No. ______

In the Supreme Court of the United States

SAP AMERICA, INC. AND SAP AG, PETITIONERS

v.

VERSATA SOFTWARE, INC., VERSATA DEVELOPMENT GROUP, INC., AND VERSATA COMPUTER INDUSTRY SOLUTIONS, INC.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

APPENDIX TO PETITION FOR A WRIT OF CERTIORARI

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APPENDIX A

NOTE: This order is nonprecedential.

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

2012-1029, -1049

VERSATA SOFTWARE, INC. (formerly known as Trilogy Software, Inc.), VERSATA DEVELOPMENT GROUP, INC. (formerly known as Trilogy Development Group, Inc.), and VERSATA COMPUTER INDUSTRY SOLUTIONS, INC. (formerly known as Trilogy Computer Industry Solutions, Inc.), Plaintiffs-Cross Appellants,

v.

SAP AMERICA, INC. and SAP AG, Defendants-Appellants.

Appeals from the United States District Court for the Eastern District of Texas in case no. 07-CV-0153, Magistrate Judge Charles Everingham.

ON MOTION

Before RADER, Chief Judge, PROST and MOORE, Circuit Judges.

ORDER

SAP America, Inc. and SAP AG move to stay the appeals.

Upon consideration thereof,

IT IS ORDERED THAT:

The motion is denied.

FOR THE COURT

/s/ Daniel E. O'Toole

Daniel E. O'Toole
Clerk

July 5, 2013
Date

APPENDIX B

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

VERSATA SOFTWARE, INC. (formerly known as Trilogy Software, Inc.), VERSATA DEVELOPMENT GROUP, INC. (formerly known as Trilogy Development Group, Inc.), AND VERSATA COMPUTER INDUSTRY SOLUTIONS, INC. (formerly known as Trilogy Computer Industry Solutions, Inc.),
Plaintiffs-Cross Appellants,

v.

SAP AMERICA, INC. AND SAP AG,
Defendants-Appellants.

2012-1029, -1049

Appeals from the United States District Court for the Eastern District of Texas in No. 07-CV-0153, Magistrate Judge Charles Everingham.

Decided: May 1, 2013

MIKE MCKOOL, McKool Smith, P.C., of Dallas, Texas, argued for plaintiffs-cross appellants. With him on the brief were DOUGLAS A. CAWLEY; SCOTT L. COLE and JOEL L. THOLLANDER, of Austin, Texas. J. MICHAEL JAKES, Finnegan, Henderson, Farabow, Garrett & Dunner, L.L.P., of Washington, DC, argued for defendants-appellants. With him on the brief were MICHAEL A. MORIN, JOHN M. WILLIAMSON AND JENNIFER K. ROBINSON. Of counsel on the brief were JAMES R. BATCHELDER and LAUREN N. ROBINSON, Robert & Gray L.L.P., of Palo Alto, California; DAVID J. BALL, JR., Paul, Weiss, Rifkind, Wharton & Garrison L.L.P, of Washington, DC; KATHERINE K. LUTTON, Fish & Richardson, P.C., of Redwood City, California; JOHN W. THORNBURGH, JUSTIN M. BARNES and CRAIG E. COUNTRYMAN, Fish & Richardson, P.C., of San Diego, California; KEVIN R. HAMEL, SAP America, Inc., of Newtown Square, Pennsylvania. Of counsel was KENNETH A. GALLO, Paul, Weiss, Rifkind, Wharton & Garrison L.L.P, of Washington, DC.

Before RADER, *Chief Judge*, PROST and MOORE, *Circuit Judges*.

RADER, *Chief Judge*.

After a jury verdict of infringement with an award of damages in favor of Versata Software, Inc., Versata Development Group, Inc., and Versata Computer Industry Solutions, Inc. (collectively "Versata"), SAP America, Inc. and SAP AG (collectively "SAP") appeal. Ultimately, the trial court found no infringement of the U.S. Patent No. 5,878,400. The jury found infringement of three claims of U.S. Patent No. 6,553,350. Subsequently, the trial court denied SAP's motions for judgment as a matter of law (JMOL) or a new trial, awarded prejudgment interest, and entered a permanent injunction. Although affirming the jury's infringement verdict and damages award, this court vacates as overbroad the permanent injunction and remands for the district court to enter an order that conforms to this opinion.

I.

This invention relates to "the field of computer-based pricing of products." '350 Patent, col. 1, l. 10. In the competitive commercial marketplace, sales representatives often strive to provide particularized pricing for customers in a timely fashion. Yet, precise product pricing depends on a variety of factors including type of product (e.g., a single product versus a bundle or customized product); the size of the customer; the type of customer (e.g., a wholesaler versus a distributor); and the customer's geographic location. *Id.* at col. 1, ll. 45–52.

In the early 1990s, a different pricing table stored each pricing factor. Applying these factors to a single transaction required accessing and applying large amounts of data stored in a large central database. *Id.* at col. 1, ll. 25–26. Assuming each product is sold at a price particularized for each purchaser, a selling organization with ten thousand products and ten thousand purchasers would need pricing tables with one hundred million entries.

In the prior art computerized pricing engines, each pricing factor usually required separate database queries. The numerous tables were stored on a mainframe computer, the customer order was entered into a central billing system, and the mainframe would perform the pricing calculation by separately accessing each applicable data set. *Id.* at col. 2, ll. 21–27, 56–63. Thus, determining a final price was highly inefficient. Sifting through this data meant that customers would often wait several days to get an accurate price. *Id.* at col. 1, ll. 29–36. The delay often caused lost sales. *Id.*

The claimed invention leverages hierarchical product and data structures to organize pricing information. Hierarchical pricing involves a "WHO" (the purchasing organization or customer) and a "WHAT" (the product). *Id.* at col. 3, ll. 24–27. The WHO is defined by "creating an organizational hierarchy of organizational groups" such as "Customer Type," "Customer Size," and "Geography." *Id.* at Fig. 4A; col. 3, ll. 25–32. One or more customers may be members of each organizational group, and each customer may be a member of more than one organizational group. *Id.* Thus, when a customer is selected, the system identifies all the groups to which the customer belongs as well as all corresponding price adjustments. Similar hierarchies are constructed for products. This hierarchical pricing engine used less data than the prior art systems and offered dramatic improvements in performance.

In 1995 and 1996, Versata both commercialized its hierarchical pricing engine and filed a patent application covering the invention. The commercial embodiment was a software called "Pricer," and it received praise as a "breakthrough" that was "very innovative." J.A. 1304. The '400 Patent issued in 1999. The '350 Patent, a continuation of the application which led to the '400 Patent, issued in 2003.

The praise for Pricer was borne out in its sales. Between 1995 and 1998, Pricer customers included many large companies—called "Tier 1" companies at trial—such as IBM, Lucent, Motorola, and Hewlett-Packard. Pricer Tier 1 customers generated an average of $5 million in revenue and $3 million in profit for Versata. Versata sold Pricer either as a package with other Versata software or as a bolt-on addition to enterprise systems offered by companies like SAP.

SAP provides software solutions for thousands of companies, governments, and nonprofits around the globe. SAP's Enterprise Resource Planning ("ERP") and Customer Relationship Management ("CRM") software runs most processes needed by these institutions, including financials, accounting, materials management, procurement, supply-chain planning, human resources, and pricing. While Versata's patent application was pending, SAP designed and released a new version of its enterprise software that contained hierarchical pricing capability.

Before SAP launched its new software, it stated the planned software would be like Versata's Pricer. When SAP ultimately released its software in October 1998, it bundled the hierarchical pricing capability into its full enterprise software to discourage the use of bolt-on products like Pricer. J.A. 8479.

Following the announcement and launch of SAP's new hierarchical pricing engine, Pricer sales faltered. Versata's win-rate on sales offerings of Pricer dropped from 35 percent to 2 percent. While Versata retained many of its previously-won Pricer customers, Versata decided to discontinue heavy investment in marketing because SAP had destroyed its market. Versata maintained Pricer as a product offering, but made no new sales as SAP's bundled software took hold.

In 2007, Versata sued SAP for infringement of both the '400 Patent and the '350 Patent. With respect to the'400 Patent, Versata asserted infringement of independent claim 31 and dependent claims 35 and 36. Each claim requires "computer readable program code configured to cause a computer to" perform a set of claimed operations, including accessing customer and product hierarchies in order to determine a price. '400 Patent, col. 23, ll. 10–52, 62–67.

With respect to the ’350 Patent, Versata asserted infringement of independent claim 29 and dependent claims 26 and 28. Claims 26 and 28 require “computer instructions to implement” the claimed operations. ’350 Patent, col. 21, ll. 61–62. Claim 29 requires “computer program instructions capable of” retrieving “pricing information” from both customer and product hierarchies. ’350 Patent, col. 22, ll. 21–35.

This suit resulted in two jury trials. During the first trial, Versata’s expert presented evidence that SAP’s software used hierarchical pricing. One method he used was a demonstrative data setup. Using and configuring the inherent functions of SAP’s software, the expert performed hierarchical access on customer and product hierarchies.

The jury found that SAP directly infringed the asserted claims of the ’400 and ’350 Patents, SAP induced and contributed to infringement of claim 29 of the ’350 Patent, and the asserted claims were not invalid. The jury awarded $138,641,000 in damages. SAP moved for judgment as a matter of law of noninfringement of both patents and for a new trial on damages.

For the ’400 Patent, the trial court reasoned that the claim language “configured to cause” required that the SAP products, “as made and sold, contain computer code or program instructions sufficient to perform the operations recited in the claims without additional modification or configuration, or the addition of further program instructions.” J.A. 155. It found that Versata’s infringement case emphasized SAP’s product as configured by Versata’s expert, not how the software was made or sold. *Id.* Thus, the trial court granted JMOL of noninfringement of the ’400 Patent. However, the trial court denied SAP's JMOL of noninfringement of the '350 Patent, finding that substantial evidence supported the jury's determination. Lastly, the court granted a motion for new trial on damages based on a change in governing law.

Before the second trial began, SAP attempted to eliminate any basis for future infringement. Specifically, SAP modified its products with a software patch. The modification essentially prevented users from saving data into certain fields relating to hierarchical access.

The second trial focused on damages. Because SAP's software patch was designed to eliminate infringement in products after May 2010, the jury was required to determine the effectiveness of the patch in avoiding infringement as part of damages. The jury concluded that, even with the software patch, the accused products still infringed.

The jury also evaluated two damages theories: lost profits and reasonable royalties. For lost profits, Versata focused on Pricer sales it lost to Tier 1 SAP customers. Versata claimed this consisted of 93 lost sales, and it put forward evidence regarding demand, the absence of noninfringing alternatives, and the capacity to sell Pricer in this market. Defendants did not put on evidence of a competing lost profits model and instead offered expert testimony critiquing Versata's model. Versata's evidence persuaded the jury which awarded $260 million in lost-profits damages.

With respect to reasonable royalties, the district court precluded Versata from putting forward its damages model. SAP, however, put forward a reasonable royalty model which included comparable software called Khimetrics. The jury heard evidence that Khimetrics had an average per customer royalty of $133,200. The jury awarded reasonable royalties of $85 million.

Following the second trial, SAP again moved for JMOL, claiming Versata failed to prove it was entitled to lost profits and that the reasonable royalty verdict lacked evidentiary foundation. The trial court denied the motion and granted Versata's motion for a permanent injunction. This cross-appeal followed. The court has jurisdiction under 28 U.S.C. § 1295(a).

II.

SAP's appeal focuses on three issues: (1) whether the district court erred after the first trial in refusing to grant a JMOL of noninfringement of the '350 Patent; (2) whether the district court erred after the second trial in refusing to overturn the lost profits and reasonable royalties award; and (3), whether the district court erred by granting an overbroad permanent injunction. Versata, on the other hand, claims the district court erred by granting JMOL of noninfringement of the '400 Patent and by excluding the reasonable-royalty testimony of Versata's expert.

The infringement and damages issues raised by both sides concern motions for JMOL, and are reviewed under regional circuit law. *Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318, 1323 (Fed. Cir. 2008). The Fifth Circuit applies an "especially deferential" standard of review "with respect to the jury verdict." *Brown v. Bryan Cnty.*, 219 F.3d 450, 456 (5th Cir. 2000). The jury may only be reversed if there is no substantial evidence supporting the verdict. Thus, a JMOL may only be granted when, "viewing the evidence in the light most favorable to the verdict, the evidence points so strongly and overwhelmingly in favor of one party that the court believes that reasonable jurors could not arrive at any contrary conclusion." *Dresser-Rand Co. v. Virtual Automation, Inc.*, 361 F.3d 831, 838 (5th Cir. 2004); *Brown*, 219 F.3d at 456. The evidentiary and injunction rulings are reviewed for abuse of discretion. *See Innogenetics, N.V. v. Abbott Labs.*, 512 F.3d 1363, 1379 (Fed. Cir. 2008) (addressing permanent injunctions); *Vargas v. Lee*, 317 F.3d 498, 500 (5th Cir. 2003) (addressing *Daubert* challenges).

III.

SAP claims the trial court's failure to grant a JMOL of noninfringement of the '350 Patent was twofold error. First, it argues that its software cannot infringe because the software is not capable of performing customer and product hierarchies without added computer instructions. Second, it claims the software does not use "denormalized numbers" in its pricing tables.

Based on the parties' stipulated construction, claims 26 and 28 require "computer instructions causing a computer to implement" the claimed operations. J.A. 10006. Claim 29 requires "computer instructions capable of" performing those same operations. '350 Patent, col. 22, l. 21. Portions of the record clearly support the jury's conclusion that SAP's accused products infringe the asserted claims without modification or additional computer instructions.

Versata's expert explained SAP's source code to the jury. He testified that SAP's programmers left notes in source code explaining how the code works, and he showed these notes to the jury. These notes or comments explained "the implementation of customer hierarchies" as well as how to display product hierarchies. J.A. 1445; 1450. Other comments stated that hierarchical access was the default for condition records. Condition records are how the software stores data relating to customers or products. The jury also saw SAP documents explaining that the accused hierarchical access feature was designed "[e]specially for hierarchical data such as that representing a product hierarchy or a customer hierarchy." J.A. 2100. Versata's expert concluded that the code was written by SAP engineers "so that it could perform the [claimed] functions . . . . [The] writing of that code means that the code has been configured to implement these particular functions or to be able to cause the computer to do these things." J.A. 1504.

The most telling evidence was the expert's demonstrative data setup. The expert used the inherent functionality of SAP's software to conduct hierarchical pricing based on customer and product hierarchies. Specifically, the expert used the SAP interface to set up four pricing elements: a pricing calculation function; a pricing procedure; a condition table; and an access sequence. The expert testified that this data setup did not require any modification to SAP's source code, and that SAP's accused products all included the code to accomplish his demonstration. In essence, the expert confirmed his theories that the accused software was capable of performing the claimed functionality by making the software perform the function without modifying the software.

SAP does not dispute that its software, as set up by Versata's expert, performed the claimed functionality. Instead, it claims that Versata did not prove that SAP's software, as shipped to the customer, infringed the '350 Patent. It argues that the claim language "computer instructions capable of" and "computer instructions causing a computer to implement" are not directed to source code. Rather, the language requires that the software, as shipped, contain computer instructions to perform the claimed functionality. In its view, the expert's data setup added new computer instructions to SAP's software, thereby changing and modifying a noninfringing product into an infringing product.

SAP misinterprets the claim language. The only claim construction affecting these terms was the stipulated construction of "computer instructions to implement" which the parties agreed means "computer instructions causing a computer to implement." It does not appear that SAP requested any claim construction of the term "computer instructions," much less a construction that limits the phrase to exclude source code or require that the patented function be "existing as shipped" in the computer instructions. SAP cannot now collaterally attack the claim construction it has agreed to. *Function Media L.L.C. v. Google Inc.*, 708 F.3d 1310, 1321–22 (Fed. Cir. 2013) (noting a party may not object to a claim construction it proposed or agreed to); *Lazare Kaplan Int'l, Inc. v. Photoscribe Techs., Inc.*, 628 F.3d 1359, 1376 (Fed. Cir. 2010) ("As we have repeatedly explained, litigants waive their right to present new claim construction disputes if they are raised for the first time after trial.") (internal quotation omitted).

Whether "computer instructions" can include source code thus becomes a pure factual issue. Versata's expert testified that the source code is a computer instruction. He then presented evidence that the code, without modification, was designed to provide the claimed functionality. SAP cross-examined the expert, but the jury ultimately chose to credit the expert's testimony and documentary evidence. SAP has not met the high standard needed to disregard the jury's fact-finding function on this issue. *See Bagby Elevator Co. v. Schindler Elevator Corp.*, 609 F.3d 768, 773 (5th Cir. 2010) (giving great deference to the jury's findings and verdict); *Agrizap, Inc. v. Woodstream Corp.*, 520 F.3d 1337, 1342–43 (Fed. Cir. 2008) (stating that this court owes the jury great deference in its role as the fact-finder).

SAP also misinterprets the expert's data setup. As this court has previously explained, when "a user must activate the functions programmed into a piece of software by selecting those options, the user is only activating the means that are already present in the underlying software." *Finjan, Inc. v. Secure Computing Corp.*, 626 F.3d 1197, 1205 (Fed. Cir. 2010); (quoting *Fantasy Sports Props. v. Sportsline.com, Inc.*, 287 F.3d 1108, 1118 (Fed. Cir. 2002). While "a device does not infringe simply because it is possible to alter it in a way that would satisfy all the limitations of a patent claim," *High Tech Med. Instrumentation v. New Image Indus., Inc.*, 49 F.3d 1551, 1555 (Fed. Cir. 1995), an accused product "may be found to infringe if it is reasonably capable of satisfying the claim limitation," *Finjan*, 626 F.3d at 1204 (quoting *Hilgraeve Corp. v. Symentec Corp.*, 265 F.3d 1336, 1343 (Fed. Cir. 2001)).

Versata's expert did not alter or modify SAP's code in order to achieve the claimed functionality. Rather, he followed SAP's own directions on how to implement pricing functionality in its software and activated functions already present in the software: data structures, access sequences, pricing procedures, and condition types. SAP's own expert admitted that each alleged alteration was part of the software's capability, that it was not unusual for customers to perform the same actions, and that it was "expected that SAP's customers who use the pricing functionality" will use it with a similar data setup. J.A. 2509. Furthermore, he testified that SAP expects its customers to set up access sequences, specific pricing procedures, and specific condition types. This record clearly supports the jury's finding of infringement of the '350 Patent. The trial court correctly refused JMOL on this ground.

SAP's second argument regarding infringement relates to denormalized numbers. The term "denormalized numbers" is not in the asserted claims. However, the trial court construed the term "pricing adjustment" as meaning "a denormalized number that may affect the determined price." J.A. 263. The parties stipulated that "denormalized number" means: "a number, used as a price adjustment, that does not have fixed units and may assume a different meaning and different units depending on the pricing operation that is being performed." The application of the number occurs during "run time," i.e., while the software is calculating the price and not during data entry.

SAP argues the record does not show that the accused software used denormalized numbers during run-time. Instead, Versata showed that a user can (1) first enter a number and the later select a meaning for that number or (2) edit numbers after they have been entered but before run-time. These theories all relate to data entry—not software interpretation of the denormalized numbers during run-time.

Again, sufficient evidence supports the jury's verdict. Versata's expert testified that SAP's software contains numbers without "fixed units." The numbers can assume a different meaning depending on which pricing operation is being performed by the software.

The expert also compared SAP's software to the prior art which did not use denormalized numbers. The prior art used fixed units in the pricing tables, for example 10 dollars or 10 percent, so the computer "already knows, without looking at any other information, that that's going to be dollars . . . [or] a percent." J.A. 1414. SAP's new software on the other hand did not use fixed numbers and "the computer can't know [the units or] what the operation is without looking at" other information. J.A. 1427–29. The computer considers the other necessary information during run time. Lastly, SAP's expert admitted on cross-examination that both the association between units and numbers, and the application of those numbers, occurs during run-time.

