

FILED

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA,
ALEXANDRIA DIVISION

2013 MAR 13 P 1:30

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 VERSATA DEVELOPMENT GROUP, INC.,)
)
 Plaintiff,)
)
 v.)
)
 TERESA STANEK REA)
 Acting Director of the)
 United States Patent and Trademark Office,)
)
 Defendant.)

CLERK US DISTRICT COURT
ALEXANDRIA, VIRGINIA

C.A. No. 1:13 CV 328
GBL/IDD

PLAINTIFF'S ORIGINAL COMPLAINT

Plaintiff Versata Development Group, Inc. ("Versata"), by its undersigned counsel, hereby files its Original Complaint against Defendant Teresa Stanek Rea, Acting Director of the United States Patent and Trademark Office ("Acting Director"), and alleges as follows:

NATURE OF THE ACTION

1. This is an action to set aside Defendant's and the United States Patent and Trademark Office's ("PTO") review of U.S. Patent No. 6,553,350 (the "'350 patent") under § 18 of the Leahy-Smith America Invents Act ("AIA"). 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.

THE PARTIES

2. Plaintiff Versata is a corporation organized and incorporated under the laws of the State of Delaware, with its principal place of business located in Austin, Texas.

3. Defendant Teresa Stanek Rea is the Acting Director of the PTO. The PTO is headquartered in Alexandria, Virginia. The Acting Director is the head of the PTO and is responsible for superintending or performing all duties required by law with respect to the administration of § 18 of the Leahy-Smith America Invents Act (“AIA”), including the activities of the Patent Trial and Appeal Board (“PTAB”). The Acting Director is being sued in her official capacity.

JURISDICTION AND VENUE

4. This Court has jurisdiction over this action pursuant to 28 U.S.C. §§ 1331, 1338(a), 1361, 2201, 2202 and 5 U.S.C. §§ 701-706.

5. On January 9, 2013, the PTAB granted SAP America, Inc.’s and SAP AG’s (collectively “SAP”) petition challenging claims 17 and 26-29 of the ’350 patent. The PTAB’s decision is a final agency action within the meaning of 5 U.S.C. § 704. *See* 37 C.F.R. § 42.71(c) (“A decision by the Board on whether to institute a trial is final and nonappealable.”); 35 U.S.C. § 324(e).

6. Venue is proper in this Court under 28 U.S.C. § 1391 as the PTO is headquartered, and the Acting Director has committed acts, in the Eastern District of Virginia.

7. The Original Complaint is timely filed pursuant to 28 U.S.C. § 2401(a).

FACTUAL BACKGROUND

The ’350 Patent

8. The PTO issued the ’350 patent on April 22, 2003 (Exhibit 1).

9. Versata is the assignee of all right, title and interest in the ’350 patent.

10. Claims 17 and 26-29 are not related to a financial product or service, nor the practice, administration or management thereof.

11. Claims 17 and 26-29 involve determining the price of a product.

12. Determining the price of a product, *i.e.*, a selling or merchandizing activity, is not “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” § 18 AIA.

Versata and SAP

13. In 2007, Versata sued SAP for infringement of, *inter alia*, the '350 patent.

14. During the litigation, the district court stated that the '350 patent “relate[s] to pricer technology, which concerns the electronic pricing of products and services for large entities with many products and customers.” Exh. 2, Memorandum Opinion and Order Regarding Claim Construction, *Versata v. SAP*, Case No. 2:07-cv-153.

15. After the first trial, the jury found that SAP had not proven the claims of the '350 patent were invalid, and that SAP infringed the '350 patent. The jury awarded \$139 million in damages. The district court confirmed the infringement judgment for the '350 patent, but ordered a second trial on damages.

16. Following the first trial, SAP issued a software patch that it alleged eliminated future infringement. However, the jury disagreed. In the second trial, the jury found that SAP's post-patch software continued to infringe and awarded \$260 million in lost-profits damages and \$85 million in reasonable-royalty damages.

17. On September 9, 2011, the district court issued a final judgment upholding the finding of infringement of claims 26, 28 and 29 of the '350 patent. The district court also awarded damages in the amount of \$328,654,806, an additional \$63,057,230 in pre-judgment

interest, and issued an injunction to protect Versata from future harm. The injunction is stayed pending appeal.

18. On October 11, 2011, SAP appealed the district court's final judgment to the U.S. Court of Appeals for the Federal Circuit (the "Federal Circuit"). The appeal has been fully briefed. Oral argument was held on February 4, 2013.

