

No. 15-1145

IN THE
Supreme Court of the United States

VERSATA DEVELOPMENT GROUP, INC.,
Petitioner,

v.

SAP AMERICA, INC., AND SAP AG,
Respondents,

and

UNDER SECRETARY OF COMMERCE FOR
INTELLECTUAL PROPERTY AND DIRECTOR OF THE
UNITED STATES PATENT AND TRADEMARK OFFICE,
Respondent-Intervenor.

VERSATA DEVELOPMENT GROUP, INC.,
Petitioner,

v.

MICHELLE K. LEE, DIRECTOR,
UNITED STATES PATENT AND TRADEMARK OFFICE,
and

SAP AMERICA, INC., AND SAP AG,
Respondents.

**On Petition for a Writ of Certiorari to
the United States Court of Appeals
for the Federal Circuit**

REPLY FOR PETITIONER

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The government agrees that, at a minimum, the petition should be held pending this Court's decision in *Cuozzo Speed Technologies, LLC v. Lee*, No. 15-446, cert. granted, 136 S. Ct. 890 (Jan. 15, 2016). Pet. 32-34; Gov't Br. 24-25. Seeking to avoid review on the scope of "covered business method patent" proceedings, however, the government and SAP characterize the petition as challenging "fact-bound determination[s]." Gov't Br. 11; SAP Br. 15. That is incorrect: This case concerns the *standards* the PTAB announced—and the Federal Circuit affirmed—that define the PTAB's power to conduct review in *all* CBM proceedings. See Pet. 14-22. Those standards defy § 18's text and obliterate any meaningful limit on the PTAB's authority. The PTAB's narrow interpretation of the safe harbor for "technological inventions" further compounds the problem. See Pet. App. 36a-39a. Respondents do not contend otherwise.

Respondents' reliance on the CBM program's sunset provision is also misplaced. See Gov't Br. 14; SAP Br. 14. The CBM process will affect large numbers of patents for years to come. And while the government contends that the PTAB's authority to conduct CBM review is not "subject to judicial review" at all, Gov't Br. 12, it *lost* on that issue below, Pet. App. 12a-29a, and nowhere responds to the Federal Circuit's ruling.

Finally, respondents do not address the widespread confusion over how to apply § 101 to computer-implemented inventions. Courts are struggling to apply this Court's guidance in *Alice Corp. Pty. Ltd. v. CLS Bank International*, 134 S. Ct. 2347 (2014). Respondents spill much ink arguing the merits of the '350 patent's patent-eligibility. That is for the merits stage. What matters here is that lower courts are "seeking more concrete" guidance from this Court regarding "the application of

§ 101.” *Ameritox, Ltd. v. Millennium Health, LLC*, 88 F. Supp. 3d 885, 903 (W.D. Wis. 2015). This case presents an ideal vehicle for providing that guidance.

I. THE SCOPE OF CBM REVIEW IS AN IMPORTANT AND RECURRING ISSUE

A. The Issue Is Important

The AIA limits CBM review to claims “used in the practice, administration, or management of a financial product or service.” AIA § 18(d)(1) (emphasis added). The phrase “financial product or service” has a well-understood meaning: It encompasses products and services associated with investments and finance, such as banking, credit, and insurance. The Federal Circuit’s holding that that language encompasses any claim “incidental” or “complementary” to “monetary matters,” Pet. App. 33a-35a—essentially, anything used in commerce—obliterates the statutory limits on the PTAB’s authority. Under that standard, the PTAB is subjecting numerous patents to CBM review even though they are not, under any reasonable understanding, “used in the practice, administration, or management of a financial product or service.” See Pet. 17-19.

1. Respondents urge that the issue “lacks sufficient prospective importance” because the CBM program will expire in late 2020. Gov’t Br. 14; SAP Br. 14. But the government previously told the Federal Circuit that issues relating to CBM review were so “exceptional[ly] important[t]” that they justified en banc review. PTO Reh’g Pet. at 1, *Versata Dev. Grp., Inc. v. SAP Am., Inc.*, No. 2014-1194 (Fed. Cir. Aug. 24, 2015). Review was warranted because CBM proceedings are “popular,” and CBM appeals “constitute a growing portion of the [Federal Circuit’s] docket.” *Id.* at 5. The government’s current about-face lacks credibility.