This court carefully considered the remainder of SAP's arguments on infringement and finds no reversible error. Sufficient evidence supports the jury's verdict of infringement of the '350 Patent, and the trial court correctly denied SAP's motion for JMOL of non-infringement of the '350 Patent.

IV.

SAP also challenges the jury's award of lost profits. Lost-profits damages are appropriate whenever there is a "reasonable probability that, 'but for' the infringement, [the patentee] would have made the sales that were made by the infringer." *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1545 (Fed. Cir. 1995) (en banc). A showing under the four-factor Panduit test establishes the required causation. *Rite-Hite*, 56 F.3d at 1545. These factors include: "(1) demand for the patented product, (2) absence of acceptable noninfringing alternatives, (3) [capacity] to exploit the demand, and (4) the amount of profit [the patentee] would have made." *Panduit Corp v. Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1156 (6th Cir. 1978). Causation of lost profits "is a classical jury question." *Brooktree Corp. v. Advanced Micro Devices, Inc.*, 977 F.2d 1555, 1578 (Fed. Cir. 1992).

According to SAP, the jury's lost profits award should be set aside for four reasons. The first two reasons relate to the methodology used by Versata's expert. SAP avers that Versata's "but for" model is "inconsistent with sound economic principles," and thus "[the expert's] opinion should have been excluded from evidence." Appellant's Br. 46. Similarly, SAP claims Versata's expert did not adhere to the Panduit framework because he used multiple markets thereby rendering his analysis "legally defective." *Id.* at 50.

The court rejects these two arguments as improperly raised. Under the guise of sufficiency of the evidence, SAP questions the admissibility of Versata's expert testimony and whether his damages model is properly tied to the facts of the case. Such questions should be resolved under the framework of the Federal Rules of Evidence and through a challenge under *Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. 579 (1993). *See ePlus, Inc. v. Lawson Software, Inc.*, 700 F.3d 509, 515, 522–23 (2012) (affirming a trial court's decision to exclude expert testimony under *Daubert* because it was analytically flawed and unreliable); *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1314–16 (Fed. Cir. 2011) (noting that to carry its burden under Federal Rule of Evidence 702, the patentee must sufficiently "tie the expert testimony on damages to the facts of the case").

SAP's briefs and statements at oral argument confirm that its arguments should have been resolved under the framework of *Daubert* and the Federal Rules of Evidence.

In its briefs, SAP argues that the expert's testimony should have been excluded from evidence, the jury "should have never heard any lost profits theory," that "the district court should not have permitted Versata's expert to present his lost profits theory," and that his analysis is "legally defective." Appellant's Br. 46–47, 50. At oral argument, SAP's counsel stated that the expert's testimony "should not have been admitted," and that "it should have been excluded." Oral Argument at 14:00–15:00, *Versata Software v. SAP America*, (Fed. Cir. 2013) (No. 2012-1029, -1049), *available at* http://www.cafc. uscourts.gov/oral-argument-recordings/search/audio.html.

Whether evidence is inadmissible is a question clearly within the scope of the rules of evidence and *Daubert*. However, SAP has not appealed a *Daubert* ruling. Instead, it argues that the jury could have not had sufficient evidence to award lost profits because the expert's testimony was fatally flawed and should not have been admitted. This is the improper context for deciding questions that, by SAP's own admissions, boil down to the admissibility of evidence.

SAP's other challenges to the lost profits award clearly relate to the sufficiency of evidence under *Panduit* and are thus properly before the court. SAP claims there is no evidence to show demand for the patented product (*Panduit* factor 1). Specifically, SAP argues that Versata could not present evidence of demand during the damages period (which started in 2003) because Versata did not sell Pricer to anyone, even non-SAP customers, after 2001.

Patentees may prove lost profits through presenting a hypothetical, "but for" world where infringement has been "factored out of the economic picture." *Grain Processing Corp. v. Am. Maize-Prods. Co.*, 185 F.3d 1341, 1350 (Fed. Cir. 1999). While the hypothetical, but-for-world must be supported with sound economic proof, "[t]his court has affirmed lost profit awards based on a wide variety of reconstruction theories." *Crystal Semiconductor Corp. v. TriTech Microelectronics Int'l, Inc.*, 246 F.3d 1336, 1355 (Fed. Cir. 2001). Here, the record supports the jury's finding of demand for the patented functionality in a "but for" world.

Versata showed there was demand for hierarchical pricing before SAP entered the market. Between 1995 and 1998, Versata made at least 61 sales of Pricer. At least 21 sales were "Pricer-isolated," meaning Pricer was the only product purchased from Versata. Versata's average win rate before SAP entered the market was 35 percent. Even SAP's expert admitted there was demand for Pricer during this period. This evidence of demand is especially probative since it is a picture of a world in which Versata enjoyed market exclusivity similar to that which it would have had in a hypothetical world absent SAP's infringement.

When SAP entered the market by bundling hierarchical pricing into its enterprise software, the market for Pricer disappeared. Versata made no sales of Pricer during the damages period of 2003 to 2011. However, Versata showed that demand for the patented functionality remained. In 2007, SAP internal documents stated there was "customer need[]" for hierarchical access, and "having that capability is key" to SAP's business. J.A. 3480. During litigation, Versata sent written discovery questions to several SAP customers. Forty customers responded, and many use both customer and product hierarchies.

SAP argues Versata cannot show demand because it made no sales of Pricer during the damages period. Usually, "the patentee needs to have been selling some item, the profits of which have been lost due to infringing sales." *Poly-America, L.P. v. GSE Lining Tech., Inc.*, 383 F.3d 1303, 1311 (Fed. Cir. 2004). However, the act of "selling" an item does not necessarily mean the item must be "sold." Here, Versata was selling Pricer during the damages period. Versata need not have actually sold Pricer during the damages period to show demand for the patented functionality, particularly given the economic reality that SAP had eroded the market for Pricer through bundling hierarchical access into its own software.

The *Panduit* factors do not require showing demand for a particular embodiment of the patented functionality, here Versata's Pricer software. *See Presidio Components, Inc. v. Am. Technical Ceramics Corp.*, 702 F.3d 1351, 1360 (Fed. Cir. 2012). Nor does it require any allocation of consumer demand among the various limitations recited in a patent claim. *DePuy Spine Inc. v. Medtronic Sofamor Danek, Inc.*, 567 F.3d 1314, 1330 (Fed. Cir. 2009). In other words, the *Panduit* factors place no qualitative requirement on the level of demand necessary to show lost profits. Versata showed demand for its product before SAP entered the market, and it showed continued demand for the patented feature during the damages period. SAP had the ability to cross-examine and rebut this evidence. SAP's expert even prepared an alternative lost profit model but SAP chose not to present this evidence to the jury. The court finds sufficient evidence of demand in this record and declines to disturb the jury's determination.

SAP also argues Versata did not prove the quantum of its lost profits with reasonable probability (*Panduit* factor 4). Specifically, it argues Versata's but-for world makes assumptions about demand and price elasticity that are inconsistent with the real world, and that Versata did not account for market forces other than infringement that might have caused its alleged losses.

Versata's expert calculated lost profits using the following method. First, he identified a pool of potential customers: Tier 1 customers who had purchased SAP's software. The record showed that Tier 1 customers were "larger companies" and "more likely to benefit from Pricer's unique value propositions." J.A. 44. In the Tier 1 market, SAP made 480 sales of infringing products during the damages period of 2003 to 2011. Versata's expert then removed from this pool the 45 SAP customers who had previously licensed Pricer, and thus were not lost to SAP. The initial pool was therefore 435 customers.

Next, the expert determined how many of those 435 customers Versata would have won but for SAP's infringement. The expert used Versata's historic win-rate of 35 percent as a starting point, meaning Versata usually converted about a third of customers it targeted for Pricer into actual clients. The expert applied this percentage to the pool of customers and concluded that Versata would have been able to sell Pricer to 152 of the 435 SAP customers.

Had the expert stopped at this point, SAP's challenge might have more weight. A direct application of Versata's historic win-rate would not necessarily reflect the differences in economic conditions between 1996 and 2003. It also assumes Versata would have immediately resumed selling Pricer at the 1996–98 rates.

However, Versata's expert did account for some market pressures. He recognized that Versata would not likely resume making sales in 2003 at the same pace it had achieved in 1998. He concluded that Versata "could have ramped up and made these additional sales beginning in roughly, April 2003 at the same pace at which it ramped up and made actual sales when it had an exclusive beginning in 1996." J.A. 3725. The expert then further discounted the pool of lost customers and concluded Versata lost 93 sales to SAP during the 8-

year damages period. This is an average 21 percent win-rate over the whole damages period.

Next, the expert calculated the value of each lost sale. To isolate Pricer's value in relation to Versata's other software offerings, the expert differentiated between "Pricer-isolated sales" and general sales of Pricer. Pricer isolated sales were those where Versata only sold Pricer, and they provide evidence of the value attributable to Pricer alone. The expert concluded that the base value of each lost sale was approximately $1.8 million. He then accounted for the additional revenue streams that would follow on a sale through maintenance and consulting agreements. The final conclusion was that Versata would have made approximately $3 million in profit per sale lost to SAP. Multiplying the pool of lost sales by the amount lost per sale would have resulted in an award of $285 million. The jury awarded $260 million.

SAP's protestations that the award does not reflect market or economic variables are belied by the record. As noted above, the expert discounted the win rate to account for time Versata would need to ramp-up its sales. The expert also discounted his sales value calculations to account for the costs associated with making those sales. He accounted for "the direct costs of making those sales, plus costs associated with research and development efforts, plus costs associated with . . . selling, general and administrative expenses." J.A. 3726. He also accounted for price elasticity when calculating the number of lost sales. The expert testified that if he had used a lower price (or even a declining price scale) when valuing the lost sales, the lower price would have been offset by additional lost sales: a lower price results in greater demand.

As the trial court noted, "the final number . . . was not the product of speculation, but was based on sound economic proof confirmed by the historical record." J.A. 46. As such, Versata made a *prima facie* showing of lost profits and the burden shifted to SAP to prove that a different rate would have been more reasonable. *Rite- Hite*, 56 F.3d at 1545. SAP did not make such a showing. Therefore, this court affirms the jury's award of lost profits.

V.

In addition to lost profits, the jury awarded $85 million in royalties. A reasonable royalty is the statutory floor for damages in an infringement case. See 35 U.S.C. § 284. Because the district court precluded Versata's expert from presenting a reasonable royalty analysis, the only evidence for a royalty award came from SAP's expert.

A reasonable royalty may be calculated using one of two baselines: "an established royalty, if there is one, or if not, upon the supposed result of hypothetical negotiations between the plaintiff and defendant." *Transocean Offshore Deepwater Drilling, Inc. v. Maersk Drilling USA, Inc.*, 699 F.3d 1340, 1357 (Fed. Cir. 2012) (quoting *Rite–Hite*, 56 F.3d at 1554). "The hypothetical negotiation seeks to determine the terms of the license agreement the parties would have reached had they negotiated at arm's length when infringement began." Id.

SAP's expert conducted a full hypothetical negotiation analysis using the factors in *Georgia-Pacific*

Corp. v. U.S. Plywood Corp., 318 F. Supp. 1116 (S.D.N.Y. 1970). The expert stated that a software called Khimetrics was comparable to Pricer for the purposes of valuing the hypothetical license. The expert noted that 12 customers had agreed to pay SAP for this add-on functionality. He concluded that the reasonable royalty rate should be around $2 million in a lump sum payment.

On cross-examination, SAP's expert confirmed that Khimetrics was a proper comparable bolt-on product, that SAP had sold Khimetrics to 12 customers, and that the average sales price per customer for Khimetrics was $333,000. He also stated that an appropriate royalty rate would have been 40 percent of the $333,000 per customer, yielding a royalty of $133,200 per customer. The expert also agreed that, after subtracting the number of lost sales covered under the lost profits award, SAP had made roughly 1300 infringing sales. The expert then stated that if his proposed per customer royalty rate was applied to every infringing sale, the damages should be $170 million. Versata's counsel confirmed this calculation with the following question:

> Q. So, if the jury believed that your per-customer royalty rate [of $133,200] should be applied to every infringing sale instead of just twelve [sales], then the number is not $2 million but $170 million.
>
> A. That would be the correct math.

J.A. 4227.

In spite of this testimony from its own expert, SAP now questions the royalty award. It claims the $2 million royalty estimate "already compensated Versata for the full scope of infringement," and thus it was improper to extrapolate a per customer royalty from the royalty estimate. Appellant's Br. 58. SAP also claims the award violates the entire market value rule. Neither argument has merit.

SAP's expert did not equivocate when he stated that the revenue generated by his proffered comparable license was $333,000 per Khimetrics customer. The expert did not dispute that he proposed a 40 percent royalty. He did not contradict or question the number of SAP's infringing sales. Thus, SAP's assertion that the expert intended his calculation to be a lump sum covering all of SAP's infringing sales is belied by his own testimony.

Furthermore, the award cannot violate the entire market value rule. The entire market value rule is a narrow exception to the general rule that royalties are awarded based on the smallest salable patent-practicing unit. *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 67 (Fed. Cir. 2012). "A patentee may assess damages based on the entire market value of the accused product only where the patented feature creates the basis for customer demand or substantially creates the value of the component parts." *SynQor, Inc. v. Artesyn Technologies, Inc.*, --- F.3d ----, 2013 WL 950743, *13 (Fed. Cir. 2013) (quoting *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1318 (Fed. Cir. 2011)).

Here, the expert did not apply his 40 percent royalty rate to the entire value of SAP's infringing products. The royalty rate was applied to the value of Khimetrics' sales. Rather, the expert merely accounted for all infringing sales. Thus, the entire market value exception was never triggered, and Versata was not required to show that demand for hierarchical pricing drove demand for SAP's product as whole. *See LaserDynamics, Inc.*, 94 F.3d at 67.

The trial court, in denying SAP's motion for JMOL, correctly noted that SAP "cannot legitimately challenge the comparability of its own comparable." J.A. 51. The jury used common sense and merely applied SAP's proposed royalty to a larger number of infringing sales than SAP desired. See *Huffman v. Union Pac. R.R.*, 675 F.3d 412, 421 (5th Cir. 2012) (noting the jury is free to "draw inference on the basis of common sense, common understanding and fair beliefs, grounded on evidence consisting of direct statement by witnesses or proof of circumstances from which inferences can fairly be drawn") (internal quotations omitted). While the jury awarded less than the $170 million calculated by SAP's expert, the jury is not bound to accept the maximum proffered award and may choose an intermediate rate. *Powell v. Home Depot U.S.A., Inc.*, 663 F.3d 1221, 1241 (Fed. Cir. 2011). The question is whether the award is not "so outrageously high . . . as to be unsupportable as an estimation of a reasonable royalty," *Rite-Hite*, 56 F.3d at 1554, and is "within the range encompassed by the record as a whole," *Powell*, 663 F.3d at 1241 (quoting *Unisplay, S.A. v. Am. Elec. Sign Co.*, 69 F.3d 512, 519 (Fed. Cir. 1995)). This court concludes that award satisfies these standards and is supported by substantial evidence.

VI.

Following the resolution of post-trial motions, the trial court entered a permanent injunction. SAP argues the injunction is overbroad because it prohibits SAP from offering maintenance and additional seats for SAP's current customers. "Additional seats" refers to increasing the number of users covered under a specific license. SAP does not challenge the portion of the injunction that prohibits it from offering the accused functionality in new sales of its software.

The injunction uses two key terms: the "Infringing Products" and "the Enjoined Capability." J.A. 4–5. The enjoined capability is the capability to execute a pricing procedure using hierarchical access of customer and product data. As repeatedly noted in the briefs and in the record, the enjoined capability represents only a fraction of the features contained in the infringing products. SAP's bundling is one of the reasons cited by Versata for the destruction of Pricer's market.

Yet, the injunction states that SAP "shall not (a) charge to or accept payment of software maintenance from that customer with respect to any of the *Infringing Products* in the United States; or (b) license or sell any new 'seats' or otherwise charge to or accept license revenue from that customer in connection with any of the *Infringing Products* in the United States." J.A. 5 (emphasis added). While this court does not agree entirely with SAP's arguments against the injunction, it appears the trial court erred by placing emphasis on SAP's product as a whole. SAP should be able to provide maintenance or additional seats for prior customers of its infringing products, so long as the maintenance or the additional seat does not involve, or allow access to, the enjoined capability. Therefore, this court vacates the above language from the permanent injunction and remands for the trial court to modify its order in accordance with this opinion.

VII.

This court has considered the remainder of SAP's arguments and finds no reversible error. Additionally, by Versata's own admission, there is no need to address any of the issues raised in its cross-appeal. *See* Cross- Appellant Br. 69–70. Based on the reasons above, this court affirms the jury's infringement decision and concomitant damages awards. However, the court vacates part of the trial court's permanent injunction and remands for further proceedings consistent with this opinion.

AFFIRMED-IN-PART, VACATED-AND-REMANDED-IN- PART

Costs to Versata.

APPENDIX C

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
MARSHALL DIVISION

VERSATA SOFTWARE INC., et al., Plaintiffs,

v.

SAP AMERICA, INC. and SAP AG, Defendants

Case No. 2:07-CV-153 CE

ORDER

This case was tried to a jury from August 17, 2009 to August 26, 2009. At the close of the evidence, the jury found that defendants SAP America, Inc. and SAP AG (collectively, "SAP") directly infringed claims 26, 28, and 29 of U.S. Patent No. 6,553,350 B2 (the "350 Patent") and claims 31, 35, and 36 of U.S. Patent No. 5,878,400 (the "400 Patent"). The jury also found that SAP induced and contributed to the infringement of claim 29 of the '350 Patent. Finally, the jury found that the asserted claims of the '350 and '400 Patents were not invalid for failure to satisfy the best mode requirement. The jury awarded plaintiffs Versata Software, Inc., Versata Development Group, Inc., and Versata Computer Industry Solutions, Inc. (collectively, "Versata") $138,641,000 as damages for SAP's infringement. Now pending before the court are SAP's motions for judgment as a matter of law ("JMOL") on liability issues (Dkt. Nos. 306, 313, and 351). Among other grounds, SAP contends that Versata's claims for direct and indirect infringement failed because the asserted claims require products configured to perform a specific set of operations, Versata admitted that the software as sold by SAP is not configured to perform those operations, and Versata failed to prove that any customer had modified the SAP software to do so. Therefore, SAP argues that the court should grant JMOL or, in the alternative, a new trial. For the reasons discussed below, SAP's motion for JMOL is GRANTED with respect to the claims of the '400 Patent. The motion is DENIED with respect to the asserted claims of the '350 Patent.

JMOL may be granted if "the court finds that a reasonable jury would not have a legally sufficient evidentiary basis to find for the party on [an] issue." FED. R. CIV. P. 50(a)(1). A motion for JMOL is a procedural issue not unique to patent law; thus, such motions are reviewed under the law of the regional circuit. *Summit Tech., Inc. v. Nidek Co.*, 363 F.3d 1219, 1223 (Fed. Cir. 2004). In the Fifth Circuit, JMOL may not be granted unless "there is no legally sufficient evidentiary basis for a reasonable jury to find as the jury did." *Hiltgen v. Sumrall*, 47 F.3d 695, 700 (5th Cir. 1995) (internal citation omitted). In ruling on a renewed motion for JMOL, the court may allow judgment on the verdict, if the jury returned a verdict, order a new trial, or direct the entry of judgment as a matter of law. FED. R. CIV. P. 50(b). The court reviews all the evidence in the record and must draw all reasonable inferences in favor of the nonmoving party; however, a court may not make credibility determinations or weigh the evidence, as those are solely functions of the jury. *See Reeves v. Sanderson Plumbing Prods., Inc.*, 530 U.S. 133, 150-51 (2000).