19. On appeal, SAP is not challenging the findings with respect to the validity of the '350 patent. SAP is only challenging the infringement determination of the final judgment, along with damages and the scope of the district court's injunction. In all other respects, the district court's judgment is final and binding on SAP.

SAP's challenge to claims 17 and 26-29 of the '350 patent under Section 18 of the AIA

20. Nevertheless, on September 16, 2012, nearly a year after filing its notice of appeal, and over three years after having been found to infringe and losing its validity challenge, SAP filed a petition under § 18 of the AIA challenging the patentability of claims 17 and 26-29 of the '350 patent (Exhibit 3). SAP's petition alleges that claims 17 and 26-29 of the '350 patent are directed to a covered business method. Exh. 3 at 4-5. SAP's petition further alleges that claims 17 and 26-29 of the '350 patent are invalid under 35 U.S.C. §§ 101, 102 and 112 (written description), i.e., the allegations it did not support in district court. *See* Exh. 3.

21. Section 18 of the AIA created a transitional program providing for the review of covered business method patents by the PTO. Covered business method patents are defined as patents claiming "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 [covered business method patent] does not include patents for technological inventions." § 18(d)(1) (emphasis added).

22. The Congress' purpose behind § 18 of the AIA was to provide a cost-effective alternative to litigation to examine business-method patents. 112 Cong. Rec. S1363 (daily ed. Mar. 8, 2011) (statement of Sen. Leahy, D-Vermont).

23. Under the AIA, Defendant has the authority to establish procedures for instituting and conducting *inter partes* review, post-grant review, and covered business method patent review proceedings and standards for determining whether sufficient grounds exist to institute such proceedings. However, the AIA did not grant Defendant any substantive rulemaking authority. Under 35 U.S.C. § 2(b)(2), Defendant may not establish regulations inconsistent with law. *See, e.g., Tafas v. Doll*, 559 F.3d 1345, 1352 (Fed. Cir. 2009), *vacated and reh'g en banc granted*, 328 F. App'x 658 (Fed. Cir. 2009), *stayed*, 331 F. App'x 748 (Fed. Cir. 2009).

24. Section 18 of the AIA also provides that the transitional program shall employ the standards and procedures of a post-grant review under chapter 32 of title 35 except with respect to 35 U.S.C. §§ 321(c) and 325(b), (e)(2) and (f). Section 321(b) states that a petitioner in a post-grant review may request to cancel as unpatentable one or more claims of a patent on any ground that could be raised under paragraph (2) or (3) of § 282(b). Section 321(b) applies to the transitional program under § 18 of the AIA.

25. Section 282(b)(2) states that invalidity of the patent or any claim in suit on any ground specified in part II as a condition for patentability shall be a defense in any action involving the validity or infringement of a patent. Section 282(b)(3) states that invalidity of the patent or any claim for failure to comply with any requirement of § 112, except best mode, or § 251 is also a defense.

26. On October 16, 2012, Versata and SAP participated in a status conference with the PTAB. Versata notified the PTAB that it would be filing a Patent Owner's Preliminary

Response setting forth the reasons why the PTAB should not grant SAP's petition. Versata also requested leave to submit declaration evidence from an expert in financial products and services concerning whether the subject matter of claims 17 and 26-29 are directed to a covered business method or are used in the practice, administration, or management of a financial product or service. The PTAB denied Versata's request, and reduced the time period from three (3) months to two (2) months for Versata to file its Patent Owner's Preliminary Response, setting the due date as November 17, 2012—one month from the status conference. Versata requested that the PTAB grant it additional time, which SAP opposed. Ultimately Versata was given until November 30, 2012 to file its preliminary response.

27. On November 30, 2012, Versata filed its preliminary response challenging each ground asserted by SAP in its petition, and raising additional arguments as to why the PTAB should deny SAP's petition (Exhibit 4).

28. On January 9, 2013, the PTAB granted SAP's petition, in part, to initiate a review of the '350 patent pursuant to § 18 of the AIA (Exhibit 5). In its order, the PTAB agreed to review claims 17 and 26-29 under §§ 101 and 102. The PTAB declined to review the '350 patent under § 112.