Countless patents will be processed through CBM review before §18's potential sunset. See PTO, *Patent Trial and Appeal Board Statistics 2*, 7 (Jan. 31, 2016).¹ As a result, myriad district court patent cases will divert to the PTO, where invalidity is determined under a lesser standard. The consequences are profound. See Pet. 24.

2. The government claims the scope of the PTAB's CBM authority is not "subject to judicial review" at all. Gov't Br. 12. The PTAB's authority, it asserts, arises only in the context of the PTAB's "decision whether to institute" a CBM proceeding, and institution decisions are non-appealable under 35 U.S.C. §324(e). *Ibid.* The Federal Circuit, however, rejected that argument, Pet. App. 12a-29a, and respondents filed no cross-petition (even though their theory would alter rather than preserve the judgment below).

The Federal Circuit's ruling, moreover, is correct. Section 18 circumscribes the PTO's authority to *conduct* CBM procedures. Section 18(a)(1) authorizes the PTO to "establish[] and implement[]" a "proceeding for review of the validity of *covered business method* patents." And §18(a)(2) states that the PTO's regulations implementing CBM review shall apply only to "covered business method patent[s]." Thus, whether a patent is a CBM does not merely relate to an "institution decision." It determines the PTO's ability to take *any* action under §18(a)(1), including issuing a final written decision on patentability. AIA §18(a)(1); 35 U.S.C. §328(a). That *final* decision is reviewable: Any "party dissatisfied with the [PTAB's] final written decision" may "appeal the decision" to the Federal Circuit. 35 U.S.C. §329. As the government it-

¹ Nor is it certain CBM review will cease in 2020; some have proposed extending it. See H.R. Rep. No. 114-235, at 55 (2015).

self previously urged, a party can be “dissatisfied” with and appeal from a final written decision because it believes the PTAB lacked authority to issue it. See Pet. App. 19a-21a.²

B. The Federal Circuit’s Construction of “Covered Business Method Patent” Vastly Expands the PTAB’s Authority

Respondents argue that Versata’s ’350 patent should be a “covered business method patent.” SAP Br. 15-17; Gov’t Br. 15-17. But those merits arguments are wrong and, at this stage, irrelevant. See pp. 7-9, *infra*. Respondents scarcely deny that the PTAB has adopted an impermissibly broad definition of CBM and is exercising authority beyond what Congress granted.

1. According to the PTAB and the Federal Circuit, a claim is “used in the practice, administration, or management of a financial product or service,” AIA § 18(d)(1), if it is “incidental” or “complementary” to “monetary matters,” Pet. App. 33a-35a. Respondents barely defend that interpretation. The government cites dictionaries defining “financial,” in part, as “relating to money matters.” Gov’t Br. 15. But that ignores that the *phrase* “financial product or service” refers to matters associated with investments and finance, like banking, insurance, and loans. See Pet. 15-16. That understanding is confirmed by the requirement that the claim be used in the “practice, administration, or management” of the product or service. The Federal Circuit’s construction—which

² The government suggests that the Federal Circuit may need to “reconsider[.]” its holding after this Court decides *Cuozzo*, which concerns whether the PTAB’s decision to institute *inter partes* review is judicially reviewable. Gov’t Br. 13-14. But the Federal Circuit compellingly distinguished *Cuozzo* on this issue, and the government fails to address its full reasoning. See Pet. App. 28a-29a.

expands “financial product or service” to virtually anything used for conducting commerce—defies those limits.