In *ACCO Brands, Inc. v. ABA Locks Mfr. Co.*, 501 F.3d 1307, 1313 (Fed. Cir. 2007), the Federal Circuit reversed the jury's finding of direct infringement by end users where the claim required the accused key lock to be operated through a specific method, and there was no evidence that any user of the accused lock (other than plaintiff's expert) had used it in the infringing configuration. *See also Cross Med. Prods., Inc. v. Medtronic Sofamor Danek, Inc.*, 424 F.3d 1293, 1310 (Fed. Cir. 2005) (reversing the district court's summary judgment of infringement because the asserted claim required the accused medical device to be "operatively joined" to bone, but the evidence merely showed that the accused infringer made devices that were "capable of being made into infringing devices."). In this case, to establish infringement, the asserted claims of the '400 Patent each require proof that SAP made or sold a "computer usable medium" with "computer readable program code *configured to cause* a computer..." to perform the specific claimed operations (emphasis added). As such, the asserted claims of the '400 Patent require that the accused SAP products, as made and sold, contain computer code or program instructions sufficient to perform the operations recited in the claims without additional modification or configuration, or the addition of further program instructions.

To demonstrate direct infringement, Versata relied upon evidence that the products shipped by SAP could be configured by a user to practice the required operations of the claims of the '400 Patent without changing the SAP source code. Specifically, to demonstrate SAP's direct infringement, Versata relied on an SAP product configured by Versata's expert, rather than by SAP or any customer. Such evidence fails to prove direct infringement of the asserted claims of the '400 Patent. *See ACCO Brands*, 501 F.3d at 1313. The court therefore grants judgment as a matter of law that SAP does not directly infringe the asserted claims of the '400 Patent.

On the other hand, Versata presented substantial evidence that the computer software sold by SAP infringes the asserted claims of the '350 Patent. This evidence was sufficient for the jury to find infringement of the asserted claims of the '350 Patent because Versata's expert testified that no modification of SAP's source code was required to establish direct infringement. Claims 26 and 28 of the '350 Patent each require proof that SAP made or sold a "computer readable storage media" with *"computer instructions to implement"* the specific claimed operations (emphasis added). The court construed this language to mean "computer instructions causing a computer to implement." Claim 29 of the '350 Patent requires proof that SAP made, used, or sold "[a]n apparatus...comprising...computer program instructions *capable of...*" performing the specific claimed operations (emphasis added). Versata's expert explained that there is direct infringement of claim 29 every time the accused software products as made and sold by SAP are installed on a computer that is, SAP's computer software directly infringes claim 29 without any modification. T.Tr. (8/18/09 PM) at 7:1-4. The jury was entitled to credit Versata's expert's testimony that the software as made and sold by SAP contained the recited "computer program instructions capable of meeting the claimed operations. Indeed, on cross-examination, even SAP's expert admitted that he believed that SAP's "computer source code, as shipped by SAP, is capable of ... [performing the operations recited in claim 29] without any modification to that source code...." T.Tr. (8/24/09 PM) at 41:20-42:6 (stating that SAP's expert would "agree" with that). Likewise, the jury was entitled to find that the systems, as sold by SAP, contain "computer instructions causing a computer to implement" the required functionality of claims 26 and 28. The court has carefully reviewed SAP's other non-infringement arguments and is persuaded that the record evidence is sufficient to support the jury's finding of infringement of the asserted claims of the '350 Patent. Furthermore, Versata presented substantial evidence of the other elements of indirect infringement, such that the jury was entitled to find indirect infringement. Therefore, the court denies SAP's motion for JMOL as to the asserted claims of the '350 Patent.

In conclusion, the court has carefully considered the parties' arguments and concludes that SAP's motion for JMOL should be GRANTED with regard to the jury's finding of direct infringement of the claims of the '400 Patent. The motion, however, is DENIED as to the jury's finding of direct infringement of the asserted claims of the '350 Patent and indirect infringement of claim 29 of the '350 Patent.

SIGNED this 21st day of December, 2010.

/s/ Charles Everingham IV
CHARLES EVERINGHAM IV
UNITED STATES MAGISTRATE JUDGE

APPENDIX D

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF TEXAS MARSHALL DIVISION

VERSATA SOFTWARE INC., et al.,
Plaintiffs,

v.

SAP AMERICA, INC. and SAP AG,
Defendants.

Case No. 2:07-CV-153 CE

MEMORANDUM OPINION AND ORDER

Before the Court is Plaintiffs' Versata Software, Inc., f/k/a Trilogy Software, Inc. and Versata Development Group, f/k/a Versata Development Group, Inc., (collectively, "Plaintiff" or "Versata") motions for a permanent injunction. (Dkt. Nos. 347 and 535.) Defendants SAP America, Inc. and SAP AG (collectively, "Defendants" or "SAP") oppose the motion for permanent injunction. The Court held full evidentiary hearings on the issue of a permanent injunction on March 9, 2010 and June 7, 2011. In their response, Defendants request a 90 day compliance period should the Court decide an injunction is warranted. Also pending before the Court is Defendant's motion to strike Versata's equitable claims as sanction for Versata's violation of the March 6, 2008 Protective Order and February 26, 2008 Order. (Dkt. No. 144.) The Court held an evidentiary hearing on this issue on May 14, 2009. The Court has carefully considered the parties' submissions, the record, and the applicable law. For the following reasons, Versata's motion for a permanent injunction is GRANTED. The Court further finds that Versata's attorneys violated the Protective Order in this case and stays the injunction pending the disposition of any appeal.

I. BACKGROUND

In this case, Versata sought compensatory damages from SAP for patent infringement. On August 26, 2009, a jury decided that SAP had infringed United States Patent No. 6,553,350 B2 ("the '350 patent") and that none of the asserted claims of the patent were invalid. On May 13, 2011, a jury determined that SAP's modified products infringe the '350 patent and awarded $260,000,000 in lost profits damages and $85,000,000 as a reasonable royalty. The issues presented before the Court relate to the scope of the injunction, the terms of the injunction, and whether Defendants should be entitled to a stay of the injunction pending the disposition of any appeal.

II. LEGAL STANDARD

The Patent Act provides that courts "may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable" 35 U.S.C. § 283. A permanent injunction is appropriate when a four-part test is satisfied:

> According to well-established principles of equity, a plaintiff seeking a permanent injunction must satisfy a four-factor test before a court may grant such relief. A plaintiff must demonstrate: (1) that it has suffered an irrepa-

> rable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.

eBay, Inc. v. MercExchange, LLC, 547 U.S. 388, 391 (2006). "The decision to grant or deny permanent injunctive relief is an act of equitable discretion by the district court, reviewable on appeal for abuse of discretion." *Id.*

III. DISCUSSION

A. Permanent Injunction

Bearing these factors in mind, the Court now turns to the facts of this case to assess the propriety of permanent injunctive relief. Versata contends that all four of the *eBay* factors point in favor of granting an injunction. SAP disagrees and argues that no injunction should issue.

1. Irreparable Injury

Versata has demonstrated irreparable injury. The best case for obtaining a permanent injunction often occurs when the plaintiff and defendant are competing in the same market. In that context, the harm in allowing the defendant to continue infringing is the greatest. This Court has recognized the high value of intellectual property when it is asserted against a direct competitor in the plaintiffs market. "Past harm to a patentee's market share, revenues, and brand recognition is relevant for determining whether the patentee 'has suffered an irreparable injury.'" *i4i Ltd. Partnership v. Microsoft Corp.*, 598 F.3d 831, 861 (Fed. Cir. 2010) (citations omitted). At the time that SAP first introduced the infringing product into the market, Versata marketed and sold the "Pricer" family of products that embody the patented invention. Versata still offers the "Pricer" family of products for sale. Thus, it cannot be reasonably disputed that Versata is a direct competitor of SAP. Moreover, as indicated by the jury's award, there has been a loss of market share, lost profits, and potential revenue to Defendants in the past by Defendants' acts of infringement, and the Court finds that there will likely be such loss in the future.

Defendants respond that there is no evidence of actual, ongoing competition between the parties in any market for pricing software because of Versata's diminished presence. But this position is untenable given that the Pricer products embodying the '350 patent remain available for sale. Granted, Versata concedes that it poses far less of a competitive threat to SAP today than it did prior to SAP's sales of the infringing product. Notwithstanding, the Court finds that the evidence establishes that Versata's diminished presence was not "voluntary" and by no means is an indication that Versata has ceased competing with SAP. Instead, it indicates that Versata has suffered and will continue to suffer irreparable harm if an injunction is not issued. Indeed, if SAP's version of the facts were accepted, an infringing competitor could immunize itself from the possibility of injunctive relief simply by driving the patentee competitor completely out of the relevant market. This is contrary to the notion that an infringer "should not be permitted to prevail on a theory that successful exploitation of infringing technology shields a party from injunctive relief." *Broadcom Corp. v. Qualcomm Inc.*, 543 F.3d 683, 704 (Fed. Cir. 2008) (citation omitted). Accordingly, the Court finds that Versata will suffer irreparable injury absent an injunction.

2. Inadequate Remedies at Law

Versata has also demonstrated the inadequacy of legal remedies. It is true that the jury awarded a damage verdict based upon acts of direct infringement. Those damages, however, are designed to compensate Versata fairly and reasonably for its past injury. Although future damages in lieu of an injunction may compensate Versata for an *approximate* loss, such approximation does not make future damages adequate in the sense that they are a suitable proxy for injunctive relief. As discussed above, Versata makes and sells products and has a presence in the relevant market. Versata has name recognition, goodwill, and market share in the relevant market. The loss associated with any of these effects is particularly difficult to quantify. *See i4i*, 598 F.3d at 862. Difficulty in estimating monetary damages is evidence that remedies at law are inadequate. *Id.*; *Broadcom*, 543 F.3d at 703-04. Further, Versata has pursued a strategy of exploiting the '350 patent for its own business advantage; it has licensed the patent sparingly and has not granted licenses to the '350 patent to business competitors outside of litigation settlements. As noted by SAP, it appears that not one of the 114 other identified competitors in the relevant market is a licensee to Versata's pricing patents. (Dkt. No. 361 at 18.) Thus, the inability to calculate Versata's future loss with reasonable precision makes legal remedies inadequate in this case. *Acumed LLC v. Stryker*

Corp., 551 F.3d 1323, 1328 (Fed. Cir. 2008) (noting that in view of a patentee's right to exclude, infringement may cause a patentee irreparable harm not remediable by a reasonable royalty). Accordingly, the threat of future infringement exists and an injunction against future acts of infringement is the proper remedy to prevent future infringement.

3. Balance of Hardships

The "balance of hardships" assesses the relative effect of granting or denying an injunction on the parties. *See i4i*, 598 F.3d at 862. Absent an injunction, Versata will continue to suffer irreparable injury to its business, future opportunities, goodwill, potential revenue, and the very right to exclude that is the essence of the intellectual property at issue. Although an injunction will interfere with Defendants' ability to sell their competing products, the harm to Versata is significant. The Court finds that Defendants' actions relating to SAP's inclusion of the infringing technology bundled into its software at no additional cost have impacted Versata's market share and its ability to sell its products.

The Court further finds that Defendants will not suffer any appreciable harm from an injunction that could outweigh Versata's harm from continued infringement. The Defendants are larger than Versata, more diversified, and sell many different products. Accordingly, the Court has considered the balance of hardships and finds that the balance of hardships favors Versata in this case.

4. Public Interest

The question presented by this factor is whether the public interest would be disserved by an injunction. The "touchstone of the public interest factor is whether an injunction, both in scope and effect, strikes a workable balance between protecting the patentee's rights and protecting the public from the injunction's adverse effects." *i4i*, 598 F.3d at 863. The public has an interest in a strong patent system and it is generally in the public interest to uphold patent rights against an adjudicated infringer. *See id.* Permanent injunctions help serve that interest.

In this case, Defendants argue that Versata's delay in the bringing suit weighs against issuing an injunction. The Court disagrees with SAP characterization of the facts of this case and finds that any harm to the public will be minimized by the narrowly tailored scope of the injunction, which only prohibits future acts of infringement and does not remove the already sold infringing products from the marketplace. Accordingly, after considering the traditional equitable factors, the Court concludes that a permanent injunction is proper in this case.

Thus, the Court GRANTS Versata's request for a permanent injunction.

B. Scope and Terms of the Injunction

Under Federal Rule of Civil Procedure 65(d), an injunction must state the reasons it issued, "state its terms specifically," and "describe in reasonable detail ... the act or acts restrained or required." Fed. R. Civ. P. 65(d). "[T]he scope of the injunction remains that which is necessary to deter future infringement." *Nat'l*

Instruments Corp. v. Mathworks, Inc., 2003 WL 24049230, at *5 (E.D. Tex. June 23, 2003) (Ward, J.), *aff'd* 113 Fed. Appx. 895 (Fed. Cir. 2004).

SAP contends that Versata's Proposed Injunction (Dkt. No. 535-1, Exhibit A (the "Proposed Injunction")) is impermissibly overbroad and vague for four reasons. Specifically, SAP contends that Versata's Proposed Injunction: (1) improperly both requires SAP to alter already-purchased products, and enjoins SAP from providing purchasers of those products with maintenance and access to already-purchased products that this Court has ruled to be licensed; (2) contains numerous undefined terms that do not provide SAP with sufficient notice as to the scope of the Proposed Injunction, and likely enjoin non-infringing activities; (3) contains bans on contributory or induced infringement for patent claims as to which Versata dropped such allegations before trial; and (4) provides SAP only a 30-day period of compliance, as opposed to the parties' prior agreement that provided SAP with a more reasonable 90-day period. Each of these reasons will be addressed in more detail below.

1. SAP Will Not be Required to Completely Remove and/or Completely Disable the Functionality in Software Sold Pre-verdict, but Will be Required to Completely Remove and/or Completely Disable the Functionality in Software Where it Collects a Maintenance Fee or Sells a New Seat Post-verdict.

The parties' dispute as it relates to the first factor is directed to two inter-related issues. First, whether SAP should be required to completely remove and/or completely disable the functionality in all software, including software sold before the jury verdict. Second, whether SAP should be allowed to continue to sell seats and collect maintenance payments—post-verdict—for software that was sold pre-verdict but still includes the functionality that the jury found to infringe.

Regarding the first issue, SAP argues that the Proposed Injunction, as presently drafted, would require SAP to disable the infringed functionality "in the possession of (a) any customer, end-user, distributor, or consultant in the United States." (Proposed Injunction, at 2 (emphasis added)). Versata's Proposed Injunction goes on to state that the accused functionality "shall not be enabled, or be capable of being enabled, in the United States in any product." SAP contends that this request directly contradicts this Court's prior instructions and would permit Versata a double recovery. Specifically, SAP suggests that the Court recognized in its Final Jury Instructions during the damages trial, the jury's damages assessment compensates Versata for past infringement of SAP's original and modified products and creates a "license SAP to use the '350 Patent for those users." Trial Tr. May 12, 2011, PM Session at 81:15-20 ("You have heard evidence that SAP modified its products in May 2010 and that it did not require prior users to implement the modified product. Your damages award will compensate Versata for damage resulting from that infringement and will license SAP to use the '350 patent for those users."). SAP further argues that the Court also recognized that it would be improper to require SAP to "disable" the accused functionality for already-sold products, which would be licensed under the jury's damages assessment. *Id.* at 81:21-23 ("You should not infer that SAP was required to disable the infringing functionality because of the prior determination of infringement."). The Court finds SAP's argument persuasive.

Regarding the second issue, SAP's argues that because existing products have been licensed under the jury's damages assessment, maintenance (or technical support) for those customers should also be held licensed. That is, SAP contends that any ban on SAP's service of its licensed customers would likewise be impermissibly overbroad and contradict this Court's previous findings, as would be requiring SAP to provide technical support for free. SAP further argues that maintenance payments are not ongoing payments for pre-existing software, but instead are for (1) technical support and bug fixes, and (2) new, interim software releases that would comply with any injunction issued by this Court. Thus, SAP argues that maintenance payments do not provide SAP ongoing revenue for past infringements, and should not be the subject of any injunction. SAP also argues that permitting existing customers to add additional users (so-called "seats") does not involve providing the customer with new software and is not a new, unlicensed act. SAP concludes that an injunction of proper scope would enjoin the infringing capabilities only in connection with products that, in the future, SAP makes, uses, or sells. The Court disagrees with both of these arguments.

The Court agrees with Versata that this future revenue is associated with future acts of infringement and is not "licensed" under the jury's damages award. For example, SAP's future sales of additional "seats" (*i.e.*, individual user licenses) to the infringing products constitute a future licenses to the infringing products. Versata correctly argues that these license revenues are outside the scope of the jury's damages assessment. Similarly, Versata contends that SAP's ongoing revenue stream from maintenance associated with the infringing products constitutes products. That is, Versata argues that until SAP removes the infringing capabilities from a given customer's software, such revenue is associated with future infringing activity that should be enjoined. The Court agrees and finds that enjoining SAP from deriving future revenue from unmodified, infringing products is entirely proper. The jury's verdict does not compensate Versata for future infringing activity, nor does the verdict grant SAP a license to continue to generate revenue for the life of the patent-in-suit.

It is well within this Court's authority to enjoin these new, unlicensed acts of infringement by requiring SAP either to disable the infringing capabilities in SAP's infringing products or, alternatively, to stop deriving future revenues from these products until the infringing capabilities are removed. *See Tivo, Inc. v. Echostar Commc'ns Corp.*, 2011 U.S. App. LEXIS 8142, at *49 n.9 (Fed. Cir. April 20, 2011) (*en banc*) (recognizing that the Federal Circuit has "repeatedly stated that district courts are in the best position to fashion an injunction tailored to prevent or remedy infringement."); *Int'l Rectifier Corp. v. IXYS Corp.*, 383 F.3d 1312, 1317 (Fed. Cir. 2004) ("[A]s a general proposition district courts should have wide latitude in framing injunctions to meet particular circumstances."); *Ortho Pharm. Corp. v. Smith*, 959 F.2d 936, 945 (Fed. Cir. 1992) (holding that 35 U.S.C. § 283 "grants the district courts broad discretion in determining whether the facts of a case warrant an injunction and in determining the scope of the injunctive relief."). Accordingly, the Court concludes that SAP will not be required to completely remove and/or completely disable the functionality in software sold pre-verdict, but will be required to completely remove and/or completely disable the functionality in software where it collects a maintenance fee or sells a new seat post-verdict.

2. The Terms of the Injunction Will Provide Fair Notice as to the Precise Scope of the Enjoined Conduct.

It is axiomatic that an enjoined party must be given fair notice as to the precise scope of its enjoined conduct. *Granny Goose Foods, Inc. v. Brotherhood of Teamsters*, 415 U.S. 423, 444 (1974) ("[O]ne basic principle built into Rule 65 is that those against whom an injunction is issued should receive fair and precisely drawn notice of what the injunction actually prohibits."); *Int'l Rectifier Corp. v. IXYS Corp.*, 383 F.3d 1312, 1316 (Fed. Cir. 2004) ("[Broad injunctions] increase the likelihood of unwarranted contempt proceedings for acts unlike or unrelated to those originally judged unlawful."). SAP contends that Versata's definition of "Enjoined Capabilities" is impermissibly vague. (See Proposed Injunction, at 2); see also Nieswand Decl. ¶¶ 10-23. SAP also contends that Versata's proposed injunction contains multiple undefined terms, including "hierarchical access" and "pricing procedure." Accordingly, SAP provided a proposed modification to the injunction. SAP's proposed modification includes a lengthy definition for "hierarchal access" that is based on interrogatory responses. The modification also includes a proposed definition for "pricing procedure" and "pricing." SAP contends that these definitions are necessary because without them Versata may return to court alleging that other existing SAP functions involve "prices" and "pricing procedures." SAP also argues that Versata should be required to identify now anything else within SAP software it considers to fall within the scope of those terms to avoid the problem of continuous dispute over whether SAP software include "pricing" functions.