29. In granting SAP's petition, the PTAB concluded that the '350 patent is directed to a covered business method. *See* Exh. 5 at 23. In reaching this decision, the PTAB stated that § 18 of the AIA was intended to encompass patents claiming activities that are financial in nature, incidental to a financial activity, or complementary to a financial activity. *See id.* The PTAB stated "We do not interpret the statute as requiring the literal recitation of the terms financial products or services." *Id.* The PTAB then noted that "the term financial is an adjective that simply means relating to monetary matters." *Id.* The PTAB stated that its definition "is

consistent with the legislative history for Section 18, which explains that the definition was intended to encompass patents claiming activities incidental and complementary to a financial activity.” *Id.* The PTAB cited a statement of a single senator -- Senator Schumer (D-NY) -- in support. *See id.*; 157 Cong. Rec. S5432 (daily ed. Sept. 8, 2011). The PTAB stated: “We hold 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).” *Id.*

30. Commentators have stated that the PTAB’s decision “makes clear that a wide range of patents, not just those related to the financial services industry, can be reviewed under the new program . . . The USPTO is really using this case as instructive for future cases . . . They seem to be reminding everyone that they’re going to be reading the statute broadly.” Versata Patent 1st to Undergo USPTO’s Biz Method Review, IP Law360 (January 10, 2013).

31. Additionally, the PTAB concluded that it had authority to review SAP’s challenge to claims 17 and 26-29 under § 101, despite Versata’s arguments to the contrary. In support of its position, the PTAB relied on *Graham v. John Deere Co. of Kansas City*, 383 U.S. 1 (1966) and *Mayo Collab. Servs. v. Prometheus Labs., Inc.*, 566 U.S. ____ (2012). The PTAB also relied on congressional statements that indicated § 101 was a permissible ground of review.

32. The PTAB also distinguished statements from *Diamond v. Diehr*, 450 U.S. 175, 189-90 (1981) by articulating an alleged distinction between the “specific” conditions of patentability in the Patent Act, and the “general condition” that it alleges is §101.

33. The PTAB’s decision to initiate the review of the ’350 patent is final and nonappealable. 35 U.S.C. § 324(e); 37 C.F.R. § 42.71.

34. On February 1, 2013, SAP filed its list of proposed motions for the proceeding, which proposed a motion for summary determination of invalidity under 35 U.S.C. § 101 on an expedited schedule.

35. SAP and Versata participated in a conference call with the PTAB where the PTAB directed SAP to set forth specific reasons for expediting the case under 35 U.S.C. § 101. SAP filed its Request for Expedited Determination of Invalidity under 35 U.S.C. § 101 on February 6, 2013.

36. On February 8, 2013, Versata filed its opposition to SAP's request for an expedited determination of invalidity under 35 U.S.C. § 101. SAP and Versata then participated in a conference call with the PTAB on February 12, 2013. The PTAB stated that it would not expedite trial on the grounds of unpatentability under § 101 unless SAP would forego its challenge under 35 U.S.C. § 102.

37. On February 14, 2013, SAP agreed to withdraw its challenge to the '350 patent under 35 U.S.C. § 102, and to pursue only its 35 U.S.C. § 101 challenge.

38. The PTAB granted SAP's request for an expedited determination of invalidity under 35 U.S.C. § 101 on the same day—February 14, 2013.

39. Thus the PTAB is currently planning to examine the pending claims of the '350 patent under 35 U.S.C. § 101 on an expedited basis. Versata's responsive brief concerning 35 U.S.C. § 101 was due March 11, 2013 and was filed on that day.

COUNT I

(Violation of 5 U.S.C. § 706(2)(A) by Granting Review under § 18 of the AIA for a Non-Covered Business Method Patent)

40. The allegations contained in paragraphs 1 through 39 above are repeated and realleged as if fully set forth herein.

41. Defendant's grant of the review of claims 17 and 26-29 of the '350 patent is contrary to law. Section 18 of the AIA is only available for covered business method patents, which are patents that claim "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 . . .*" § 18(d)(1) (emphasis added). Defendants and the PTAB have interpreted the definition of covered business method patent to omit these important limitations on the scope of §18 proceedings. Claims 17 and 26-29 of the '350 patent do not meet the definition of covered business method patent because they are not related to financial products or services as is required by the language of the statute.

42. The PTAB's conclusion that § 18 proceedings are available for patents that claim anything which relates in any way to money is contrary to § 18.

43. Therefore, the PTAB's grant of the review of claims 17 and 26-29 of the '350 patent is contrary to law under 5 U.S.C. § 706(2)(A) and the PTAB's review of claims 17 and 26-29 of the '350 patent should therefore be set aside as arbitrary, capricious, and contrary to law in that it violates § 18(d)(1).

