

# *Versata v. SAP I and II: Who's Your Daddy?*

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E-group PQ presentation

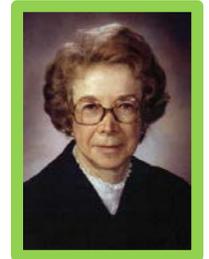
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# Essentials

- *Versata Dev. Group. v. SAP* (Fed. Cir. July 9, 2015) (Plager, Newman, Hughes) – *Versata I*
  - *USPTO, Intervenor*
    - *First CBM reviewed on merits by CAFC*
    - *CBM Eligibility Reviewable on Appeal of Final Written Decision*
    - *BRI applies in a CBM review of pending patent*
    - *§101 available as a ground in a CBM review*
    - *Upheld PTAB: '350 CBM-eligible, Invalid under §101*



- Hughes: Concurring-in-part, dissenting-in-part



# Essentials

- *Versata Dev. Group. v. SAP* (Fed. Cir. July 13, 2015) (Plager, Newman, Hughes) – *Versata II*
  - *USPTO, Defendant-Appellee*
    - Upheld Dist. Ct.
    - Judicial review of PTAB CBM institution decision barred by §324(e).

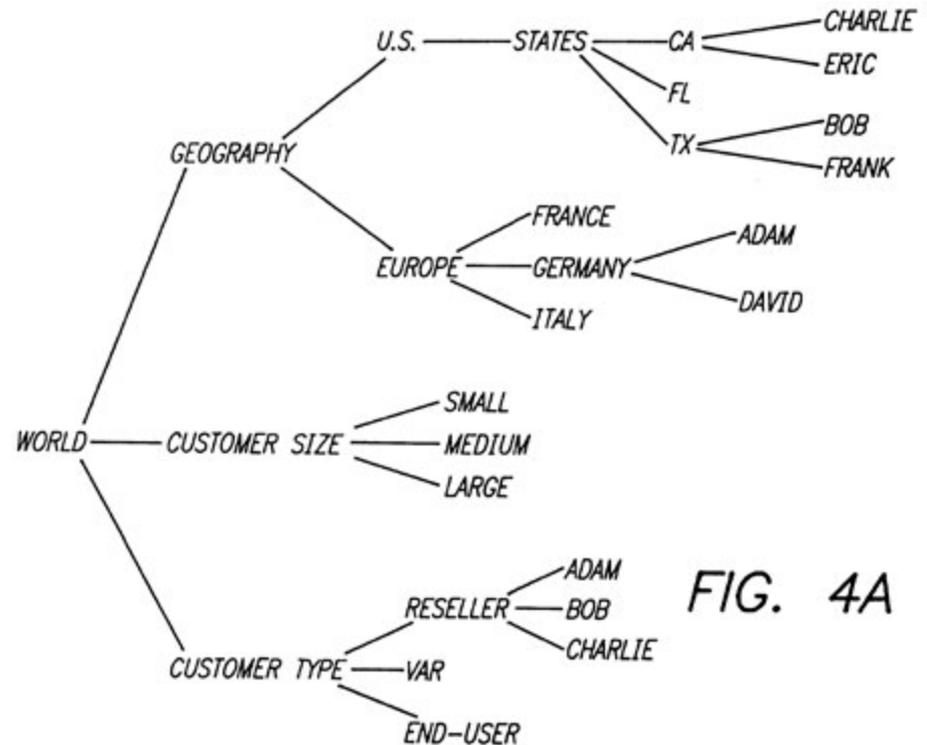
# Overview of the '350 Patent

- The '350 patent entitled “method and apparatus for pricing products in multi-level product and organizational groups.” p. 7
- “Invention operates under the paradigm of WHO (the purchasing organization) is buying WHAT (the product)” p. 7
- Prior art pricing tables for WHO/WHAT required large data tables.
- Patent arranged customers into hierarchy of customer groups and products into a hierarchy of product groups.
- Pricing then associated with customer and product groups.
- Reduces need for large data tables.