Versata responds with its own modified definition of the term "Enjoined Capabilities" that, in part, eliminates the phrase "at a minimum" and includes other changes. Versata contends that its revised definition of "Enjoined Capabilities" is consistent with the trial record, including the testimony and exhibits, and reflects what "hierarchical access" is and what aspects of hierarchical access correspond to infringement. Versata also responds that the term "price" is a commonly used term for which plain meaning should suffice. Versata further argues that SAP's proposed definition of "price" and "pricing procedure" seeks to narrow the injunction by reading in claim limitations not present in the infringed claims. For example, Versata argues that the inclusion of the term "condition types with associated access sequences" in SAP's definition fails to correspond to the infringement and the term "calculate a given price" used in SAP's definition is vague. Versata's argues that its revised definition of "Enjoined Capabilities" defines a "pricing procedure" as simply "steps to determine a price." The Court agrees and finds that Versata's proposed changes provide fair notice as to the precise scope of its enjoined conduct, and is therefore adopted by the Court.

3. The Injunction Will Make Clear that SAP May Not Continue its Infringement by Encouraging Some Other Entity to Infringe.

SAP argues that Versata's Proposed Injunction is overly broad because it seeks to preclude contributory or induced infringement for all three asserted claims (the "Infringed Claims"). (Proposed Injunction at 2). SAP argues that only claim 29 was alleged to be infringed indirectly, and that before the first trial, Versata dropped its allegations that claims 26 and 28 were indirectly infringed. SAP argues that to permit Versata to recapture these allegations would be erroneous and grossly unfair. The Court disagrees with SAP's characterization and finds that Versata is not seeking to "recapture" allegations of indirect infringement. Instead, the Proposed Injunction makes clear that SAP may not continue its infringement by encouraging some other entity to infringe. That is, the purpose of the injunction is to prevent future harm, which includes both direct and indirect infringement.

4. SAP Will be Given a 60-day Period for Compliance.

SAP argues that the proposed 30-day period for compliance is too short. Especially given that the parties' previously agreed to a compliance period of at least 90 days. (Dkt. No. 362, at 10 ("Versata does not oppose, however, SAP's request for „a lead time of at least 90 days before any injunction takes effect.'"). Versata responds that SAP fails to point out that the parties' previous agreement was made in October 2009, shortly after SAP was determined to infringe the '350 patent and at a time when SAP had not yet commenced its efforts to design-around the infringed claims. Versata contends that SAP has had almost two years since the August 2009 infringement verdict to consider, develop and finalize a plan for rolling out properly modified versions of the infringing products to its new and existing customers. In the light of these changed circumstances, the Court finds that a 60-day compliance period strikes a reasonable balance.

Accordingly, it is hereby ORDERED that:

Defendants are hereby restrained and enjoined, pursuant to 35 U.S.C. § 283 and Federal Rule of Civil Procedure 65(d), from any further infringement of United States Patent No. 6,553,350 B2 as stated in the Permanent Injunction Order issued today.

C. Stay of the Injunction

Pending before the Court is Defendant's motion to strike Versata's equitable claims as sanction for Versata's violation of the March 6, 2008 Protective Order and February 26, 2008 Order. (Dkt. No. 144.) The Court held an evidentiary hearing on this issue on May 14, 2009. The Court finds that Versata breached the plain language of the Protective Order through a pattern of violations involving several members of its litigation team and discovery vendor. Given Versata's violation of the Court's order, it is fair to stay the injunction the Court has issued in this case. As a result, the Court exercises its equitable discretion in a manner adverse to Versata and stays the injunction pending the disposition of any appeal.

IV. CONCLUSION

For the aforementioned reasons, the Court GRANTS Versata's motion for a permanent injunction. The Court further finds that Versata violated the Protective Order in this case. As a result, the court finds it should STAY the injunction pending the disposition of any appeal.

IT IS SO ORDERED.

SIGNED this 9th day of September, 2011.

/s/ Charles Everingham IV
CHARLES EVERINGHAM IV
UNITED STATES MAGISTRATE JUDGE

APPENDIX E

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
MARSHALL DIVISION

VERSATA SOFTWARE INC., et al.,
Plaintiffs,

v.

SAP AMERICA, INC. and SAP AG,
Defendants

Case No. 2:07-CV-153 CE

MEMORANDUM OPINION AND ORDER

The following memorandum further explains the basis for the Court granting Defendants SAP America, Inc.'s and SAP AG's (collectively, "SAP") Motion to Exclude the Expert Testimony of Neeraj Gupta, Christopher Bakewell, and Roy Weinstein as it relates to the proposed reasonable royalty analysis (Dkt. No. 459). The Court heard argument on Defendants' motion at a hearing on May 6, 2011, and issued an order granting the motion on May 7, 2011 (Dkt. No. 507).

I. Factual Background

Following the August 2009 trial in this case, the jury found that SAP directly infringed claims 31, 35, and 36 of U.S. Patent No. 5,878,400 ("the '400 patent"), and claims 26, 28, and 29 of 6,553,350 B2 ("the '350 patent"). The jury also found that SAP induced and contributed to the infringement of claim 29 of the '350 patent. In addition, the jury found that the asserted claims of the '400 and '350 patents were not invalid for failure to satisfy the best mode requirement. The jury awarded Plaintiffs Versata Software, Inc., Versata Development Group, and Versata Computer Industry Solutions, Inc. (collectively "Versata") damages in the amount of $138,641,000. *(See* Dkt. No. 318 (Verdict Form)).

Following the August 2009 trial, the Court granted SAP's motion for judgment as a matter of law regarding non-infringement of the '400 patent. (Dkt. No. 409). The Court held that the '400 patent requires that the accused SAP products "as made and sold, contain computer code or program instructions sufficient to perform the operations recited in the claims without additional modification or configuration, or the addition of further program instructions." (*Id.* at 3.) Because Versata's expert evidence failed to show that SAP or any SAP customer had used the accused product in an infringing manner, the Court ruled Versata's expert evidence failed to prove direct infringement of the '400 patent. (*Id.* (citing *ACCO Brands, Inc. v. ABA Locks Mfr. Co.*, 501 F.3d 1307, 1313 (Fed. Cir. 2007)). The Court, however, concluded that the record evidence was sufficient to support the jury's finding of infringement of the asserted claims of the '350 Patent.

After granting SAP's motion for judgment as a matter of law regarding non-infringement of the '400 Patent, the Court granted SAP's motion for a new trial on damages for the '350 patent. Specifically, the Court determined that "[in light of the Federal Circuit's recent decisions on damages, including *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860 (Fed. Cir. 2010); *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301 (Fed. Cir. 2009), and *Uniloc USA, Inc. v. Microsoft Corp.*, No. 03-CV-0440 (Fed. Cir. January 4, 2011), the court is persuaded that it erred when it admitted Mr. Bakewell's testimony and his damages model." (Dkt. No. 412.) Based on this guidance, the Court held that Versata's expert testimony was deficient and could not support the jury's verdict. (*Id.* at 1 (The admission of Mr. Bakewell's testimony "affected SAP's substantial rights.").)

In contrast to the '400 patent, the '350 patent requires only the capability to practice the asserted claims. (Dkt. No. 409, at 4 (The '350 patent requires "computer program instructions *capable of* performing the claimed invention.") (emphasis in original).) Specifically, the asserted claims of the '350 patent require the capability to run hierarchical access on both a product group and an organizational group hierarchy to calculate a single price. Because the '400 patent was at issue in the August 2009 trial, Versata's claimed damages were connected to the actual use of the accused products.

Regarding the damages model in dispute in the second trial, Versata has employed two additional damages experts—Mr. Gupta and Mr. Weinstein—to augment Mr. Bakewell's revised reasonable royalty analysis. Based on the Court's review of Versata's experts' reports, the Court concludes that Versata's experts have not followed this Court's or the Federal Circuit's guidance. Rather, their reasonable royalty analysis relied on speculation and guesswork, and was divorced from the factual and economic realities of this case. Accordingly, the respective reports and testimony regarding the revised reasonable royalty analysis was excluded from the jury trial.

II. Legal Standard

Federal Rule of Evidence ("Rule") 702 requires that any expert be qualified to testify by "knowledge, skill, experience, or education":

> If scientific, technical, or other specialized knowledge will assist the trier of fact to understand the evidence or to determine aft in issue, a witness qualified as an expert by knowledge, skill, experience or education, may testify thereto in the form of an opinion or otherwise, if
>
> (1) the testimony is based upon sufficient facts or data,
>
> (2) the testimony is the product of reliable principles and methods, and
>
> (3) the witness has applied the principles and methods reliably to the facts of the case.

Fed. R. Evid. 702.

The expert's testimony must "assist the trier of fact to understand the evidence or to determine a fact in issue." *(Id.)* When faced with a proffer of expert testimony, it is the trial judge's responsibility to determine, at the outset, whether the expert is proposing to testify to expert knowledge and whether such testimony will assist the trier of fact to understand or determine a fact in issue. *Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. 579, 592 (1993). In this regard, the trial judge acts as a gatekeeper by requiring a valid connection to the pertinent inquiry and assessing "whether the testimony has a reliable basis in the knowledge and experience of [the relevant] discipline." *Daubert,* 509 U.S. at 592; *Kumho Tire Co. v. Carmichael,* 526 U.S. 137, 149 (1999); *IP Innovation v. Red Hat, Inc.*, 705 F. Supp. 2d 687, 689 (E.D. Tex. 2010) ("The district courts act as gatekeepers tasked with the inquiry into whether expert testimony is not only relevant, but reliable. This court must exclude testimony that does not meet the requirements of Rule 702.").

As the Court discussed when it granted SAP's motion for a new trial on damages for the '350 patent, the Federal Circuit has recently addressed the calculation of a reasonable royalty and the standards by which expert witnesses should make this calculation. In particular, the Federal Circuit has emphasized the need for experts to connect their theories to the actual facts of the case at hand. *See Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1316 (Fed. Cir. 2011) ("The bottom line ... is that one major determinant of whether an expert should be excluded under Daubert is whether he has justified the application of a general theory to the facts of the case."); *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 869 (Fed. Cir. 2010) (stating that, to be admissible, expert testimony opining on a reasonable royalty rate must "carefully tie proof of damages to the claimed invention's footprint in the market place."); *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1323-1339 (Fed. Cir. 2009) ("[W]e are left with the unmistakable conclusion that the jury's damages award is not supported by substantial evidence, but is based mainly on speculation and guesswork."). Accordingly, the Federal Circuit stated in Uniloc that "[t]he Supreme Court and this court's precedents do not allow consideration of the entire market value of accused products for minor patent improvements simply by asserting a low enough royalty rate." 632 F.3d at 1320.

III. Discussion and Analysis

Versata's proposed reasonable royalty model is based on the opinions of three different experts. After reviewing the experts' reports, the Court finds that Versata is seeking a 13% royalty rate on the entirety of SAP's revenue, as it is applied to each SAP l i censed user. Versata argues that SAP's 13% figure never appears in Mr. Bakewell's Report or Mr. Weinstein's Report and that SAP is playing mathematical games. The Court finds that it is Versata that is attempting to play mathematical games. Although it is true that a 13% figure is not literally stated in the expert's report, it cannot be disputed that the final reasonable royalty rate is 13% because Versata's expert divides the stated 26% royalty rate in half, and then multiples the total revenue for Tier 1 seats to reach the final damages number.

To be sure, Mr. Bakewell divides the total revenue by number of seats to obtain a per-seat figure, but Mr. Weinstein multiplies his 13% royalty by the per-seat figure to obtain a per-seat royalty, and then multiplies the per-seat royalty by the number of seats. With the same number of seats appearing in both the numerator and denominator of the multiplied numbers, the division and multiplication steps cancel each other out, meaning that Mr. Weinstein's 13% royalty rate is being applied to SAP's Total Revenue for its Tier 1 customers. In other words, Versata's experts' analysis utilizes the Entire Market Value Rule in violation of Federal Circuit precedent and this Court's prior rulings because the reasonable royalty is nothing more than an unsupported percentage of SAP's total revenue.

Specifically, Mr. Gupta's analysis focuses entirely on apportioning the alleged contribution of the patented invention to Versata's product, not SAP's. That is, at no time does any expert attempt to apportion the contribution of the patented invention to SAP's product. Instead, Mr. Weinstein simply accepts Mr. Gupta's data without comment, and assumes that the patented features will provide the exact same value to SAP's customers as they do to Versata's customers. This leap from apples (Trilogy's Pricer product) to oranges (SAP's accused products) is unsupported and improper. For at least these reasons, the Court finds that Versata's experts failed to perform an appropriate apportionment analysis and utilized the Entire Market Value Rule in violation of Federal Circuit precedent and this Court's prior rulings.

For Tier 2 customers, Versata's experts utilized a similar methodology. Rather than apply a separate analysis for Tier 2 customers, Versata simply multiples its \$70 royalty for each seat found by 28% to arrive at \$20 per Tier 2 seat. This \$20 per seat is then multiplied by the number of Tier 2 seats (2,521,862) to arrive at a Tier 2 royalty of \$50 million. Versata's Tier 2 royalty amounts to a 3.6% royalty on SAP's entire Tier 2 revenue. Together, the Tier 1 royalty of \$176 million and the Tier 2 royalty of \$50 million comprise Versata's entire \$226 million royalty demand. As with the Tier 1 analysis, the Court finds that the Tier 2 analysis utilizes the Entire Market Value Rule because it is based solely on a percentage of the Tier 1 analysis, which this Court concludes is nothing more than an unsupported percentage of SAP's total revenue.

In summary, the Court finds that Versata's experts' analysis fails to meet the basic criteria established by the opinions of both the Federal Circuit and this Court. *Uniloc*, *ResQNet*, and *Lucent* indicate that a damages model must be based on sound economic principles and reliable data, and that rules of thumb and other methods of speculative approximation should be excluded. For the reasons stated above, Versata has failed to meet this established criteria. Accordingly, the experts' respective reports and testimony regarding the revised reasonable royalty analysis was excluded from the jury trial. This included the reports and testimony of Mr. Gupta, Mr. Bakewell, and Mr. Weinstein as they related to the revised reasonable royalty analysis.

IV. Conclusion

For the foregoing reasons, the Court GRANTED Defendants' motion and excluded the expert testimony of Neeraj Gupta, Christopher Bakewell, and Roy Weinstein as it related to the revised reasonable royalty analysis.

It is so ORDERED.

SIGNED this 9th day of September, 2011.

/s/ Charles Everingham IV
CHARLES EVERINGHAM IV
UNITED STATES MAGISTRATE JUDGE

APPENDIX F

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
MARSHALL DIVISION

VERSATA SOFTWARE INC., ET AL.,
Plaintiffs,

v.

SAP AMERICA, INC. AND SAP AG,
Defendants.

CASE NO. 2:07-CV-153 CE

ORDER

Pending before the Court is Defendants' Motion to Exclude the Expert Testimony of Neeraj Gupta, Christopher Bakewell, and Roy Weinstein (Dkt. No. 459). The court heard argument on Defendants' motion at a hearing on May 6, 2011. Based on the briefing, the arguments of the parties, and the applicable law, the court GRANTS Defendants' motion and excludes the expert testimony of Neeraj Gupta, Christopher Bakewell, and Roy Weinstein regarding their reasonable royalty analysis. The court will issue a memorandum opinion explaining the basis for its ruling at a later date but issues this order to facilitate the parties' trial preparation.

IT IS SO ORDERED.

SIGNED this 7th day of May, 2011.

/s/ Charles Everingham IV
CHARLES EVERINGHAM IV
UNITED STATES MAGISTRATE JUDGE

APPENDIX G

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
MARSHALL DIVISION

VERSATA SOFTWARE INC., ET AL.,
Plaintiffs,

v.

SAP AMERICA, INC. AND SAP AG,
Defendants.

CASE NO. 2:07-CV-153 CE

ORDER

Pending before the Court are Defendants' Motion to Exclude the Expert Testimony of Neeraj Gupta, Christopher Bakewell, and Roy Weinstein (Dkt. No. 459); Plaintiffs' Motion to Exclude Inadmissible Opinions of SAP's Experts Dr. M. Ray Mercer and Michael J. Wagner (Dkt. No. 461); Plaintiffs' Motion to Strike Portions of the Expert Report of Stephen L. Becker, Ph.D. and Michael J. Wagner (Dkt. No. 462); Plaintiffs' Motion to Strike Elizabeth Baker, Jack Childs, and John Tully From SAP's Trial Witness List (Dkt. No. 464); and Plaintiffs' Motion to Strike Portions of the Rebuttal Expert Report of Michael J. Wagner Regarding Damages and Testimony Related Thereto (Dkt. No. 463).

Having carefully considered the parties' submissions, the record, and the applicable law, the court is of the opinion that Defendants' Motion to Exclude the Expert Testimony of Neeraj Gupta, Christopher Bakewell, and Roy Weinstein (Dkt. No. 459) should be

CARRIED-IN-PART and DENIED-IN-PART; Plaintiffs' Motion to Exclude Inadmissible Opinions of SAP's Experts Dr. M. Ray Mercer and Michael J. Wagner (Dkt. No. 461) should be GRANTED; Plaintiffs' Motion to Strike Portions of the Expert Report of Stephen L. Becker, Ph.D. and Michael J. Wagner (Dkt. No. 462) should be GRANTED; Plaintiffs' Motion to Strike Elizabeth Baker, Jack Childs, and John Tully From SAP's Trial Witness List should be DENIED; and Plaintiffs' Motion to Strike Portions of the Rebuttal Expert Report of Michael J. Wagner Regarding Damages and Testimony Related Thereto (Dkt. No. 463) should be DENIED.

I. Defendants' Motion to Exclude the Expert Testimony of Neeraj Gupta, Christopher Bakewell, and Roy Weinstein (Dkt. No. 459).

It is well established that the trial court acts as a "gatekeeper" to exclude expert testimony that does not meet the relevancy and reliability threshold requirements. In this role, the trial court determines the admissibility of expert testimony based on Federal Rule of Evidence 702 and *Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. 579 (1993). Accordingly, opinion testimony is not admissible unless: (1) the witness is qualified "as an expert by knowledge, skill, experience, training, or education," FED. R. EVID. 702; (2) the witness's reasoning or methodology underlying the opinion testimony is scientifically reliable, *Daubert*, 509 U.S. at 592-93; and (3) the testimony is relevant—that is, it must assist the trier of fact to understand the evidence or to determine a fact at issue. FED. R. EVID. 702; *Daubert*, 509 U.S. at 591. When the methodology is sound, and the evidence relied upon sufficiently related to the case at hand, disputes about the degree of relevance or accuracy (above this minimum threshold) may go to the testimony's weight, but not its admissibility. *Knight v. Kirby Inland Marine Inc.*, 482 F.3d 347, 351 (5th Cir. 2007); *Moore v. Ashland Chem. Inc.*, 151 F.3d 269, 276 (5th Cir. 1998) (en banc).

SAP seeks to exclude expert testimony relating to both of Versata's damage models. Specifically, Versata has enlisted three experts to present its reasonable royalty model and one expert to present its lost profit model. Regarding Versata's reasonable royalty model, the court is of the opinion that it would benefit from hearing oral arguments relating to this model. Accordingly, Defendants' motion, as it relates to Versata's reasonable royalty model, is CARRIED until the Court receives oral argument at the May 6, 2011 hearing.

Regarding Versata's lost profit model, the court is of the opinion that Defendants' motion should be DENIED. SAP generally argues that Mr. Weinstein's analysis fails to satisfy the *Panduit* factors for lost profits enumerated in *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152 (6th Cir. 1978). *Panduit* requires that the plaintiff prove with reasonable probability that "but for" the infringement, the plaintiff would have made the sales. That is, the patentee must prove: "(1) demand for the patented product, (2) absence of acceptable noninfringing substitutes, (3) his manufacturing and marketing capability to exploit the demand, and (4) the amount of the profit he would have made." *Id.* at 1156.