SAP’s claim that Versata’s interpretation “lacks any basis,” SAP Br. 16, is itself baseless. SAP acknowledges that federal statutes and regulations reflect precisely Versata’s understanding. *Ibid.* And we encourage the Court to Google “financial product” and “financial service” and see the results. Versata’s interpretation does not “read[] limitations into the statute that are not there.” Gov’t Br. 16 (quoting Pet. App. 35a); SAP Br. 17 (same). It gives Congress’s words their plain meaning.³

The government contends that, even under the PTAB’s definition, not “*every* patent touching anything ‘used to conduct commerce’” will be deemed a CBM. Gov’t Br. 15 (emphasis added). But Versata cited a litany of CBM proceedings where the PTAB reached essentially that conclusion. See Pet. 17-19. Respondents offer *no* answer.

2. SAP urges deference under *Chevron, U.S.A., Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837 (1984), SAP Br. 16, while the government urges the “arbitrary and capricious” standard of review, Gov’t Br. 14. But the construction here defies the statute’s text. Deference is irrelevant.

Besides, an agency’s statutory construction warrants deference only if “Congress has authorized [the] agency to promulgate *substantive* rules under a statute it is

³ Versata does not contend that “financial product or service” is limited “to the financial-services *industry*” itself. Gov’t Br. 16 (emphasis added). Its position is that the phrase refers to the *type* of services provided by that industry. A car dealership is not in the “financial-services industry,” but when it offers a loan to a purchaser, it provides a “financial service.”

charged with administering.” *Merck & Co. v. Kessler*, 80 F.3d 1543, 1549 (Fed. Cir. 1996) (emphasis added). Because the Patent Act merely authorizes the PTO to promulgate regulations for “the conduct of proceedings” before it, the PTO receives no deference on “matter[s] of pure statutory interpretation” under that Act. *Ibid.*

Indeed, while the AIA authorizes the PTO to issue *procedural* regulations, AIA §18(a)(1), and authorizes the PTO to issue *certain* substantive regulations, see *id.* §18(d)(2), it nowhere gives the PTO authority to define “covered business method patent.” Congress defined the phrase itself in §18(d)(1), leaving no “gap for the agency to fill.” *Chevron*, 467 U.S. at 843.

C. The Definition of “Technological Invention” Warrants Review

Respondents nowhere deny that the PTAB’s construction of “technological inventions” in §18(d)(1) excludes a wide swath of technologies from the AIA’s safe harbor. Instead, they again argue the merits. Gov’t Br. 17-19; SAP Br. 17-22. But, once again, the issue here is the *standard* now applied in all cases. And, once again, respondents’ position on the application of that standard here is mistaken. See pp. 7-9, *infra*.

Faced with a tautological PTO regulation that does not “offer anything very useful,” the PTAB “craft[ed] its own understanding” of “technological invention.” Pet. App. 37a. It declared the standard would *not* be met by reciting “known technologies,” “the use of known prior art technology,” or “combining prior art structures to achieve the normal, expected, or predictable result.” *Id.* at 37a-38a (quotation marks omitted). That defies statutory text: It defines “technological invention” in terms of whether the PTAB thinks an invention is *patentable*, not whether it is *technological*. Pet. 20-21. Respondents

never acknowledge—much less defend—the standard the PTAB “crafted.”

Respondents criticize Versata’s assertion (at 20-21) that many computer-based inventions are “technological,” even if they ultimately are not patentable. See Gov’t Br. 18-19; SAP Br. 19-20. But attacking Versata’s position does not establish that the *PTAB*’s standard comports with congressional intent. Indeed, Versata cited examples showing the PTAB is denying the safe harbor’s protections to inventions that are plainly “technological.” Pet. 22. Respondents again offer no response.

D. This Case Presents an Ideal Vehicle

Although SAP asserts (at 28-30) that this case “is a poor vehicle for review,” it does not dispute that the questions were pressed and passed upon below. Instead, it urges that the petition presents “line-drawing exercises” that will not control the outcome here. SAP Br. 2. But the questions of statutory construction presented here are plainly outcome-determinative.