# Prior Art Table v. '350 Hierarchical Group

**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       |



**FIG. 4A**

# '350 Claims 17 and 26-29

- Claim 17 is representative.
- 17. A method for determining a price of a product offered to a purchasing organization comprising:
  - arranging a hierarchy of organizational groups comprising a plurality of branches such that an organizational group below a higher organizational group in each of the branches is a subset of the higher organizational group;
  - arranging a hierarchy of product groups comprising a plurality of branches such that a product group below a higher product group in each of the branches is a subset of the higher product group;

## '350 Claim 17 (con'd)

- storing pricing information in a data source, wherein the pricing information is associated, with (i) a pricing type, (ii) the organizational groups, and (iii) the product groups;
- retrieving applicable pricing information corresponding to the product, the purchasing organization, each product group above the product group in each branch of the hierarchy of product groups in which the product is a member, and each organizational group above the purchasing organization in each branch of the hierarchy of organizational groups in which the purchasing organization is a member;

## '350 Claim 17 (con'd)

- sorting the pricing information according to the pricing types, the product, the purchasing organization, the hierarchy of product groups, and the hierarchy of organizational groups;
- eliminating any of the pricing information that is less restrictive; and
- determining the product price using the sorted pricing information.

# Prior Litigation

- 20 April 2007: Versata Dev. (along with Versata Software Inc. and Versta Computer Industry Solutions, Inc.) sued SAP for infringement in EDTX.
- Jury found infringement and awarded damages.
- Judge upheld verdict on infringement but reversed on unrelated rulings
- New trial on damages held, SAP post-patch software still infringe.
- Jury awarded lost-profits damages and reasonable royalty damages.
- Dist Ct upheld and SAP appealed.
- 2013 Fed. Cir. upheld verdict and damages, vacated permanent injunction, remand to enter order (2014).

# Parallel CBM Review

- 16 Sept. 2012: SAP petitioned PTAB for CBM review
  - Claims 17 and 26-29: Grounds §§101, 102, 112(1) and (2)
- 9 Jan. 2013: CBM trial instituted.
  - Claims 17 and 26-29 more likely than not unpatentable §§101, 102
- At SAP request, PTAB agreed to forego 102 review and expedite 101.
  - Meanwhile...13 Mar. 2013 Versata sued USPTO in EDVA to set aside CBM institution. SAP intervened. 7 Aug. 2013: Dist Ct. granted PTO motions to dismiss for lack of subject matter jurisdiction (SJ) and failure to state a claim, and SAP motion to dismiss lack of SJ.
  - 11 June 2013: Final written decision canceling 17, 26-29 under 101.
- Rehearing denied. Versata appealed FWD. PTO Intervened.

# Judicial review of CBM FWD

- Two stage post-grant review process:
  - i) institution decision and ii) CBM review
- At institution, PTAB found '350 was:
  - a “covered business method patent” under §18(e)
  - not a “technological invention”
  - §101 applied to CBM review, and
  - MLTN at least one claim was unpatentable
    - Claims 17 and 26-29: rounds §§101, 102
- In FWD, PTAB found '350, claims 17 and 26-29 were unpatentable §101
- “To be clear it is merits of the final written decision that are on appeal..”

p 13

# Judicial review of CBM FWD

- Institution of review – not appealable
  - “No Appeal.— The determination by the Director whether to institute a post-grant review under this section shall be **final and nonappealable.**” §324(e)
- Review ends with FWD
  - “Final Written Decision.— If a post-grant review is instituted and not dismissed under this chapter, the Patent Trial and Appeal Board shall issue a **final written decision** with respect to the patentability of any patent claim challenged by the petitioner ....” §328
- Section 329 provides for appeal
  - “A party dissatisfied with the final written decision of the Patent Trial and Appeal Board under section [328 \(a\)](#) may appeal the decision pursuant to sections [141](#) through [144](#)....”
- Section 144 provides CAFC “shall review the decision from which an appeal is taken on the record before the Patent and Trademark Office.”

# Judicial review of CBM FWD

- Versata argues on appeal:
  - '350 patent does not claim a covered business method, and in any event is a technological invention;
  - PTAB does not have authority to review CBM patents for subject matter eligibility under §101; and
  - PTAB claim construction should not have used BRI and is wrong.
- SAP responds:
  - PTAB was correct: '350 is a CBM patent and AIA authorizes §101
- USPTO as intervenor:
  - Court lacks jurisdiction to review Director's decision at institution that the '350 patent is a CBM patent
  - SAP: no jurisdiction to review *any* questions decided at institution

# Judicial review of CBM FWD

- “This is first case challenging scope of §324(e) at the [FWD] stage.”
- Other cases on limits of judicial review except one were under the parallel IPR bar § 314(d)
- *St. Jude Medical* (§ 314(d) barred an appeal of non-institution decision)
- *In re Dominion Dealer Solutions* (no jurisdiction to hear mandamus action on IPR declined for trial).
- *In re Proctor & Gamble* (no jurisdiction to hear mandamus action on IPR granted for trial review).
- See also *VirtualAgility* (stay determination is not place to review PTAB decision to institute a CBM); and *Benefit Funding Systems* (another stay case, didn't reach whether § 101 is a valid ground for CBM review)