Defendants do not attack the methodology used by Mr. Weinstein or his qualifications, but instead attack the sufficiency of the evidence that he relied upon as it relates to the *Panduit* factors. After reviewing the record, the court finds that the evidence relied upon by Mr. Weinstein satisfies the minimum threshold required by *Daubert* and Rule 702. For example, Mr. Weinstein based his lost profit calculation on Versata's actual sales of Pricer between 1996 and 1998, which was three years before SAP introduced hierarchical access. Mr. Weinstein also addressed Versata's incremental profit margins and met with Trilogy's Chief Operating Officer, Chris Smith, to discuss the accuracy of these incremental profit margins. In sum, Defendants' quarrel with the facts Mr. Weinstein used go to the weight, not admissibility, of his opinion. Accordingly, Defendants' motion, as it relates to Versata's lost profit model, is DENIED.

II. Motion to Exclude Inadmissible Opinions of SAP's Experts Dr. M. Ray Mercer and Michael J. Wagner (Dkt. No. 461).

In their rebuttable reports, SAP's experts Dr. Mercer and Mr. Wagner, attack Mr. Gupta's opinions by claiming that he failed to "isolate the value of the asserted claims of the '350 patent[1] from the '400 patent[.][2]" Versata contends these opinions of Dr. Mercer and Mr. Wagner are inadmissible under Rule 702 and *Daubert* because they are irrelevant and unreliable testimony. Specifically, Versata argues that the court's previous determination that Versata did not prove that SAP directly infringed the '400 patent is not relevant to the damages inquiry in the retrial. In other words,

[1] Patent No. 6,553,350 ("the '350 patent").

[2] Patent No. 5,878,400 ("the '400 patent").

Versata argues that this court's JMOL ruling has no bearing on the value of the '350 patent. The court agrees with Versata and finds that this testimony is not only irrelevant but would also tend to confuse the jury. To be sure, the Court's previous ruling was related to the court's interpretation of the term "configured" as required by the claims of the '400 patent. (Dkt No. 409, Order at 2-3.) As argued by Versata, that ruling does not establish or affect the value of the "capability" provided by the claimed inventions of the '350 patent.

SAP responds that the Court's JMOL ruling draws a large distinction between the "configured" language of the '400 Patent and the "capability" language of the '350 Patent. Although this may be true, the court's interpretation of the term "configured" as it relates to the '400 Patent is not before the jury in this trial because the '400 Patent is not at issue in this trial. To allow Defendants' experts to argue this distinction via their "incremental value" methodology would only confuse the jury and would not help them understand the evidence or determine a fact at issue. Accordingly, Plaintiffs' Motion to Exclude Inadmissible Opinions of SAP's Experts Dr. M. Ray Mercer and Michael J. Wagner is GRANTED. SAP's experts are precluded from attacking Versata's expert or referring to the isolated value of the asserted claims of the '350 patent based when they are compared to the claims of the '400 patent.

III. Plaintiffs' Motion to Strike Portions of the Expert Report of Stephen L. Becker, Ph.D., and Michael J. Wagner (Dkt. No. 462).

Versata's next motion relates to Defendants' experts', Dr. Becker and Mr. Wagner, reliance on f actual statements made during the private interviews of more than forty-five SAP employees who work on particular customers' accounts. Versata contends that SAP did not collect or produce documents from any of these employees and that it has never disclosed these employees as individuals with relevant knowledge, even though SAP seeks to rely on their statements at trial and has apparently known of their existence for some time. Versata further argues that this type of factual statement was something that it repeatedly sought during fact discovery. Versata purports that SAP fought these discovery requests throughout—refusing to provide even basic statements supporting its position that many of its customers did not use the hierarchical access functionality, and opposed Versata's attempts to obtain this information directly from SAP's account executives and customers alike. In summary, Versata argues that to allow SAP to offer its own handpicked evidence at trial would be improper and unfairly prejudicial because Versata was not provided with the same full opportunity for this fact discovery.

After reviewing the record before the court, the court finds the following facts to be relevant to Versata's argument. On November 21, 2008, Versata served SAP with its Interrogatory 33 that requested SAP to "[d]escribe any and all information regarding how and to what extent customers utilize the SAP Accused Software (including the specific features thereof...)." (Dkt. No. 462-4 at 7-8.) SAP responded on December 22, 2008 to Interrogatory 33, identifying documents relating to license key activations and promising to later supplement with "CSS/OSS data," which is data from an SAP help ticket database. (Dkt. No. 462-6 at 13-14.) Despite this promise, it appears that SAP provided no other substantive information. On January 6, 2009, Versata wrote SAP regarding its response to Interrogatory 33, and in particular, with respect to the "CSS/OSS" help ticket data. Versata asked: "How does that data respond to Versata's request for any data or information regarding how and to what extent customers utilize the SAP Accused Software in the United States?" (Dkt. No. 462-7 at 2.)

On January 28, 2009, Versata notified SAP that it intended to seek discovery from a number of its customers. (Dkt. No. 462-12.) On January 29, 2009, Versata noticed an additional 30(b)(6) deposition on the topic of "[h]ow SAP, its resellers/distributors, and other entities acting on SAP's behalf... determine, fulfill, and document the product functionality offered to, requested by, or used by SAP's customers or prospective customers, particularly with respect to the SAP pricing... features...." (Dkt. No. 462-13 at 8.) In February and early March 2009, Versata noticed three individual SAP employees (Robert Girvan, Pamela Chance, and Ronald Kirby) whose titles seemed to indicate that they might possess the requested information about customer usage or at least know where to find it. (Dkt. No. 462-14, 462-15, 462-16.)

SAP then supplemented its response to Interrogatory 33 on February 11, 2009, but only to claim that:

> For some, but not all customers throughout the world, including the United States, SAP or third parties configure and test the accused software at the customer site during the implementation phase. However, SAP does not

> systemically, centrally track which features are configured and tested during the tests at the customer sites. With respect to whether accused features of the accused software were tested during the implementation phase, **this interrogatory is overly broad and unduly burdensome, because understanding precisely which features were configured or tested for each customer would require relying on the imprecise recollections and inconsistent record keeping of thousands of individuals spread across the United States.**

(Dkt. No. 462-18 at 11) (emphasis added). On February 25, 2009, SAP then filed a motion opposing Versata's efforts to seek leave to take discovery from SAP's customers to find out what features they used. (Dkt. No. 462-19.) On March 6, 2009, Versata wrote SAP asking it to supplement its response to "provide a narrative response that specifically lists which of its U.S. customers do and do not use the accused features of the accused products." (Dkt. No. 462-24.) On March 15, 2009, Versata again requested that SAP supplement its response. (Dkt. No. 462-25.) On April 2, 2009, SAP supplemented its response to Interrogatory 33, but instead of providing a substantive answer, merely stated that:

> Detailed knowledge of the particular functions used by each customer generally resides with each customer. **Individual SAP employees may have anecdotal information with respect to particular customers' use of particular**

> **features, but their knowledge is not comprehensive and not systemically tracked within SAP.**

(Dkt. No. 462-26 at 9.) On April 21, 2009, Versata sent a final letter requesting a substantive answer:

> In its response, SAP contends that some proportion of its U.S. customers that have licensed the accused software have not installed, activated, configured, or implemented the Accused SAP Functionalities, but fails to set forth any facts whatsoever supporting that contention. Rather, SAP improperly claims that its contention is the subject of expert testimony. That claim is baseless -- whether or not a customer has installed, activated, configured, or implemented one or more of the Accused SAP Functionalities is a fact, not an opinion. Versata is entitled to discover such facts, particularly if SAP's experts intend to rely upon them.
>
> If SAP fails to identify the factual basis for its contention that a portion of the revenues at issue are not associated with sales, licenses, deliveries, activations, or implementations of the Accused SAP Functionalities in a supplemental response, Versata intends to seek an order precluding SAP and its experts from opining or contending otherwise at trial.

(Dkt. No. 462-27.) Versata further requested that SAP confirm that it has produced all documents in its possession, custody, and/or control evidencing usage by its U.S. customers of the hierarchical access functionality. (Dkt. No. 462-28.) Finally, at a hearing on May 14, 2009, SAP successfully asked the court to limit Versata's discovery from SAP's customers on the subject of what functionality they used. Versata now contends that during this process SAP made representations to this court about what evidence was in its own possession, representations whose accuracy are now called into question based on Dr. Becker and Mr. Wagner's reports.

Versata further argues that SAP's counsel specifically represented to this court that the "best data" SAP had was from its database of help tickets, and that data about the specific functionality SAP's customers use "just doesn't exist within SAP:"

> But the problem that Your Honor's question was directed to is this is CRM, and when a customer purchases the product from SAP, this is the kind of functionality that would be specified as we're going to use CRM. They're not going to go in and specify we're going to use within CRM and opportunity management S14 pricing. **That data, unfortunately, for purposes of assessing damages, just doesn't exist within SAP.** So that OSS/CSS data, while it's not perfect, is the best data that SAP has, we think, to measure functionality

> at this granular level, and that's what we've provided.

(Dkt. No. 462-2 at 4, 32:20-33:5) (emphasis added). Versata contends that Dr. Becker and Mr. Wagner's reports make plain that for at least the customers SAP chose to inquire into, SAP does, in fact, have such data, it simply decided not to produce it. After considering all of the facts, the court agrees with Versata

Specifically, on April 11 and 13, 2011, SAP provided Versata with the expert reports of Michael Wagner and Stephen Becker. In the Wagner report, Mr. Wagner states that "[m]y staff and I interviewed SAP Account Executives for large seat license customers......Through these interviews, I understand that a large proportion of SAP's seat base does not use any SAP pricing functionality, let alone the accused hierarchy access functionality." (Dkt. No. 462-29 at ¶ 303.) Mr. Wagner also references a conversation with SAP customer Valero (one of three customer interviews he conducted) regarding Valero's use of SAP's pricing functionality. *Id.* at ¶ 368. In total, Mr. Wagner spoke with more than forty SAP employees and three SAP customers (Valero, Advanced Micro Devices, and Kimberly-Clark) regarding what functionality SAP customers are using. *Id.* at ¶ 464.

In his report, Dr. Becker states that he conducted interviews with SAP Account Executives and discloses information that was obviously within the scope of Versata's discovery request. In addition to his interviews with SAP Account Executives, Dr. Becker cites to a number of SAP customer contracts to support his opinion that Mr. Weinstein improperly included certain seats in his damages model. (Dkt. No. 462-30 at %

111 (Citrix), 116 (AT&T), 123 (Comcast), 137 (Ford), 142 (State of California), 148 (AIG)).

Defendants respond that rather than waiting for Versata to come forward with evidence of value for the patented functionality and then negating it, SAP's experts asked the questions that Versata could have asked SAP's customers and employees during discovery but did not. The court disagrees and finds that in conducting these interviews, SAP deprived Versata of the information it diligently sought during discovery. Moreover, Versata's "failure" to ask the questions proposed to these undisclosed witnesses does not excuse SAP for its omission of relevant discovery. The court concludes that it is inconsistent for SAP to claim that this type of information was either not accessible, unreliable, or not systemically tracked, and then turn around and provide this type of information to its expert without providing it to Versata

In addition to the interviews, Mr. Wagner and Dr. Becker reviewed the contracts of several large SAP customers to determine if Versata was over-counting the number of seats for these customers. SAP purports that upon pulling those agreements, it produced those same agreements to Versata SAP also contends that after receiving Versata's request, SAP has also produced agreements for dozens of additional customers.

In response, Versata claims that these contracts, in addition to being cherry-picked by SAP, are the very same documents that SAP refused to produce in the initial discovery period. The record confirms Versata's assertion that it undertook extensive efforts to obtain the very same contracts relied upon by Mr. Becker. Versata argues that to date, SAP has produced a handful of contracts selected by SAP and a limited set of contracts specifically identified by Versata Moreover, Versata contends that these disclosures are untimely given that they did not occur until four days before the close of fact discovery for the second trial. Given Versata's repeated request for contracts like the ones that were only recently disclosed, the Court agrees that SAP's disclosure was untimely.

For these reasons, the court GRANTS Plaintiffs' Motion to Strike Portions of the Expert Report of Stephen L. Becker, Ph.D., and Michael J. Wagner (Dkt. No. 462). Accordingly, the court STRIKES the portions of SAP's expert reports which rely on the recent interviews or newly disclosed contracts, and precludes SAP's experts from testifying to such. However, SAP's expert may use: (1) SAP's CSS/OSS data; (2) SAP's license key activations; (3) Versata's depositions on written questions of SAP customers; and (4) any evidence presented in the first trial that may indicate what functionality a customer did or did not use.

IV. Motion to Strike Elizabeth Baker, Jack Childs, and John Tully From SAP's Trial Witness List (Dkt. No. 464).

Versata argues that SAP is attempting to call three SAP employees as trial witnesses even though (1) they were not timely disclosed by SAP; (2) they were not properly asked to preserve relevant documents; (3) their files were not adequately searched for relevant materials during either the initial or supplemental fact discovery period; and (4) the Court's order setting a new trial did not provide for new fact witnesses. Specifically, Versata seeks to strike Mr. Childs (SAP's Global Vice President of Product Portfolio Strategy with specialized knowledge of SAP software implementation for large businesses and building the business case for customers considering implementing SAP software), Ms. Baker (Senior Vice President at SAP with specialized knowledge of SAP software sales and marketing strategies worldwide), and Mr. Tully (SAP's Regional Vice President for Sales with particular knowledge of sales and business development) because they were not disclosed earlier than March 2011.

Versata's primary argument is that it has been denied the opportunity to adequately seek relevant documents from these individuals or pursue a thorough line of inquiry. Specifically, Versata contends that Mr. Tully was not advised to preserve relevant documents until after March 15, 2011, and a search of his files was not conducted until the week of April 6, 2011. Likewise, Versata contends that Ms. Baker was not advised to preserve relevant documents, nor were her files searched for relevant materials as of April 6, 2011. In addition, Versata argues that Mr. Childs was not advised to preserve relevant documents until April 4, 2011, and a search a search of his files for relevant information was not conducted until April 7, 2011. Versata further argues that SAP has not produced a single document from Ms. Baker, Mr. Tully, or Mr. Childs. It contends that permitting SAP to elicit testimony from these witnesses at trial would be highly prejudicial and fundamentally unfair.

Versata also argues that in its orders regarding the new trial, the court has never granted the parties leave to add new fact witnesses. SAP responds that since January both parties have endeavored to obtain new evidence, disclose new witnesses, and take further discovery relevant to the damages issues as framed by the new controlling case law and changes in the f acts relevant to the retrial as compared with the original trial. SAP argues that in the three months since the court's Order issued, both Versata and SAP found and disclosed additional witnesses likely to have knowledge relevant to the damages issues that will be presented in the retrial.

Specifically, SAP contends that on March 9, 2011, Versata served an expert report from Neeraj Gupta, a former employee of Versata, who was never disclosed as a witness for the 2009 trial regarding damages. Similarly, on March 11, 2011, Versata served an expert report regarding damages from Roy Weinstein, an economist never disclosed by Versata as an expert in connection with the 2009 trial. Moreover, Mr. Weinstein's report included a lost profits theory never disclosed for use at trial in 2009. On March 16 and 17, 2011, SAP disclosed Jack Childs, Elizabeth Baker, and John Tully, none of whom were witnesses in the 2009 trial. On March 18, 2011, Versata noticed the depositions of all three individuals, and Versata subsequently took depositions of Mr. Childs, Ms. Baker, and Mr. Tully before the discovery period expired. SAP notes that Versata did not request production of documents in the possession of Mr. Childs, Ms. Baker, and Mr. Tully before or after their depositions. Nevertheless, SAP represents to the court that each witness conducted electronic searches of files in their possession, and found no relevant document relating to the accused functionality of Versata and Trilogy. SAP argues that if there were search terms Versata wanted SAP to run on these witnesses, Versata had the full opportunity to request that

SAP run those searches during the discovery period, which closed on April 15, 2011.

The court agrees with SAP that given the changes in controlling law and changes in the parties' allegations since 2009, the parties were reasonable in locating new witnesses not previously identified in the first trial in 2009. Indeed, both parties identified previously undisclosed witnesses. For example, two of Versata's six trial witnesses for the upcoming 2011 retrial were not disclosed as witnesses in connection with the previous trial in 2009, including Neeraj Gupta, who was a Versata employee throughout the discovery period in 2008 and early 2009. Additionally, the court agrees that SAP could not have anticipated that Versata would present an entirely new theory of lost profits at a retrial in 2011. Accordingly, the court finds that neither party was limited to the disclosures of witnesses that occurred in the 2009 proceedings. With respect to the three SAP witnesses, the court finds that Versata had the opportunity to take full discovery of each of these witnesses through both depositions and document discovery. SAP represents to the court that Versata deposed each of them and did not use the full seven hours available to it for any of the three SAP employees, or collectively use its full 20-hour allotment of deposition time under the court's Scheduling Order. The court further notes that it appears that Versata never requested production of documents from Ms. Baker, Mr. Childs, or Mr. Tully even after they testified about their document collections. Accordingly, Plaintiffs' Motion to Strike Elizabeth Baker, Jack Childs, and John Tully From SAP's Trial Witness List (Dkt. No. 464) is DENIED.

V. Plaintiffs' Motion to Strike Portions of the Rebuttal Expert Report of Michael J. Wagner Regarding Damages and Testimony Related Thereto (Dkt. No. 463).

Versata argues that in responding to its written and deposition discovery, SAP never disclosed the alleged third-party non-infringing alternatives or the SAP Allocation Mapping files that it now plans to present at trial. Specifically, in Paragraph 329 of his recent Rebuttal Report, Mr. Wagner states that "[f]rom 1997 through 2010, SAP never had an ERP market share greater than 37 percent, and a CRM market share greater than 26 percent. Given that Trilogy has not sold its product during the damages period, more than half of the market has been addressed by third party noni of ringing alternatives." (Dkt. No. 463-21 at ¶ 329.) Versata argues that none of these third-party alternatives were ever disclosed by SAP in response to Versata's discovery requests. In addition, Versata argues that Mr. Wagner has also failed to list a single third-party non-infringing alternative by name, and has not demonstrated that any such purported alternative is non-infringing. Thus, Versata argues that because SAP did not timely disclose the requested information, Mr. Wagner should be barred from opining on them at trial.

SAP responds that since June 2008, SAP's interrogatory responses have made clear that SAP was relying upon third-party non-infringing alternatives in addition to SAP software. Additionally, SAP further argues that it was only recently that it became aware of additional non-infringing alternatives as a result of the testimony of Versata's technical expert and former employee Neeraj Gupta and Versata's 30(b)(6) designee Christopher Smith. Specifically, SAP points to Versata's technical expert testimony that he was unaware of any analysis suggesting that a third-party infringed the '350 Patent, suggesting that there may be numerous third-party non-infringing alternatives in the market. Similarly, Versata's 30(b)(6) designee recently testified that Versata has no reason to believe that Oracle, the second largest enterprise software company in the market, infringes the '350 Patent.

SAP also argues that it is Versata that has the burden of proof on damages including the issue of whether non-infringing alternatives or substitutes exist in the market, and that SAP is well within its right to rebut any suggestion by Versata that non-infringing alternatives are unavailable in the marketplace. In summary, SAP argues that having fully disclosed its intention to rely on third-party prior art systems as non-infringing alternatives, and having only recently uncovered additional third-party non-infringing alternatives, SAP is properly entitled to rely upon these non-infringing alternatives in its expert reports and at trial. SAP also contends that Versata's attempt to strike is too broad because it seeks to have the court determine, as a matter of law, that no non-infringing alternatives exist. Given Versata's decision to seek lost profits for the first time in the retrial, the court agrees with SAP regarding its intention to rely on third-party prior art systems as non-infringing alternatives.

Versata also argues that in his Rebuttal Report, Mr. Wagner opines that "the ERP revenues that Mr. Bakewell [one of Versata's damages experts] uses to calculate total business suite revenues" includes revenues for certain "materials" that are "unrelated to the core SAP business suite." (Dkt. No. 463-21 at %449-452.) Mr. Wagner then concludes that by including these revenues in his damages model, Mr. Bakewell has "overstated the amount of revenue attributable to the business suite." *Id.* at ¶452. In support of this opinion, Mr. Wagner cites to a lengthy list of SAP Allocation Mapping files. *Id.* at Schedules 9.1 and 9.2. Versata argues that SAP never identified these documents in response to Versata's relevant interrogatories and permitting Mr. Wagner to opine based on them now would be fundamentally unfair.