COUNT II

(Violation of 5 U.S.C. § 706(2)(C) by Granting Review under § 18 of the AIA for a Non-Covered Business Method Patent)

44. The allegations contained in paragraphs 1 through 43 above are repeated and realleged as if fully set forth herein.

45. The PTAB's review of claims 17 and 26-29 of the '350 patent should be set aside under 5 U.S.C. § 706(2)(C) because the PTAB has exceeded its statutory authority by granting a covered business method review for a patent that does not meet the definition of a covered

business method patent set forth in § 18(d)(1). Defendant has no authority to institute the present review under § 18 of the AIA.

COUNT III
(Violation of 5 U.S.C. § 706(2)(A) by Granting Review under § 101)

46. The allegations contained in paragraphs 1 through 45 are repeated and realleged as if fully set forth herein.

47. Defendant's grant of a covered business method patent review proceeding of claims 17 and 26-29 of the '350 patent under 35 U.S.C. § 101 is contrary to law.

48. Section 321(b), which governs the transitional program under § 18 of the AIA, states that the grounds for challenging claims are limited to those that could be raised under 35 U.S.C. §§ 282(b)(2) and (3).

49. Section 282(b)(2) does not allow challenges based on § 101.

50. Section 282(b)(3) does not allow challenges based on §101.

51. The plain language of title 35 and case law dictate that the PTAB may not entertain challenges under § 101 in a transitional program under § 18 of the AIA. *See, e.g., Diamond v. Diehr*, 450 U.S. 175, 189-90 (1981); *MySpace, Inc. v. Graphon Corp.*, 672 F.3d 1250, 1259-60 (Fed. Cir. 2012); *Nickola v. Peterson*, 580 F.2d 989, 906 (6th Cir. 1978). *See also In re Bergy*, 596 F.2d 952, 963, 959 (CCPA 1979) *vacated as moot*, 444 U.S. 1028 (1980). Thus, the PTAB's grant of the review of claims 17 and 26-29 of the '350 patent based on challenges under 35 U.S.C. § 101 is contrary to law under 5 U.S.C. § 706(2)(A).

52. The PTAB's articulation of alleged "general" and "specific" conditions for patentability has no support in law.

53. The only provisions specified as "conditions for patentability" in title 35 are §§ 102 and 103.

54. Section 101 is not specified as a “condition for patentability” in part II of title 35.

55. Accordingly, the PTAB’s review of claims 17 and 26-29 of the ’350 patent under 35 U.S.C. § 101 should therefore be set aside as arbitrary, capricious, and contrary to law in that it violates § 18(a)(1) and 35 U.S.C. § 321(b).

COUNT IV
(Violation of 5 U.S.C. § 706(2)(C) by Granting Review under § 101)

56. The allegations contained in paragraphs 1 through 55 above are repeated and realleged as if fully set forth herein.

57. Defendant’s grant of SAP’s petition based on § 101 should be set aside under 5 U.S.C. § 706(2)(C) because the PTAB has exceeded its statutory authority by granting a covered business method review based on challenges under 35 U.S.C. § 101.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff requests this Court enter the following relief:

A. Declare, adjudge and decree on an expedited basis that the Acting Director’s interpretation of § 18(d)(1) to encompass claims 17 and 26-29 of the ’350 patent is arbitrary, capricious and contrary to law, and is set aside;

B. Declare, adjudge and decree on an expedited basis that the Acting Director’s institution of a review of the ’350 patent at SAP’s request is arbitrary, capricious and contrary to law, and is set aside;

C. Declare, adjudge and decree on an expedited basis that the Acting Director’s institution of a review of the ’350 patent at SAP’s request exceeds its statutory authority, and is set aside;

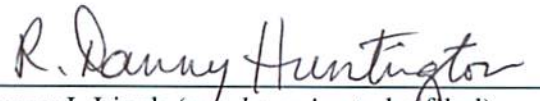
D. Declare, adjudge and decree on an expedited basis that the Acting Director's implementation of § 18 of the AIA to permit challenges under 35 U.S.C. § 101 is arbitrary, capricious, and contrary to law, and is set aside;

E. Declare, adjudge and decree on an expedited basis that the Acting Director's implementation of § 18 of the AIA to permit challenges under 35 U.S.C. § 101 exceeds the Acting Director's statutory authority, and is set aside; and

F. Such additional relief as this Court deems equitable and just.

Dated: March 13, 2013

Respectfully Submitted,



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