# Judicial review of CBM FWD

- Majority (Plager, Newman)
  - “To determine this reviewability issue, two related questions must be answered: first, does the § 324(e) judicial review bar permit judicial review, when conducted with regard to the final written decision, of PTAB compliance with any requirement that involves the ultimate authority of the PTAB to invalidate a patent; second, if yes, is the restriction of § 18 to CBM patents such a limit.”
  - “We answer both questions in the affirmative, and therefore reject the contention that we may not review whether the ‘350 patent is a CBM patent covered by § 18.”
  - Government’s acknowledged earlier error, “bait and switch” aspect

# Judicial review of CBM FWD

- Majority (Plager, Newman)
  - “No Appeal.— The determination by the Director whether to institute a post-grant review under this section shall be final and nonappealable.” §324(e)
  - 324(e) “language does not by its terms apply limits on the authority to enter a [FWD] invalidating a patent.” p. 22
  - Institution and invalidation are two distinct actions by PTAB.
  - Distinction is “embedded in federal administrative law” and “built into” structure of AIA p. 23
  - 324(e) only applies to decision to institute
  - Does not bar “review of whether the PTAB exceeded its statutory limits on its authority to invalidate.” p. 24

# Judicial review of CBM FWD

- Majority (Plager, Newman)
  - “long tradition of judicial review of government actions that alter the legal rights of an affected person, a hallmark of the distinction between (generally reviewable) final agency action and (generally unreviewable) agency action that merely initiates a process to consider such an alteration. See Bennett, 520 U.S. at 177–78.” p. 24
  - “An agency may not finally decide the limits of its statutory power. That is a judicial function.” Soc. Sec. Bd. v. Nierotko, 327 U.S. 358, 369(1946).” p. 24
  - “The Supreme Court has repeatedly emphasized ‘the strong presumption that Congress intends judicial review of administrative action...’” p. 24
  - “[W]hen doubt about congressional intent exists,” presume judicial review of “rights-changing administrative action” pp. 24-25.
  - “Nothing in §324(e) meets the high standard for precluding review ..” p. 25

# Judicial review of CBM FWD

- Majority (Plager, Newman)
  - “one of the limits on § 18 invalidation authority is that the patent at issue be a CBM patent.” p. 25
  - Congress created a special review regime, 8 year limit on PTAB authority to invalidate under § 18
  - If it is not a CBM patent, no proper pleading can fix. p. 26.
  - Conflicting legislative history, best to look at language and structure of AIA.
  - FWD on patentability in § 328(a), appealed § 329 – describes agency decisional duties, does not define scope of appellate’s court review

# Judicial review of CBM FWD

- Majority (Plager, Newman)
  - Reexamination (ex parte and inter parte): not controlling since different statutory provisions. p. 27
    - “It is worth noting, however, that the pre-AIA case law made clear that limitations on the scope of reexamination authority were reviewable upon the final decision even though the USPTO considered such limitations solely at the initiation stage and initiation itself was long held to be unreviewable.” p. 28
  - Government has not met heavy burden to overcome strong presumption of judicial review.
  - Congress with limited 324(e) review bar on institution decision struck the right balance – “consistent with roles Constitution assigns to Judicial and Executive branches.” p. 28

# Judicial review of CBM FWD

- Majority (Plager, Newman)
  - *In re Cuozzo* “is not to the contrary.” p. 28.
  - Didn’t consider “whether status as a CBM patent was a limit on invalidation of authority under § 18. It could hardly have done so. Cuozzo did not involve a purported CBM patent or the PTAB’s § 18 authority.” p. 29.
  - “More broadly, Cuozzo did not address, and had no occasion to address, the question whether (despite § 314(d)) a final written decision can be reviewed for compliance with a limit on the PTAB’s invalidation authority. Recognizing the distinction between initiation and final invalidation, Cuozzo, slip op. at 5–8, the court ruled only on review of the initiation decision itself, not about whether the final decision breached any limit on invalidation authority.” p. 29
  - Cuozzo was not a PTAB authority case, alleged error could be washed

# Is '350 a CBM patent?

- § 18(d)(1) a “covered business method patent” is
  - “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 . . . .
- Exception: does not include “technological inventions.” § 18(d)(1).
- Congress left to PTO to define.
- PTO did by rulemaking.
- Congress also gave PTO broad authority to “issue regulations establishing and implementing...review of validity” § 18(a)(1).
- 37 CFR § § 42.300-.304