SAP responds that to the extent that Versata seeks to exclude a small set of files that were cited in the expert reports of Dr. Becker and Mr. Wagner, Versata failed to point out that these files were produced to Versata over three years ago and were referenced in produced deposition testimony of Mr. Trammell. Specifically, SAP contends that it produced Mr. Trammell's 30(b)(6) deposition on revenue-related topics from the *Sky v. SAP* litigation on August 2008. In that deposition, SAP contends that Mr. Trammell discussed material numbers at length, including six pages of testimony about one of the revenue allocation spreadsheets which Versata now seeks to exclude. Additionally, SAP argues that the points Mr. Wagner and Dr. Becker made with respect to SAP's use of materials numbers as a method of allocating revenues are also apparent from the numerous SAP revenue spreadsheets and price lists that were disclosed in SAP's 2008 interrogatory responses and cited in Versata's trial exhibit list and damages experts reports in 2009 and 2011. After reviewing the record before the court, the court agrees with SAP.

Finally, Versata argues that in his Rebuttal Report, Mr. Wagner opines that Versata would offer a "Pricer Lite" product for a price of $100,000 to $150,000 that would embody the '350 Patent. (Dkt. No. 463-21 at ¶ 411). Versata contends that the only evidence cited by Mr. Wagner in support of this claim is a single document from 1998 discussing Versata's product positioning, strategy, and development. (*See* Dkt. No. 463-25). Versata argues that the document contains no technical details that would allow for a comparison of the anticipated "Pricer Lite" to the asserted claims and, in any event, Mr. Wagner lacks the technical background to perform that analysis. Versata contends that Mr. Wagner's opinion that an "anticipated Pricer Lite" product "embod[ied] the asserted claims of the '350 patent" must be stricken because the record lacks sufficient evidence from which he could have drawn such a conclusion.

SAP responds that Versata's motion to strike references to Pricer Lite improperly seeks to exclude party opponent admissions by Versata former employee and trial witness Sameer Dholakia that Versata considered but chose not to develop a cheaper version of its Pricer products that could have achieved wider distribution than the expensive Pricer product. SAP further contends that the prohibitive cost of Versata's embodying products, and the potential for a higher demand if Versata's prices for its embodying products had been lower, is directly relevant to the lost profits "but-for" causation analysis. Specifically, SAP argues that one document relating to Pricer Lite references a set of features in the proposed product that appears to include the same features that embody the patents in Versata's Pricer products but at a much cheaper price.

SAP further argues that given that Mr. Dholakia is a trial witness, and former Versata employee Neeraj Gupta will also serve as an expert, there is more than sufficient opportunity for Versata to provide counter proof regarding the features of Pricer Lite or lack thereof. Given Versata's decision to seek lost profits for the first time in the second trial, the Court concludes that it would not be fundamentally unfair or unfairly prejudicial to allow SAP to present evidence and testimony concerning Pricer Lite. For these reasons, Plaintiffs' Motion to Strike Portions of the Rebuttal Expert Report of Michael J. Wagner Regarding Damages and Testimony Related Thereto (Dkt. No. 463) is DENIED.

IT IS SO ORDERED.

SIGNED this 5th day of May, 2011.

/s/ Charles Everingham IV
CHARLES EVERINGHAM IV
UNITED STATES MAGISTRATE JUDGE

APPENDIX H

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
MARSHALL DIVISION

VERSATA SOFTWARE INC., et al.,
Plaintiffs,

v.

SAP AMERICA, INC. and SAP AG,
Defendant

Case No. 2:07-CV-153 CE

ORDER

Pending before the court are the defendants SAP America, Inc. and SAP AG's (collectively, "SAP") supplemental motion for judgment as a matter of law ("JMOL") on damages issues (Dkt. No. 312), motion for remittitur or new trial on damages (Dkt. No. 348), and renewed motion for JMOL on damages (Dkt. No. 350). In light of the Federal Circuit's recent decisions on damages, including *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860 (Fed. Cir. 2010); *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301 (Fed. Cir. 2009), and *Uniloc USA, Inc. v. Microsoft Corp.*, No. 03-CV-0440 (Fed. Cir. January 4, 2011), the court is persuaded that it erred when it admitted Mr. Bakewell's testimony and his damages model. That error affected SAP's substantial rights. The court, therefore, orders a new trial on damages.

Versata may serve a supplemental expert report on damages by February 25, 2011, and SAP may serve a supplemental rebuttal report by March 18, 2011. Any additional fact and expert discovery shall be completed by April 15, 2011. The case is set for pre-trial conference on April 25, 2011 at 1:30 p.m., and jury selection shall be held on April 29, 2011 at 9:00 a.m.

SAP's motion for a new trial on damages is GRANTED. SAP's motions for JMOL are DENIED as moot.

SIGNED this 6th day of January, 2011.

/s/ Charles Everingham
CHARLES EVERINGHAM IV
UNITED STATES MAGISTRATE JUDGE

APPENDIX I

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

2012-1029, -1049

VERSATA SOFTWARE, INC. (formerly known as Trilogy Software, Inc.), VERSATA DEVELOPMENT GROUP, INC. (formerly known as Trilogy Development Group, Inc.), and VERSATA COMPUTER INDUSTRY SOLUTIONS, INC. (formerly known as Trilogy Computer Industry Solutions, Inc.),
Plaintiffs-Cross Appellants,

v.

SAP AMERICA, INC. and SAP AG,
Defendants-Appellants.

Appeals from the United States District Court for the Eastern District of Texas in case no. 07-CV-0153, Magistrate Judge Charles Everingham.

ORDER

NOTE: This order is nonprecedential.

A combined petition for panel rehearing and for rehearing en bane having been filed by the Appellants, and a response thereto having been invited by the court and filed by the Cross-Appellants, and the petition for rehearing and response, having been referred to the panel that heard the appeal, and thereafter the petition for rehearing en banc and response having been referred to the circuit judges who are in regular active service,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for panel rehearing be, and the same hereby is, DENIED and it is further

ORDERED that the petition for rehearing en banc be, and the same hereby is, DENIED.

The mandate of the court will issue on August 21, 2013.

FOR THE COURT

Is/ Daniel E. O'Toole
Daniel E. O'Toole
Clerk

Dated: 08/14/2013

cc: John W. Thornburgh
Scott Cole

VERSATA SOFTWARE V SAP AMERICA, 2012-1029, -1049

(DCT - 07-CV-0153)

APPENDIX J

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
MARSHALL DIVISION

VERSATA SOFTWARE INC., ET AL.,
Plaintiffs,

v.

SAP AMERICA, INC. AND SAP AG,
Defendants.

CASE NO. 2:07-CV-153 CE

FINAL JUDGMENT

This case was tried to a jury from August 17, 2009 to August 26, 2009. At the close of the evidence, the jury found that defendants SAP America, Inc. and SAP AG (collectively, "SAP") directly infringed claims 26, 28, and 29 of U.S. Patent No. 6,553,350 B2 (the "350 Patent") and claims 31, 35, and 36 of U.S. Patent No. 5,878,400 (the "400 Patent). The jury also found that SAP induced and contributed to the infringement of claim 29 of the '350 Patent. Finally, the jury found that the asserted claims of the '350 and '400 Patents were not invalid for failure to satisfy the best mode requirement.

The Court conducted a bench trial on April 27, 2010, on SAP's claim of inequitable conduct. On December 21, 2010, the Court found that SAP had not met its burden of proving inequitable conduct by clear and convincing evidence and that the '400 and '350 Patents are enforceable. The Court denied SAP's affirmative defense and counterclaim of inequitable conduct.

On December 21, 2010, the Court granted SAP's motion for judgment as a matter of law with regard to the jury's finding of direct infringement of the claims of the '400 Patent. The Court denied SAP's motion for judgment as a matter of law as to direct infringement of the asserted claims of the '350 Patent and indirect infringement of claim 29 of the '350 Patent. On January 6, 2011, the Court granted SAP a new trial on damages.

On May 6, 2010, SAP modified its infringing products. The issues of damages and infringement with regard to SAP's modified infringing products were tried to a jury from May 9, 2011 to May 12, 2011. After the close of evidence, the jury found that SAP, by way of its modified infringing products, directly infringed claims 26, 28, and 29 of the '350 Patent, and induced and contributed to the infringement of claim 29 of the '350 Patent. The jury awarded Plaintiffs Versata Software, Inc., Versata Development Group, and Versata Computer Industry Solutions, Inc. (collectively "Versata") $260,000,000.00 as lost profits caused by SAP's infringement and $85,000,000.00 as reasonable royalty damages. The Court subsequently determined that the jury award should be reduced by $16,345,194.00 because there was not a sufficient evidentiary basis to find that SAP had constructive notice of the '350 patent from the time it issued on April 22, 2003, until Versata began marking its products on September 25, 2003. It is therefore, ORDERED, ADJUDGED, and DECREED that Versata have and recover from SAP the sum of Three Hundred Twenty-Eight Million, Six Hundred Fifty-Four Thousand, Eight Hundred Six Dollars ($328,654,806), representing the reduction of the amount of actual damages found by the jury.

The Court awards an additional Sixty-Three Million, Fifty-Seven Thousand, Two Hundred Thirty Dollars ($63,057,230) in pre-judgment interest. In calculating the pre-judgment interest, the Court deems that the damage award is what would have been payable to Versata on the date that SAP had constructive notice of the '350 patent, September 25, 2003. The Court calculates the pre-judgment interest rate consistent with the average of the ninety (90) day commercial paper rate, annualized using a 360-day year or bank interest, as established by the Federal Reserve Board, and uses this rate compounded on a yearly basis for the time period from September 25, 2003 to the date of judgment to calculate the pre-judgment interest award. Versata is the prevailing party in this litigation and the Court awards costs to the Versata as the prevailing party. The judgment shall bear interest at the lawful federal rate.

It is this Court's intention to resolve all issues in this case before the undersigned steps down from the bench on September 30, 2011. Any party who wishes to file post-judgment briefing must do so within 7 days of the entry of this judgment. Responses must be filed within 5 days of the initial filing. The Court finds that this shortened period is more than adequate given the extensive briefing on these issues. Finally, the Court reminds the parties that all motions must be filed within the page limits prescribed by the local rules, and the Court will not entertain any motions for extensions of page limits or time absent a showing of good cause (and the fact that the motion is unopposed or agreed by the opposing party does not necessarily mean good cause). And to be clear, the parties may not file multiple motions to subvert the thirty-page limit.

This is a FINAL JUDGMENT. All relief not expressly granted is DENIED. All pending motions are DENIED, except those seeking to exceed page limits and motions previously ruled on by the Court. Any pending motions to exceed the page limitation of the local rules of this court are GRANTED, as the court has considered all of the parties' submissions.

IT IS SO ORDERED.

SIGNED this 9th day of September, 2011.

/s/ Charles Everingham
CHARLES EVERINGHAM IV
UNITED STATES MAGISTRATE JUDGE

APPENDIX K

Section 18 of the Leahy-Smith America Invents Act, Pub. L. 112-29, 125 Stat. 284 (2011), provides in relevant part:

(b) Request for stay

(1) In general

If a party seeks a stay of a civil action alleging infringement of a patent under section 281 of title 35, United States Code, relating to a transitional proceeding for that patent, the court shall decide whether to enter a stay based on—

(A) whether a stay, or the denial thereof, will simplify the issues in question and streamline the trial;

(B) whether discovery is complete and whether a trial date has been set;

(C) whether a stay, or the denial thereof, would unduly prejudice the nonmoving party or present a clear tactical advantage for the moving party; and

(D) whether a stay, or the denial thereof, will reduce the burden of litigation on the parties and on the court.

(2) Review

A party may take an immediate interlocutory appeal from a district court's decision under paragraph (1). The United States Court of Appeals for the Federal Circuit shall review the district court's decision to ensure consistent application of established precedent, and such review may be de novo.

APPENDIX L

Section 271 of Title 35 of the U.S. Code provides in relevant part:

(a) Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.

(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

(c) Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

APPENDIX M

Trials@uspto.gov
571-272-7822

Paper 70
Entered: June 11, 2013

UNITED STATES PATENT AND TRADEMARK OFFICE BEFORE THE PATENT TRIAL AND APPEAL BOARD

SAP AMERICA, INC.
Petitioner,

v.

VERSATA DEVELOPMENT GROUP, INC.
Patent Owner.

Case CBM2012-00001 (MPT)
Patent 6,553,350

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).[1] 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

[1] Pub. L. No. 112–29, 125 Stat. 284 (2011).

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, 1st and 2nd 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, 1st and 2nd paragraphs. Decision on Institution of a Covered Business Method Patent Review ("Decision"), Paper 36.

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[2]

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

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 pric-

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[2] This background section appears also in the Decision, 3-5.

ing 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:

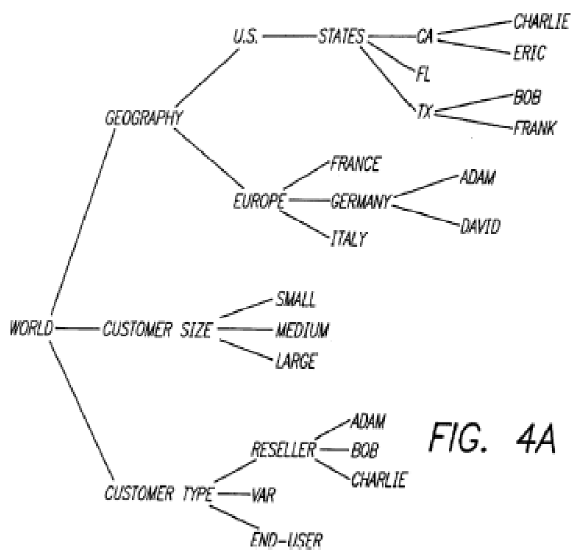

FIG. 4A

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

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*.[3] 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.[4] Through the use of the broadest rea-

[3] 415 F.3d 1303, 1313 (Fed. Cir. 2005)(en banc).

[4] Whereas a patent is presumed "valid" unless overcome by clear and convincing evidence before a district court, a petitioner's burden before the Office is limited to proving "unpatentability" by a

sonable 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

preponderance of the evidence. Compare 35 U.S.C. § 282(a) and § 326(e).

> 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.

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 appropriate where party may amend the claims to obtain protection commensurate with the inventor's actual contribution to the art).

The use of the broadest reasonable interpretation standard applies to pre-issuance as well as post-issuance proceedings before the Office such as reissue and reexamination proceedings. Both the CCPA and the Federal Circuit have recognized that BRI serves an important public interest and that a key factor in its use is that patent owners before the Office are provided an opportunity to amend their claims and obtain appropriate coverage for their inventions with express claim language. *See, e.g., In re Reuter*, 670 F.2d 1015 (CCPA 1981) (holding that broadest reasonable interpretation is applicable in reissue proceedings); *In re Yamamoto*, 740 F.2d 1569 (Fed. Cir. 1984) (holding that broadest reasonable interpretation is applicable in reexamination proceeding).

The new AIA reviews before the Office, like reissue and reexamination proceedings, provide patent owners with an opportunity to amend their claims. *See, e.g.*, 35 U.S.C. § 326(d). Thus, the recognized public interest that supports the use of the broadest reasonable interpretation during reissues and reexaminations applies also to the new AIA post grant reviews. Specifically, as the cited authorities recognize, claims serve an important notice function.[5] The use of the broadest reasonable interpretation encourages patent owners to remove ambiguities and to narrow their claims by amendment, such that the inventor's contribution to the art is expressed in clear, precise and unambiguous terms.[6] Hence, consistent with the settled expectations of the past century, the Office has extended the use of the broadest reasonable interpretation to the new AIA reviews.

2. The Office's Adoption of BRI

Under the rulemaking authority provided for in the AIA, the Office, through notice and comment rulemaking, adopted the use of the broadest reasonable interpretation for all the new reviews. Thus, in covered business method patent reviews, this claim construction standard is required by 37 C.F.R. § 42.300(b), which reads as follows:

> (b) A claim in an unexpired patent shall be given its broadest reasonable construction in light of the specification of the patent in which it appears.

Versata contends that the Office, in promulgating this rule, exceeded its rulemaking authority provided for in

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[5] *See also, White v. Dunbar*, 119 U.S. 47, 51-52 (1886) ("The claim is a statutory requirement, prescribed for the very purpose of making the patentee define precisely what his invention is; and is unjust to the public, as well as an evasion of the law, to construe it in a manner different from the plain import of its terms.").

[6] A patent owner may not amend an expired patent. In such situations, the Board will construe the claims by giving more weight to the prosecution history than provided for under the broadest reasonable interpretation standard.

35 U.S.C. § 2(b)(2). PO Resp. 62. Versata's contention is unavailing, for it presumes that no other statutory authority exists for this standard of claim construction other than the Office's rulemaking authority under 35 U.S.C. § 2(b)(2). As discussed in the following sections, the AIA has provided the Office with new statutory and rulemaking authority, particularly with respect to post grant reviews, including covered business method patent reviews. *See*, *e.g.*, Title 35, Chapter 32.[7]

a. Post Grant Rulemaking Authority Under the AIA

To understand the Office's expanded rulemaking authority, it is necessary to explore the evolution of the administrative *inter partes* reexamination process that was previously available for the review of issued patents. As will be seen, this evolution reveals Congress' desire to develop a viable *inter partes* administrative system for patent review coupled with the necessary rulemaking discretion to establish and govern such an administrative system.

Congress established the *inter partes* reexamination as part of the American Inventors Protection Act of 1999 ("AIPA"), Pub. L. 106-113 §§ 4001-4808, 113 Stat. 1536 § 1501A et seq. (1999), (then codified as amended at 35 U.S.C. §§ 311-318, superseded by *inter partes* review, §§ 311-319). *Inter partes* reexamination was created to provide third parties an opportunity to participate in patent challenges before the Office. 145 Cong. Rec. S26983, S26984 (daily ed. Oct. 27, 1999)

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[7] For additional views further characterizing the AIA and rulemaking authority under the Act, *see* Sarah Tran, *Patent Powers*, 25 *Harv. J. L. & Tech.* 595, 662-73 (2012).

(statement of Sen. Hatch). The AIPA did not provide rulemaking powers specifically directed to *inter partes* reexamination. Accordingly, in order to regulate the conduct of the *inter partes* reexamination proceedings, the Office issued final rules on December 7, 2000 "under the authority given to the Commissioner of Patents and Trademarks by 35 U.S.C. 2(b)(2)." Rules to Implement Optional Inter Partes Reexamination Proceedings, 65 Fed. Reg. 76756, 76772 (Dec. 7, 2000).

Prior to the AIA, 35 U.S.C. § 2(b)(2) was said to be the "broadest of the Office's rulemaking powers." *Stevens v. Tamai*, 366 F.3d 1325, 1333 (Fed. Cir. 2004) (citing *Gerritsen v. Shirai*, 979 F.2d 1524, 1527 n.3 (Fed. Cir. 1992)). This section provides that the Office may govern the conduct of the proceedings before it. 35 U.S.C. § 2(b)(2)(A). The Federal Circuit has held that "[t]o comply with section 2(b)(2)(A), a Patent Office rule must be 'procedural' -i.e., it must 'govern the conduct of the proceedings in the Office.'" *Cooper Techs. Co. v. Dudas*, 536 F.3d 1330, 1335 (Fed. Cir. 2008). According to the Federal Circuit, a rule is substantive when it "effects a change in existing law or policy" which affects individual rights and obligations. *Id.* at 1336.

