3 Similarly, a product group hierarchy for products (WHAT) is also defined. *Id.*, Fig. 4B, 4:26-28. Pricing information is then associated with the customer and product groups. *Id.*, 8:17-25. As such, special pricing adjustments may be defined as applying to all members of a specific customer group or a specific product group. *Id.*, 3:26-49.

### III. Analysis

SAP contends that the '350 claims 17 and 26-29 are unpatentable because the claims are abstract and not statutory subject matter for a patent under [35 U.S.C. §101](#). Pet. 16-21. Specifically, SAP states that Versata's claims are directed to the abstract ideas of arranging customer and product hierarchies and calculating a product price.

Versata contends that the Board should conclude that the '350 claims are not abstract, but instead are patent-eligible under [§ 101](#). Versata maintains that each of the claims, considered as a whole, is directed to a specific, practical and advantageous way to determine a product price. PO Resp. 1. According to Versata, both SAP's petition and the Board's Decision on Institution, failed to consider the claims as a whole and address each of their recited limitations, such as storing, retrieving, and sorting. PO Resp. 16-51. Additionally, Versata contends that the Board should not have applied the broadest reasonable interpretation standard for claim construction in this proceeding and, therefore, the Board's claim construction in the Decision instituting trial was in error. PO Resp. 51-67. Versata states that the correct claim construction was that used by the district court, which further supports the patent eligibility of Versata's challenged claims. PO Resp. 61-67.

SAP, as petitioner, bears the ultimate burden of proof that Versata's claims are unpatentable under [§ 101](#). To place SAP's and Versata's contentions in context, we begin our analysis by first discussing our construction of the challenged claims. *Bancorp Serv., LLC v. Sun Life Assurance Co. of Canada*, 687 F.3d 1266, 1273-74 (Fed. Cir. 2012) (“[I]t will ordinarily be desirable--

and often necessary-- to resolve claim construction disputes prior to a § 101 analysis, for the determination of patent eligibility requires a full understanding of the basic character of the claimed subject matter.”).

#### A. Claim Construction: The Broadest Reasonable Interpretation Standard

The Board's Decision on Institution construed the challenged claims using the broadest reasonable interpretation (“BRI”) standard. Decision 6. SAP contends that the Board's use of BRI was appropriate under the AIA statutes and rules. Pet. Reply 14-15. Versata disagrees and contends that the Board's use of such a standard “was in error.” PO Resp. 61.

##### 1. A Century of BRI at the Office

\*4 Versata states that claim construction is a question of law and that claim terms should be accorded only one definition: that which is based on a district court interpretation standard. PO Resp. 62. There are, however, two claim construction standards: the Office's BRI construction and the district court standard set forth in *Phillips v. AWH*.<sup>3</sup> The difference in standards generally arises from the ability of an applicant or patent owner in Office proceedings to amend their claims, and the fact that there is no presumption of validity before the Office.<sup>4</sup> Through the use of the broadest reasonable interpretation standard, the Office is able to encourage inventors to amend their claims to remove uncertainties and over breadth of claim scope.

For at least a century, the Office has encouraged clear and unambiguous claim drafting by utilizing the broadest reasonable interpretation. For example, a 1906 Commissioner of Patent's Decision held that there is no better method of construing claims before the Office. Specifically, this early decision explains the rationale for BRI as follows:

No better method of construing claims is perceived than to give them in each case the broadest interpretation which they will support without straining the language in which they are couched. This method would seemingly give more uniform and satisfactory results than are obtained by methods largely in vogue - such, for example, as that of importing limitations from the specification according to the exigencies of the particular situation in which the claim may stand at a given moment. The method suggested also seems to have the advantage according in its results with the probable intentions of the inventor at the time when the claim is drawn. In presenting claims to the Office the object constantly sought is breadth. Where a limited meaning is intended when a claim is drawn, what possible objection can there be to imposing that meaning unmistakably upon the claim by its express terms? *That a claim which does not carry its true meaning on its face misleads those affected by the patent instead of guiding them to its true scope is alone sufficient reason why the Patent Office should refuse to recognize proposed limitations of claims which have not been clearly expressed therein.*

*Podlesak and Podlesak v. McInnerney*, 123(2) O.G. 1989, 1990 (Dec. Com. Pat. 1906, emphasis added). This standard of claim construction and its rationale have been upheld consistently by the Federal courts, including both the Court of Customs and Patent Appeals (“CCPA”) and the Federal Circuit. For instance, in 1932, the CCPA stated that:

After a patent has issued, and it no longer is possible for the patentee to control the phraseology of his claims, the courts will so interpret them, if possible, as to protect him; but there is no reason, as we many times have observed, why an applicant in the Patent Office should not draw his claims to cover his actual invention only. For this reason, we have uniformly ruled that claims will be given the broadest interpretation of which they reasonably are susceptible. This rule is a reasonable one and tends not only to protect the real invention but to prevent needless litigation after the patent has issued.

\*5 *In re Horton*, 54 F.2d 961, 964-65 (CCPA 1932) quoting *In re Carr*, 297 F. 542, 543-44 (C.A.D.C. 1924); see also, *In re Kebrich*, 201 F.2d 951 954 (CCPA 1953) (stating that consideration of patentability requires use of broadest reasonable interpretation); *In re Prater*, 415 F.2d 1393, 1405-05 (CCPA 1969) (holding that the broadest reasonable interpretation is

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