# Technological Invention

- § 42.301 “Definitions. In addition to the definitions in § 42.2, the following definitions apply to proceedings under this subpart D:
- (a) 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.***
- (b) Technological invention. In determining whether a patent is for a technological invention solely for purposes of the Transitional Program for Covered Business Methods (section 42.301(a)), the following will be considered on a case-by-case basis: ***whether 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..***”

# Is '350 a CBM patent?

- PTAB looked at legislative history and PTO rulemaking.
- PTAB found CBM is not necessarily limited to products and services of the financial services industry or to those of class 705.
- “The term financial is an adjective that simply means relating to monetary matters.” J.A. 23.
- The PTAB concluded that “Versata’s ‘350 patent claims methods and products for determining a price and that these claims, which are complementary to a financial activity and relate to monetary matters, are considered financial products and services under § 18(d)(1).”
- PTO PTAB broad view is correct.

# Is '350 a CBM patent?

- “We agree with the USPTO that, 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 the activities of financial institutions such as banks and brokerage houses.”
- The plain text of the statutory definition contained in § 18(d)(1)—“performing . . . operations used in the practice, administration, or management of a financial product or service”—on its face covers a wide range of finance-related activities.
- The statutory definition makes no reference to financial institutions.
- This reading consistent with scope of §18 program, concern in Congress over litigation abuse of business method patents. p. 35
- PTO expertise requires substantial deference.

# Technological Invention

- Not obvious, novel requirement
  - “[C]ould be said to be rather obvious, and not novel.” Issued patent had to meet 102, 103. Little cause to review what will be ultimate question if review is granted. p. 37
- Technical feature requirement
  - “We are left with a definition of a “technological invention” as essentially one having a “technological” feature that solves a “technical” problem using a “technical” solution. Defining a term in terms of itself does not seem to offer much help. In short, neither the statute’s punt to the USPTO nor the agency’s lateral of the ball offer anything very useful in understanding the meaning of the term “technological invention.” p. 37
  - Noted the PTAB’s use of “not technological” exceptions in Trial Guide notice: mere known technologies, prior art, expected combinations...

# '350 Technological Invention

- Versara argues claim 17:
  - novel and not obvious - hierarchical data structure with software-implemented pricing p. 38
  - Technological – requires use of computer and denormalized numbers to be determined at run-time p. 38
- Court claim 17 not technological invention. “whatever its full sweep”
  - “As we are now instructed, the presence of a general purpose computer to facilitate operations through uninventive steps does not change the fundamental character of an invention. See *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 134 S. Ct. 2347 (2014).” p. 38
  - Method of determining price could be done on any type of computer
  - We agree doesn't solve a technical problem using a technical solution.

# Claim Construction

- Versata argued “pricing information” requires “denormalized numbers”
  - (do not require fixed units, assume different meanings, determined by SW at run-time depending on pricing)
  - SAP agreed earlier in litigation
- SAP argues not in claim 17, claim differentiation, written description says denormalized numbers are only “one aspect”
- Court upheld PTAB use of BRI – following *Cuozzo*
- Court upheld PTAB construction – claim 17 not limited to denormalized numbers. Regardless of BRI result likely the same.

# §101 Challenges Allowed

- Court held §101 is proper test of PTAB judging validity
- Federal Circuit has jurisdiction to review 101 as part of appeal of FWD – not barred by 324(e) for same reasons as issue 1.
- PTAB acted within its scope in permitting §101 challenge
  - Hyper-technical to draw distinction based on sec. 282 headings
  - Permitted for PGR or §18
  - Well-settled 101 challenges constitute validity or patentability challenges
  - 101 challenges are major industry
  - Consistent with statutory framework and purpose of CBM reviews

# '350 Merits Decision

- Standard of review 101 – question of law, de novo review
- Gives a summary of 101 law: abstract idea exception
- 2 part test: abstract idea? If so, significantly more added?
- apply idea with computer not enough
- M-O-T test only a useful clue

# '350 Merits Decision

- **Abstract idea.** “Using organizational and product group hierarchies to determine a price is an abstract idea that has no particular concrete or tangible form or application. It is a building block, a basic conceptual framework for organizing information, similar to the claims involving collecting, recognizing, and storing data in *Content Extraction* and the claims in *CyberSource*.” p. 51
- **Nothing Significant.** “[W]e agree with the PTAB that, after considering the limitations of each claim individually and as an ordered combination, none of the claims have sufficient additional limitations to transform the nature of any claim into a patent-eligible application of an abstract idea...” p. 52
- Mere use of computer not enough. Benefits in computer performance not in claims.
- Ample evidence in record