Prior to the enactment of the AIA, several attempts were made by Congress to reform patent law. For example, Congress introduced, but failed to pass, the Patent Reform Act of 2007 and the Patent Reform Act of 2009. These acts included a post grant review procedure that included the following rulemaking provision:

> § 326. Conduct of post-grant review proceedings

> (a) IN GENERAL.—The Director shall prescribe regulations, in accordance with section 2(b)(2)—
>
> (1) establishing and governing post-grant review proceedings under this chapter and their relationship to other proceedings under this title;

The Patent Reform Act of 2007, S. 1145 110th Cong. (2007) and the Patent Reform Act of 2009, S. 515 111th Cong. (2009). As explained in the Senate Judiciary Committee's Report on the Patent Reform Act of 2009, while the committee recognized the importance of removing disincentives to current administrative processes, the reviews were not to be used as tools for harassment and the Office was to address these potential abuses using its expanded procedural authority. S. Rep. No. 111-18, at 18 (2009). These predecessors of the AIA, however, would have limited the Office's new rulemaking authority to that provided in section 2(b)(2).

With the passage of the AIA, Congress sought to provide a viable alternative to challenging patents in district court litigation,[8] and therefore, replaced *inter*

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[8] See, for example, the Summary of the Manager's Amendment adding section 18 to the AIA, which states:

> Recent court decisions, culminating in last year's Supreme Court decision in *Bilski v. Kappos*, have sharply pulled back on the patenting of business methods, emphasizing that these "inventions" are too abstract to be patentable. In the intervening years, however, PTO was forced to issue a large number of business-method patents, many or pos-

partes reexamination with new adjudicative review proceedings. As part of this transformation, Congress bestowed new rulemaking authority on the Office to establish and govern the new reviews and the relationship of the reviews to other proceedings under title 35. *See* 35 U.S.C. §§ 316(a)(4) and 326(a)(4). In particular, the section 2(b)(2) restriction that appeared in the 2007 and 2009 bills was removed. As recognized in the AIA legislative history, Congress granted the Office rulemaking discretion to change existing examination policies such that the new review proceedings would be more adjudicative in nature.[9] This grant of AIA post grant rulemaking authority is consistent with the recognition that the Office's establishment of a viable alternative for challenging patents required further rulemaking discretion than had been provided previously.

> sibly all of which are no longer valid. The Schumer proceeding offers a relatively cheap alternative to civil litigation for challenging these patents, and will reduce the burden on the courts of dealing with the backwash of invalid business-method patents.

157 Cong. Rec. S1367 (daily ed. Mar. 8, 2011).

[9] *See* Senator Kyl's statement that:

> In the present bill, section 316(a)(4) gives the Office discretion in prescribing regulations governing the new proceeding. The Office has made clear that it will use this discretion to convert inter partes into an adjudicative proceeding.

157 Cong. Rec. S1375 (daily ed. Mar. 8, 2011).

While granting the Office broad rulemaking authority, Congress sought to guide the Office's establishment of the new proceedings by providing certain minimum requirements. For example, in establishing the new proceedings the Office was required to promulgate rules setting forth the standards to institute a review, as well as standards and procedures for discovery and motions to amend claims. 35 U.S.C. § 326(a)(2), (5), and (9). Thus, the plain language of the AIA statutes provides the Office with authority exceeding that of merely setting forth "procedures."

As the Supreme Court has observed, "[Congress] does not . . . hide elephants in mouseholes." *Whitman v. Am. TruckingAss'ns*, 531 U.S. 457, 468 (2001). It is apparent from the plain language of the AIA that Congress has granted the Office new and expanded rulemaking authority to ensure the success of the new reviews.

b. Promulgation of Rule 37 C.F.R. § 42.300(b)

The AIA was enacted into law on September 16, 2011. Pub. L. 112-29, 125 Stat. 284 (2011). Prior to its enactment, then Director Kappos requested that the public provide comments to the Office regarding implementation of the AIA, including the new patent reviews. Numerous comments were filed in response to this request, including comments from intellectual property organizations, law firms, companies, and individuals.[10]

[10] http://www.uspto.gov/patents/law/comments/aia_implementation.jsp

On February 10, 2012, the Office published a notice of proposed rulemaking concerning the Office's implementation of the transitional program for covered business method patent reviews. *See* Changes to Implement Transitional Program for Covered Business Method Patents, 77 Fed. Reg. 7080 (Feb. 10, 2012).[11] In this notice, the Office proposed adding 37 C.F.R. § 42.300(b), which is directed to the broadest reasonable interpretation. As explained in the notice:

> This proposed rule would be consistent with longstanding established principles of claim construction before the Office. *See, e.g., In re Am. Acad. of Sci. Tech Ctr.*, 367 F.3d 1359, 1364 (Fed. Cir. 2004); *In re Yamamoto*, 740 F.2d 1569, 1571 (Fed. Cir. 1984).

Id. at 7082. The notice further explains that the patent owner's ability to amend claims to avoid prior art distinguishes the Office proceedings from those of district court's. *Id.* Additionally, the notice identified the relevant statutory authority for the rules as including, among other things, 35 U.S.C. §§ 321-326 and 329. *Id.* at 7094.

The Office received numerous comments on the rules,[12] and on August 14, 2012, the Office issued its fi-

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[11] The Office also provided notices of rulemaking for a consolidated set of rules relating to Board trial practice, specific rules for *inter partes* review, post grant review, derivations, definitions for covered business method patent reviews and a practice guide. *See* 77 Fed. Reg. 48734 (Aug. 14, 2012).

[12] Public comments on the AIA rules may be viewed at: http://www.uspto.gov/aia_implementation/comments.jsp

nal rules. *See, e.g.*, Changes to Implement Inter Partes Review Proceedings, Post-Grant Review Proceedings, and Transitional Program for Covered Business Method Patents; Final Rule, 77 Fed. Reg. 48680 (August 14, 2012). The final rules adopted 37 C.F.R. § 42.300(b) as set forth in the proposed rule above and identified the statutory basis for the adoption of the rule, how it was supported by the legislative history,[13] and how the rule was consistent with the settled expectations arising from Federal Circuit precedent where a party is afforded an opportunity to amend claims. *Id.* at 48693. For example, as to the authority for 37 C.F.R. § 42.300(b), the final rules explained how the Office was required to enter final written decisions on patentability, 35 U.S.C. § 328, how the Office was required to set standards for instituting the proceedings and for amending claims, 35 U.S.C. § 326(a)(2) and (9), and that

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[13] Senator Kyl stated:

> This [district court] information should help the Office understand and construe the key claims of a patent. It should also allow the Office to identify inconsistent statements made about claim scope--for example, cases where a patent owner successfully advocated a claim scope in district court that is broader than the "broadest reasonable construction" that he now urges in an inter partes review.

157 Cong. Rec. S1375 (daily ed. Mar. 8, 2011)(emphasis added). *See also, San Huan New Materials High Tech, Inc. v. Int'l Trade Comm'n*, 161 F.3d 1347, 1355 (Fed. Cir. 1998) ("The legislative history shows that Congress was fully aware of the agency regulations and practices at the time of legislating in their area, and absent some special circumstance the failure to change or refer to existing practices is reasonably viewed as ratification thereof.").

the Office was required to promulgate rules establishing and governing the proceeding and the relationship of the proceeding to other proceedings, 35 U.S.C. § 326(a)(4). *Id.* at 48697-98.

During rulemaking, the Office received comments for and against the adoption of the broadest reasonable interpretation standard.[14] In response to comments received, the Office explained in the final rules its consideration of the comments and provided detailed reasons for the adoption of the broadest reasonable interpretation standard. *Id.* at 48697-48699. For example, the Office interpreted the requirement to determine patentability as requiring the use of the broadest reasonable interpretation, as opposed to the district court standard of construing to preserve validity. Additionally, the responses to comments noted that, unlike district court adjudicative proceedings, patent owners are afforded an opportunity to amend their claims during the Office reviews. By encouraging patent owners to eliminate ambiguity through amendment, the use of the broadest reasonable interpretation standard encourages clarity in claim language, which serves the important public notice function.

Further, the responses noted that inconsistent results would become a major issue if the Office adopted a standard of claim construction other than the

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[14] *See, e.g.*, Comments of Verizon, *et al.*, at 8 (April 9, 2012)(The Office should "confirm that challenged claims will be given their broadest reasonable construction in light of the specification of the patent in which it appears."), and Comments of the Pharmaceutical Research and Manufacturers of America at 12 (April 10, 2012)(The Office should "adopt a claim construction approach similar to that used by courts.").

broadest reasonable interpretation for post grant reviews. Specifically, as in the present case where SAP has requested reexamination of the '350 patent in addition to this proceeding, the AIA contemplates that there will be multiple proceedings in the Office, and thus requires the Office to establish rules concerning the relationships between the various proceedings. Major difficulties would arise where the Office is handling multiple proceedings with different claim construction standards, as it could produce confusing results, which would be unhelpful to patentees, applicants, the public, and the system.

Versata's contention that the Office is limited to 35 U.S.C. § 2(b)(2) does not take into account the policy reasons for the use of the broadest reasonable interpretation or the well-settled expectations resulting from decades of case law supporting the Office's reliance on the standard to ensure clear and precise claim language.

We have reviewed Versata's other contentions regarding the need to adopt the district court's claim construction, but find them equally unavailing. For example, Versata contends that *stare decisis* requires the Board to apply the district court's claim construction. Pat. Opp., 65. We disagree as appeals from this proceeding are exclusively to the Federal Circuit rather than to district courts. *See also, In re Trans Texas Holdings Corp.*, 498 F.3d 1290, 1295-98 (Fed. Cir. 2007). Versata also contends that the Board is not bound to apply the "BRI standard in every instance" and cites to 37 C.F.R. § 42.5. Pat. Opp., 64-65. While 37 C.F.R. § 42.5(b) allows the Board to waive or suspend a requirement under part 42, the discussion section of the rules make clear that this rule is intended to address procedural requirements, *e.g.*, waiving page limits, to permit the resolution of issues in a uniform and efficient manner. 77 *Fed. Reg.* 48612, 48616 (Aug. 14, 2012).

Clear, precise and unambiguous claims are as important now as they were a century ago.[15] Clarity in claim scope is of the utmost importance because the claims set forth all to which the patentee is entitled while apprising the public of what is still open to them. *McClain v. Ortmayer*, 141 U.S. 419, 424 (1891); *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 730 (2002). Accordingly, we agree with SAP and hold that the broadest reasonable interpretation standard is the one correct standard for post grant reviews.

3. Construction of Versata's Claims

The Board's decision to institute identified four claim terms for which construction was sought by the parties: "sorting the pricing information," "the pricing information that is less restrictive," "pricing type(s)," and "pricing information." Decision 7. As discussed in the decision, the terms were given the following meanings:

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[15] *See, e.g.*, Fed. Trade Comm'n, The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition (2011), available at http://www.ftc.gov/os/2011/03/110307patentreport.pdf and Comments of the Coalition for Patent Fairness, in response to the Request for Comments on Preparation of Patent Applications, available at: http://www.uspto.gov/patents/law/comments/qualapp-a_patent_coalition_20130415.pdf.

Decision to Institute - Claim Construction	
Sorting the pricing information	Pricing information is ordered either before or after the information is retrieved. Decision 8-11.
The pricing information that is less restrictive	Information that is less specifically applicable to a product, a purchasing organization, an organizational group or a product group. Decision 11.
Pricing types and pricing adjustments	Class or category of pricing adjustments. Decision 12-14.
Pricing information	Information related to pricing. The definition comprises both price adjustments and denormalized price adjustments. Decision 15-17.

Generally, Versata contends that, to the extent the Board's construction differs from that of the district court, the Board should have applied the district court's claim interpretation as this interpretation was "advocated by both SAP and Versata."[16] PO Resp. 52. SAP,

[16] Versata's opposition omits the fact that it urged the district court not to construe the claims as limited to preferred embodiments, a construction that it now seeks the Board to adopt. Decision 14 (citing District Court Memorandum Opinion and Order Re-

however, contends that Versata's disagreements with the Board's constructions are "unfounded." In particular, SAP states that Versata fails to justify the application of its narrower litigation definitions or to explain how the preferred embodiments of Versata's specification overrides the Board's construction based on the doctrine of claim differentiation. Reply 16-17. For this decision, we will construe each of the claim terms identified by the parties in turn.

a. Sorting the Pricing Information

The term "sorting the pricing information" appears only in the following limitation of claim 17 (emphasis added):

> ***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;

This step is recited after a "retrieving pricing information" step, but before an "eliminating less restrictive pricing information" step.

The Board's decision to institute adopted the district court's construction of the term "sorting the pricing information." Decision 8-9. Neither party disputes this construction. The parties, however, disagree as to when the pricing information is sorted. Decision 9, PO Resp. 52-61 and Reply 16-17.

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garding Claim Construction, *Versata v. SAP*, No. 07-cv-00153, slip op. at 7-9) (May 19, 2009) (Ex. 1012).

In instituting the review, the Board held that the plain language of claim 17 did not require that the information be retrieved first and sorted. This was in contrast to Versata claim 1, which requires "sorting the retrieved information." Further, the Board credited the testimony of SAP's expert,[17] Dr. Siegel, who testified that sorting the pricing information in the context of the '350 patent encompassed sorting either before or after the information is retrieved. Decision 9-11.

Versata contends that claim 17 requires "sorting" after "retrieving." PO Resp. 52-61. According to Versata, the intrinsic and extrinsic record demonstrates that a person of ordinary skill in the art would have understood that "the pricing information" referred to in the sorting step of claim 17 pertains to the "retrieved applicable pricing information." PO Resp. 53. Versata states that "any other interpretation would not be reasonable," as it is "generally the case that data stored in a data source must be retrieved from the data source *before* the data can be sorted." *Id.* at 53-54. Versata relies upon the testimony of its expert, Dr. Liebich, to support its construction. PO Resp. 53-54 (citing Ex. 2091, ¶¶ 123-128).

We agree with SAP that claim 17 does not itself impose a temporal limitation on when the pricing information is sorted. As SAP contends, Versata's arguments and expert testimony as to what is "generally" the case do not demonstrate that Versata sought to limit claim 17 in the way that claim 1 expressly was lim-

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[17] The field of the invention is computerized financial systems. *See, e.g.*, Ex. 1005, ¶ 16. A person of ordinary skill in the art would have at least a bachelor's degree in computer science and experience developing computerized financial systems. *Id.*, ¶ 18.

ited. *Moba, B.V. v. Diamond Automation, Inc.*, 325 F.3d 1306, 1314 (Fed. Cir. 2003) (holding that similar language did not require separate and consecutive performance of various steps).

Versata contends that the specification demonstrates that sorting must occur after retrieval. PO Resp. 55-57. We agree with Versata that Figure 15B of the '350 patent describes the use of the method where the sorting step occurs after retrieving all pricing adjustments. *Id.*, and Ex. 1001, Fig. 15b, 4:62, 18:53-54 and 19:4-43. Yet, the '350 patent states explicitly that numerous specific details are set forth in the description, but that it would be apparent to one of ordinary skill in the art that the present invention could be practiced without the specific details. Ex. 1001, 4:67-5:5. SAP's expert, Dr. Siegel, testifies that one of ordinary skill in the art would have understood that claim 17 "does not imply or require a temporal limitation forcing the sorting to occur after the retrieving." Ex. 1005, ¶ 98. Versata's expert, Dr. Liebich, testifies that "it is **generally** the case that data stored in a data source must first be retrieved from the data source before the data can be sorted." Ex. 2091, ¶ 126 (emphasis added). Based upon the record presented, we find that one of ordinary skill in the art reading the '350 specification would have understood that retrieving then sorting was the preferred, but not the only, method of carrying out the invention. Accordingly, we hold that the '350 patent specification does not require retrieving then sorting.

We are not persuaded by Versata's arguments regarding extrinsic evidential support for its construction of sorting after retrieval. Specifically, the cited district court expert testimony does not dictate that sorting follows retrieving.[18] Ex. 1018, 81-82.

We credit the testimony of SAP's expert, Dr. Siegel, and conclude that claim 17 does not require a temporal limitation forcing the sorting to occur after retrieving.

b. The Pricing Information That Is Less Restrictive

In instituting this review, we adopted the district court's construction that "the pricing information that is less restrictive" means information that is "less specifically applicable to a product, a purchasing organization, an organizational group or a product group." Neither party alleges error in this construction.

c. Pricing Types and Pricing Adjustments and Pricing Information

The Board's decision to institute construed the terms "pricing types" and "pricing adjustments" as meaning a class or category of pricing adjustments. Decision 12-14. The decision further defined the term "information related to pricing" as comprising both price adjustments and denormalized price adjustments. Decision 15-17. The Board's construction differed from that of the district court in that the Board did not limit

[18] Versata's patent owner opposition cites to Ex. 2006 and 2064 as support for its proposition. PO Resp. 57-58. The cited portions of the Ex. 2006 trial transcript, however, do not correspond to the testimony of the experts in question. Additionally, the citation to Ex. 2064 trial transcript merely discusses Dr. Boyd's understanding of the Trilogy System and not the '350 patent.

the claims to denormalized pricing adjustments where denormalized numbers are determined at run time. *Id.*

Versata urged the district court to construe these claim terms broadly and not limit the claims to preferred embodiments but, before this panel, urges that the district court's narrow construction be adopted. PO Resp. 61-65. SAP contends that the Board's construction was correct and that Versata has failed to justify application of the narrower litigation definition under BRI, or explain how a preferred embodiment could override the Board's construction based on claim differentiation. Reply 17. We agree with SAP and, for the reasons provided above, we employ the broadest reasonable interpretation of the claims and adopt the claim constructions for the terms pricing types, pricing adjustments, and pricing information that are set forth in the decision to institute.

d. Data Source

The term "data source" appears in Versata independent claims 17, 27 and 29. For example, the term data source is used in claim 17 in the following limitation:

> 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;

Versata contends that a person of ordinary skill in the art would have understood the term "data source" to mean a conventional or unconventional computer database. PO Resp. 27-28. Versata states that such a construction of the term is consistent with how the term was discussed in the '350 specification. *Id.* at 28. SAP disagrees, citing the specification's statement that "although the invention is discussed in terms of a 'database,' the invention can be implemented using any data source that may be different from a conventional database." Reply 7 (citing Ex. 1001, 10:58-61).

We construe the term "data source" in claim 17 as requiring the use of a computer storage medium as the '350 patent defines the field of the invention as "computer-based" pricing of products. However, even if we are incorrect, it would not alter our § 101 analysis, *i.e.*, the claim is unpatentable whether we adopt Versata or SAP's construction.

B. Versata's Claims are Unpatentable Under 35 U.S.C. § 101

SAP challenges claims 17 and 26-29 as unpatentable under 35 U.S.C. § 101 stating that the claims are directed to an unpatentable abstract idea. Pet. 16. Versata disagrees and maintains that its claims are directed to a specific, practical, and advantageous way to determine a product price using hierarchical groups of customers and products. PO Resp. 13-49.

1. § 101 Subject Matter Eligibility

The Supreme Court has made it clear that the test for patent eligibility under § 101 is not amenable to bright-line categorical rules. *Bilski v. Kappos*, 130 S. Ct. 3218 (2010). Further, the Federal Circuit has recognized that it has been especially difficult to apply § 101 properly in the context of computer-implemented inventions. *CLS Bank Int'l V. Alice Corp. Pty. Ltd.*, 106 USPQ2d 1696, 1700 (Fed. Cir. 2013).

Our analysis begins with the statute. There are four broadly stated categories of patent-eligible subject matter: processes, machines, manufactures, and compositions of matter. 35 U.S.C. § 101. In addition, there are three judicially created exceptions to these four categories: laws of nature, natural phenomena, and abstract ideas. *Gottschalk v. Benson*, 409 U.S. 63, 67 (1972). A brief review is provided below of the Supreme Court's jurisprudence on § 101 for these exceptions.