# Hughes opinion

- Concurring –
  - '350 is invalid under §101
  - Court need not reach whether Board is authorized to apply BRI
- Dissenting
  - Court does not have authority to review CBM institution decision
  - Impermissible expansion of Court's jurisdiction
  - 325(d) statutory bar precludes review of institution
  - Congress' intent was clear in plain language and structure of AIA
  - Re-framing statutory bar as "ultimate authority to invalidate" is wrong

# Hughes opinion

- Dissenting
  - “not a case about whether Congress has precluded “judicial review of government actions that alter the legal rights of an affected person.”
  - “statute clearly provides for review of the Board’s invalidity decision, which is the government action that alters the legal right of the patent holder. See 35 U.S.C. § 329”
  - Authority to review institution decision is separate from invalidation
  - “reviewability is not an all or nothing question: Congress may allow review of some issues underlying a decision, but prohibit review of others.” p. 3 See, e.g., *Lindhal* (agency factual determinations barred from review) and *Harris* (Veteran’s Court questions of law reviewed)

## Hughes opinion

- “The plain language of § 324(e) unambiguously bars judicial review—at any time—of the Board’s decision to institute post-grant review. Section 324(e) states, “The determination by the Director whether to institute a post-grant review under this section shall be final and nonappealable.” p. 4
- Nothing suggests limited to interlocutory appeals, no temporal limitations. See 8 USC 1160(e) (no review special status except...) and 1818(i)(1) (barring review of Federal Reserve’s decision to proceed with an enforcement action except...)
- Plain language of § 329 and 328 authorize appeal of Board’s final written decision ...only refer to issues addressed exclusively during the merits phase of a post-grant review.

# Hughes opinion

- “The structure of the post-grant review process further clarifies the duration of the bar in § 324(e).”
- “Under this divided structure, the requirements for instituting review are not revisited during the merits phase of review. Section 324(e) confirms that the decision to institute is “final.” *Id.* § 324(e). In the same breath, § 324(e) states that the decision is “nonappealable.” *Id.*
- Judicial review bar is consistent with purpose of post-grant reviews to provide “a “quick and cost effective alternative to litigation.”
- “If this court has authority to reverse the Board’s institution decision, thereby vacating its final written decision on validity, all of this time and expense will be wasted. The parties will have to return to district court to litigate the same validity issues that the Board decided—even if this court agrees with the Board’s ultimate validity determination. Congress could not have intended this result.”

## Hughes opinion

- “[M]ajority agrees that § 324(e) bars review of the Board’s decision to institute even after a final written decision.”
- “To keep the final say over the meaning of “covered business method patent,” the majority reframes the issue as a “limit on [the Board’s] invalidation authority under § 18,” which falls outside the scope of § 324(e).”
- “But our task is to apply the language of the statute, not to rewrite it. And the language of the statute expressly ties the CBM requirement to the Board’s unreviewable decision to institute, not the Board’s ultimate authority to invalidate.” p. 8
- Eviscerates § 324(e) in context of appeal from FWD

## Hughes opinion

- Directly conflicts with our precedential decision in *In re Cuozzo*
- Holding for §314(d) controls §324(e) too
- *Cuozzo* (where review instituted on information not in petition) addressed just as much a predicate question of authority to invalidate.
- Proper pleading, wash clean, *In re Hiniker* read is overstated, confirms Court could not review Board's institution does not distinguish *Cuozzo*
- Even with bar patent owners have recourse
  - “Even when a statute clearly demonstrates Congress intended to bar judicial review of agency action generally, courts have recognized an ‘implicit and narrow’ exception for agency action that plainly violates an unambiguous statutory mandate.” p. 12

## Hughes opinion

- Why? Unwarranted technical distinction to allow review?
- Prevent Board from instituting review of patents far outside meaning of “covered business method”?
- “not even remotely the case here, where all three judges agree that the Board properly exercised its discretion to institute review of this CBM patent.”
  - “I fear the point of the majority’s position is to wrest from the PTO the final authority to decide which patents are “covered business method patent[s]” appropriate for § 18 review. But that is not how Congress designed the AIA to work. Congress gave this court the authority to review the merits of the Board’s validity determinations and to ensure those decisions are correct under prevailing law. And it gave the PTO authority to decide which patents merit review in the first place, and insulated that decision from our review.”

# Takeways

- PTO's broader read on CBM eligibility supported
- 101 decision like many we've been seeing. See also new PTO 101 examples and cheat sheet:
- <http://www.uspto.gov/sites/default/files/documents/ieg-july-2015-qrs.pdf>
- Federal circuit review of post-grant proceedings
  - Stay tuned
  - Battle is not over
  - Rehearing en banc?