An abstract idea or law of nature itself is not patentable. To be patentable, a claim must do more than simply state the law of nature or abstract idea and add the words "apply it." *Mayo Collaboration Servs. v. Prometheus Labs, Inc.*, 132 S. Ct. 1289, 1294 (2012); *Benson*, 409 U.S. at 67. Yet, an application of a law of nature or abstract idea to a known structure or process may be deserving of patent protection. *Diamond v. Diehr*, 450 U.S. 175, 187 (1981). The key question is, therefore, whether the claims do significantly more than simply describe the law of nature or abstract idea. *Mayo*, 132 S. Ct. at 1297. A claim is not patent-eligible where it merely recites a law of nature and adds additional steps that merely reflect routine, conventional activity of those who work in the field. *Id.* at 1298. Further, the "prohibition against patenting abstract ideas 'cannot be circumvented by attempting to limit the use of the formula to a particular technological environment' or adding 'insignificant postsolution activity.'" *Bilski*, 130 S. Ct. at 3230 (*quotingDiehr*, 450 U.S. at 191-92).

In *Benson*, the Supreme Court considered a patent application that was directed to the programmed conversion of numerical information in general purpose digital computers. In particular, the Court considered two claims, with one, claim 8 reading as follows:

> 8. The method of converting signals from binary coded decimal form into binary which comprises the steps of
>
> (1) storing the binary coded decimal signals in a reentrant shift register,
>
> (2) shifting the signals to the right by at least three places, until there is a binary '1' in the second position of said register,
>
> (3) masking out said binary '1' in said second position of said register,
>
> (4) adding a binary '1' to the first position of said register,
>
> (5) shifting the signals to the left by two positions,
>
> (6) adding a '1' to said first position, and
>
> (7) shifting the signals to the right by at least three positions in preparation for a succeeding binary '1' in the second position of said register.

Benson, 409 U.S. at 73-74. The Court in analyzing the claims, noted that a general purpose computer is one that is "designed to perform operations under many different programs." *Id.* at 65. Although claim 8 recited computer hardware ("shift register"), the Court nevertheless determined that the method sought to be patented involved ordinary arithmetic steps that could be performed without the use of a computer or carried out in "existing computers long in use, no new machinery being necessary." *Id.* at 68. The Court determined that the claims had no substantial practical application except in connection with a digital computer. The Court concluded that the claims sought to "pre-empt the mathematical formula and in practical effect would be a patent on the algorithm itself." *Id.* at 71-72. Accordingly, the claims were held unpatentable under § 101.

In *Mayo*, the Supreme Court addressed the law of nature exception in considering claims covering medical diagnostic methods. The Court reaffirmed that patent eligibility should not depend simply on the draftsman's art, without reference to the principles underlying the prohibition against patents for natural laws and abstract ideas. *Mayo*, 132 S. Ct. 1294 (quoting *Parker v. Flook*, 437 U.S. 584, 593 (1978)). The Court also stated that if a law of nature is not patentable, then neither is a process reciting that law of nature absent additional features demonstrating that the process is "more than a drafting effort designed to monopolize the law of nature itself." *Id.* at 1297. The Court further recognized that purely "conventional or obvious" limitations are "normally not sufficient to transform an unpatentable law of nature into a patent-eligible application of such a law." *Id.* at 1298. The Court expressed concern that there is a danger when a patented process amounts to no more than instruction to apply the natural law, or otherwise forecloses more further invention than the underlying discovery could reasonably justify. *Id.* at 1301. The claimed processes in *Mayo* were held unpatentable under § 101 as the Court determined they did not do more than apply the natural law. *Id.* at 1294.

2. Versata Claims 17 and 26-29 are Unpatentably Abstract

Versata's challenged claims are in substance directed to an apparatus and method for determining a price, i.e., a method of calculating, the method being implemented on computer hardware. Claims 17 and 26-29 are reproduced in the attached Appendix. Generally, claim 17 is directed to a method of determining price, claim 27 is a computer-implemented method of determining a price, and claims 26 and 28 are computer-readable storage media comprising computer instructions to implement the methods of claims 17 and 28. Similarly, while claim 29 is directed to an "apparatus" for determining a price, the apparatus includes computer program instructions capable of performing the same method steps that are recited in claim 27.

SAP contends that Versata's claims are unpatentable under § 101 as they are centered on abstract ideas. Pet. 17. SAP states the abstract nature of the claims is demonstrated by the fact that the method steps can be performed in the human mind or by a human using a pencil and paper. *Id.* at 18. SAP further states that the claims merely recite "abstract ideas with nothing more than 'well-understood, routine, conventional activity' added." *Id.*, citing Mayo, 132 S. Ct. at 1294.

Versata disagrees with SAP's characterization of the claims. According to Versata, the claims recite statutory processes and machines under § 101 and the claims do not "preempt" any abstract idea. In particular, Versata states that the determination of whether its claims are directed to patent-eligible subject matter under § 101 requires an analysis of all the elements or steps in the claimed process. *See, e.g.*, PO Resp. 14-15.

We agree with SAP that each of challenged claims involves the use of an abstract idea: determining a price using organizational and product group hierarchies, which are akin to management organizational charts. The concept of organizational hierarchies for products and customers is abstract as it represents a "disembodied concept," a basic building block of human ingenuity. Similarly, determining a price is also abstract as it is essentially a method of calculating. Standing alone, an abstract idea does not represent patent-eligible subject matter. Accordingly, we must further analyze Versata's claims to determine whether they incorporate sufficient meaningful limitations to ensure that the claims are more than just an abstract idea and not just a mere drafting effort designed to monopolize the abstract idea itself. *Mayo*, 132 S. Ct. at 1297.

a. Versata's Claims Have No Substantial Practical Application Except in Connection with a Computer

Versata contends that its claims cannot be performed manually or mentally. See, e.g., PO Resp. 33. According to Versata, the claims require the use of a computer because the claims recite computer hardware and the use of computer instructions. *Id.* Yet, claims do not become patentable under § 101 simply for reciting a computer element. *See Benson*, 409 U.S. at 68.

Versata's expert, Dr. Liebich, testifies that there is no doubt that the claims require implementation on a computer. Ex. 2091, ¶¶ 68, 81, 90, 100, and 103.

Dr. Liebich's testimony is predicated on the fact that the claims recite computer hardware limitations. *Id.* During cross-examination, Dr. Liebich confirmed that the process steps themselves could be performed by pen and paper. Liebich Transcript, Ex. 1033, 119:4 - 143:10, Ex. 1029, and Ex. 1031. Based on the record presented, we conclude that while the challenged claims are drafted to include computer hardware limitations, the underlying process that is implemented on such hardware could also be performed via pen and paper.

Dr. Liebich testifies that from a practical standpoint the invention "would have no purpose if it were attempted to be performed mentally or with pencil and papers - i.e., outside a computer." *Id.* at ¶ 69. The mere recitation of computer implementation or hardware in combination with an abstract idea, however, is not itself a significant, meaningful limitation on the scope of the claims. Specifically, as apparent from *Benson*, implementation on a general purpose computer is not a meaningful limitation where there was "no substantial practical application except in connection with a digital computer." *Benson*, 409 U.S. at 68 and 71-72.

Thus, we analyze whether the claimed invention is carried out using existing computers long in use. *Id.*

b. General Purpose Computer Hardware and Programming Are Used to Implement the Claimed Method Steps

The claimed invention of the '350 patent requires only routine computer hardware and programming. The '350 patent states that its invention may be implemented in *any* type of computer system or programming or processing environment. Ex. 1001, 5:55-58; Siegel Dep. Tr. Ex. 2090, 107:12-19. For example, the '350 patent states that the invention's method and apparatus allow prices to be determined on a laptop computer. *Id.* at 3:20-23. Accordingly, the '350 patent makes clear that its contribution to the arts lies not in the type of computing device or processing environment employed. This is consistent with the fact that the '350 specification lacks specificity as to the hardware aspects of the invention. Thus, as with the "shift register" in *Benson*, the recitation of generic general purpose computer hardware (processor, memory, storage) in the challenged claims represents routine, well-understood conventional hardware that fails to narrow the claims relative to the abstract idea. *Benson*, 409 U.S. at 65 ("The general-purpose computer is designed to perform operations under many different programs.").

Next, we look to the claims to determine whether they recite additional meaningful limitations beyond the basic abstract idea of determining a price using customer and product hierarchies on a general purpose computer.

c. Versata's Claims Merely Add Insignificant, Conventional and Routine Steps that are Implicit in the Abstract Idea Itself

To be patent-eligible a claim reciting an abstract idea must add more than just insignificant, conventional or routine steps to the idea lest the claim effectively cover the abstract idea itself. *Cf., Mayo*, 132 S. Ct. at 1298. Thus, the claims must include meaningful limitations beyond the abstract idea itself.

SAP contends that Versata's claims do not add anything beyond routine, conventional activities to the unpatentable abstract concepts. Pet. 18. The abstract nature of the claims is said to be confirmed by the fact that the claimed data arrangements and pricing calculations can be performed manually. *Id.*

Versata contends that patent eligibility must be evaluated considering each of the claim elements in combination, and that the challenged claims include specific separate and distinct steps that are not general or abstract in any way. *See, e.g.*, PO Resp., 15. For example, Versata states that SAP has failed "to address the storing, retrieving, sorting, eliminating and determining steps required by claim 17 and their interrelations with one another and with the arranging steps." *Id.* at 16.

The parties' experts disagree as to whether the appended steps are merely routine, conventional steps or reflect meaningful limitations. Dr. Siegel, SAP's expert, testifies that besides the abstract ideas, the claims merely recite routine, conventional activities. Ex. 1005,

¶ 49.[19] In contrast, Dr. Liebich, Versata's expert, testifies that the SAP R/3 pricing technology available at the time of the invention did not practice the combination of steps (storing, retrieving, sorting, eliminating, and determining) recited in the claims. Ex. 2091, ¶ 62. Dr. Liebich further testifies that he was not aware of any pricing technology in the marketplace at that time that performed the combination of steps. *Id.*

Patent eligibility is distinct from the question of whether or not the claims recite subject matter that was not in the marketplace at the time of the invention. *Flook*, 437 U.S. at 593 ("[Section 101] does not involve the familiar issues of novelty and obviousness that routinely arise under §§ 102 and 103.").[20]

We agree with SAP that Versata and Dr. Liebich fail to establish that the additional "specific" steps that are appended to the abstract idea provide meaningful limitations. The contention that the combination of the abstract idea and the specific steps represents an improvement in marketplace technology does

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[19] Versata contends that Dr. Siegel failed to address the specific steps recited in claim 17. PO Resp. 17. Dr. Siegel's cross-examination testimony demonstrates that he considered the specific steps in preparing his declaration. Ex. 2090, *e.g.*, 76:18 – 95:19. Additionally, nowhere does Versata identify specific, credible evidence to demonstrate that Dr. Siegel believed the additional steps to be anything other than conventional, routine steps that would commonly be used to implement the abstract idea.

[20] Additionally, although the issue is now withdrawn from consideration, the Board determined that, more likely than not, Versata's claims lack novelty over the prior art R/3 2.2C product documentation, documentation that Dr. Liebich does not address when concluding that the additional steps were not in "practice." *See, e.g.*, Decision 39; Ex. 2091, ¶ 62.

not demonstrate that the additional steps are anything other than conventional, routine steps that are a consequence of implementing the abstract idea. Specifically, the Court in *Flook* held that a claim for an "improved" method is unpatentable where, putting the abstract formula to the side, there was no "inventive concept" in the claimed application of the formula. *Flook*, 437 U.S. at 594-595, n.18.[21] Accordingly, even if the abstract idea and "specific" steps represent a marketplace improvement, the claims are not patent-eligible where the appended steps lack meaningful limitations that prevent the claim as a whole from covering the practical applications of the abstract idea.

Versata contends that there are many ways to practice the abstract concept of determining a price through arranging customer and product data hierarchies that fall outside the scope of the claims. PO Resp. 26-27. Yet, the fact that the claims could be drafted differently does not demonstrate that the additional limitations are meaningful. *Flook*, 437 U.S. at 590 ("A competent draftsman could attach some form of post-solution activity to almost any mathematical formula . . . ."), 593 (allowing determination of patent-eligibility to depend on draftsman's art would not serve the principles underlying the prohibition against patents for abstract ideas).

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[21] Versata's allegation that the claimed invention represents an improvement in the art is not consistent with the evidence of record. The challenged claims are not commensurate with the alleged improvements. For example, while Versata contends that its invention provides technological benefits for database tables and queries, its claims do not require the use of a database. *See* Pet. Reply 5-6.

We credit the testimony of Dr. Siegel over that of Dr. Liebich and find that the additionally claimed steps of storing, retrieving, sorting, eliminating and receiving are well-known, routine, and conventional steps. *See, e.g.*, Ex. 1005, ¶¶44-49, Appendix C. This is consistent with Versata's acknowledgment that the claims "in fact cover the 'capability' to execute a pricing procedure using hierarchical accesses to hierarchical arrangements of customer . . . and product . . . data." Versata Federal Circuit Appeal Brief, Ex. 1011, 11.

We conclude that Versata's claims do not add meaningful limitations beyond the recited abstract idea and, in practical effect, preempt the abstract idea.

IV. Additional Matters

Versata filed a motion to seal Versata exhibit 2086, which is a unredacted copy of Dr. Siegel's deposition. Motion to Seal, Paper 55. Certain portions of Dr. Siegel's deposition include information designated "Confidential-Attorneys' Eyes Only Material" by SAP. We have reviewed exhibit 2086 and agree that good cause exists to grant the motion. 37 C.F.R. § 42.14. Accordingly, Versata exhibit 2086 shall remain sealed in its entirety.

Versata requested that the Board stay the currently pending reexamination of the '350 patent. In light of our final written decision, we decline to stay the reexamination.

V. Conclusion

This is a final written decision of the Board under 35 U.S.C. § 328(a). We hold Versata's claims 17, and 26-29 to be unpatentable under 35 U.S.C. §101.

Specifically, the claims recite unpatentable abstract ideas and the claims do not provide enough significant meaningful limitations to transform these abstract ideas into patent-eligible applications of these abstractions.

VI. Order

In consideration of the foregoing, it is hereby:

ORDERED that claims 17 and 26-29 of the '350 patent are CANCELLED as unpatentable;

FURTHER ORDERED that the Board's determination on claim construction is binding on the patent owner in the reexamination;

FURTHER ORDERED that a copy of this decision is to be placed in the reexamination file; and

FURTHER ORDERED that Versata exhibit 2086 shall remain sealed in its entirety.

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Claims Appendix

Versata ’350 claims 17, and 26-29 read as follows:

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 in a subset of the higher product group;

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;

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.

26. A computer readable storage media comprising: computer instructions to implement the method of claim 17.

27. A computer implemented method for determining a price of a product offered to a purchasing organization comprising:

retrieving from a data source pricing information that is (i) applicable to the purchasing organization and (ii) from one or more identified organizational groups, within a hierarchy of organizational groups, of which the purchasing organization is a member;

retrieving from the data source pricing information that is (i) applicable to the product and (ii) from one or more identified product groups, within a hierarchy of product groups, of which the product is a member; and

receiving the price of the product determined using pricing information applicable to the one or more identified organizational groups and the one or more identified product groups according to the hierarchy of product groups and the hierarchy of organizational groups.

28. A computer readable storage media comprising: computer instructions to implement the method of claim 27.

29. An apparatus for determining a price of a product offered to a purchasing organization comprising:

a processor;

a memory coupled to the processor,

wherein the memory includes

computer program instructions capable of:

retrieving from a data source pricing information that is (i) applicable to the purchasing organization and (ii) from one or more identified organizational groups, within a hierarchy of organizational groups, of which the purchasing organization is a member; retrieving from the data source pricing information that is (i) applicable to the product and (ii) from one or more identified product groups, within a hierarchy of product groups, of which the product is a member; and

receiving the price of the product determined using pricing information applicable to the one or more identified organizational groups and the one or more identified product groups according to the hierarchy of product groups and the hierarchy of organizational groups.

APPENDIX N

UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
MARSHALL DIVISION

VERSATA SOFTWARE INC., et al.,
Plaintiffs,

v.

SAP AMERICA, INC. and SAP AG,
Defendants.

2:07-CV-153 CE

DEFENDANTS' NOTICE OF APPEAL

Defendants SAP America, Inc. and SAP AG (collectively, "SAP") hereby appeal to the United States Court of Appeals for the Federal Circuit from the Court's September 9, 2011 entry of Final Judgment (Dkt. No. 576), and the Court's September 26, 2011 entry of its Original and Amended Permanent Injunctions (Dkt. No. 573 and 586), and all orders, objections, opinions, and findings underlying the same, including but not limited to the following:

1. Order transferring case to Judge T. John Ward (Dkt. No. 34);

2. Order adopting Memorandum Opinion and Order regarding Claim Construction (Dkt. No. 102);

3. Order denying SAP's Motion for Clarification (Dkt. No. 150);

4. Claim Construction Order (Dkt. No. 203);

5. Order disposing of various discovery motions, including granting Versata's Motion for Leave to Serve Third Party Subpoenas (Dkt. No. 241);

6. Order denying Versata's Motion to Compel and precluding SAP from relying on certain non-infringement theories (Dkt. No. 270);

7. Order granting in part and denying in part the Parties' Motions *in Limine* (Dkt. No. 272);

8. Order carrying SAP's Motion *in Limine* to Limit the Testimony of Christopher Bakewell (Dkt. No. 281);

9. Order overruling and sustaining the Parties' Evidentiary Objections (Dkt. No. 282);

10. Order carrying and denying SAP's Motions for Summary Judgment (Dkt. No. 283);

11. Jury Verdict (Dkt. No. 318);

12. Order denying SAP's Motion for Judgment as a Matter of Law for Invalidity (Dkt. No. 388);

13. Order granting in part and denying in part SAP's Motions for Judgment as a Matter of Law (Dkt. No. 409);

14. Order denying SAP's Affirmative Defense and Counterclaim of Inequitable Conduct (Dkt. No. 410);

15. Order granting in part and denying in part SAP's Motions for Judgment as a Matter of Law, Remittitur, or New Trial (Dkt. No. 412);

16. Order denying SAP's request for final and/or Rule 54(b) judgment and allowing Plaintiff to pursue a lost profit theory (Dkt. No. 425);

17. Order carrying in part and denying in part SAP's Motion to Exclude the Expert Testimony of Neeraj Gupta, Christopher Bakewell, and Roy Weinstein, granting Versata's Motion to Exclude Opinions of SAP's Experts Dr. M. Ray Mercer and Michael J. Wagner, and granting Versata's Motion to Strike Portions of the Expert Report of Stephen L. Becker and Michael J. Wagner (Dkt. No. 499);

18. Order granting in part and denying in part the Parties' Motions *in Limine* (Dkt. No. 500)

19. Memorandum Opinion and Orders denying-in-part SAP's Motion to Exclude the Expert Testimony of Neeraj Gupta, Christopher Bakewell, and Roy Weinstein, specifically as related to lost profits (Dkt. Nos. 506 and 570);

20. Jury Verdict (Dkt. No. 515);

21. Memorandum Opinion and Order denying SAP's Motion for Judgment as a Matter of Law on Issues Relating to Damages or in the alternative for New Trial or Remittitur (Dkt. No. 571);

22. Memorandum Opinion and Order granting Plaintiff's Motions for Permanent Injunction (Dkt. No. 572);

23. Memorandum Opinion and Order denying-in-part SAP's Motion for Judgment as a Matter of Law on Issues Relating to No Pre-Suit Damages and New Trial pursuant to § 287(a) (Dkt. No. 574);

24. Memorandum Opinion and Order denying SAP's Motion for Judgment as a Matter of Law and New Trial Regarding Liability Issues (Dkt. No. 575); and

25. All other orders, opinions, findings and/or conclusions of this Court adverse to SAP, including without limitation all adverse decisions during the first and second trials in this matter.

Payment of the required fee of $455, representing the $450 fee for docketing a case on appeal specified in 28 U.S.C. § 1913, and the $5 fee for filing a notice of appeal specified in 28 U.S.C. § 1917, is provided with this Notice of Appeal.

Dated: October 11, 2011 Respectfully submitted,

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