The PTAB’s authority to invalidate Versata’s patent through CBM review turns on whether the claims are “used in the practice, administration, or management of a financial product or service.” AIA §18(d)(1). The ’350 patent covers a software-based method for providing individualized pricing to customers. See Pet. 3-6. The patent thus *is* a CBM under the *PTAB*’s construction, which encompasses anything “incidental” or “complementary” to “monetary matters.” Pet. App. 33a-35a. But it is *not* a CBM if the Court gives “financial product or service” its ordinary meaning—*i.e.*, products and services associated with investments and finance, such as banking, insurance, etc. Pet. 15-17. While respondents claim “[t]here is no activity more ‘financial in nature’ than setting prices,” SAP Br. 16; see Gov’t Br. 15, that is wrong. No one

would think that a salesman quoting a price for a mattress is providing a “*financial service*.” And software that allows him to quote mattress prices is not used in “the practice, administration, or management of” a “financial product or service.” It is used in selling mattresses—*i.e.*, conducting *commerce*. This case turns on that distinction.

Likewise, the construction of § 18(d)(1)’s “technological inventions” safe harbor is case-dispositive. Applying a novel standard, the PTAB found the ’350 patent is not technological largely because it “could be achieved ‘in any type of computer system.’” Pet. App. 38a-39a. But the fact that a patented method can be performed using a general-purpose computer does not establish that the claims are *not* “technological.” Pet. 21. That would mean *no* software is technological.

By any practical measure, the claims here are technological. Respondents assert that the ’350 patent’s process theoretically “can be performed with pen and paper.” SAP Br. 15; Gov’t Br. 17. And SAP argues that the invention is not “technological” merely because it “us[es] a general-purpose computer to make price determinations faster.” SAP Br. 21. But the ’350 patent does not take a process previously performed by humans manually and simply employ a computer’s processing power to do it faster. As the patent explains, the “invention relates to the field of computer-based pricing of products.” Pet. App. 222a, 1:11-12. The Federal Circuit itself recognized that the method in the ’350 patent “used less data than the prior art systems and offered dramatic improvements in performance.” *Versata Software, Inc. v. SAP Am., Inc.*, 717 F.3d 1255, 1258-1259 (Fed. Cir. 2013), cert. de-

nied, 134 S. Ct. 1013 (2014).⁴ An invention that improves an existing technological process—here, pricing software—should be a “technological invention” for purposes of the AIA’s safe harbor. Under a correct construction, the ’350 patent is exempt from CBM review.

II. COURTS REQUIRE GUIDANCE ON EVALUATING COMPUTER-IMPLEMENTED INVENTIONS POST-*ALICE*

A. The Issue Is Important and Recurring

Respondents do not deny the widespread view that uncertainty regarding §101 has precipitated “a crisis of patent law.” *Ariosa Diagnostics, Inc. v. Sequenom, Inc.*, 809 F.3d 1282, 1285 (Fed. Cir. 2015) (Lourie, J., dissenting from denial of rehearing). That crisis has been “particularly” acute for “software” patents. *Id.* at 1284. Respondents are correct that, in *Alice* and *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 132 S. Ct. 1289 (2012), this Court “set forth a two-step framework” for determining patent-eligibility under §101. SAP Br. 22; see Gov’t Br. 20. But, as Justice Breyer acknowledged, the Court merely “sketch[ed] an outer shell.” Arg. Tr. 28, *Alice*, 134 S. Ct. 2347 (2014) (No. 13-298). And lower courts lament that this Court’s decisions “leav[e] the boundaries of §101 undefined.” *Cal. Inst. of Tech. v. Hughes Commc’ns Inc.*, 59 F. Supp. 3d 974, 986 (C.D. Cal. 2014).

As Versata explained (at 27-28), courts have struggled in particular with how to determine whether the elements of a computer-implemented claim “transform the nature of the claim’ into a patent-eligible application” of

⁴ SAP claims that the Federal Circuit’s prior description of the ’350 patent is “irrelevant” because that case did not address invalidity. SAP Br. 21. But the *nature* of the invention does not change from one case to the next.

any underlying abstract idea. *Alice*, 134 S. Ct. at 2355. Nowhere do respondents deny that confusion regarding § 101 is rampant, or that the need for this Court’s guidance is critical.

B. This Case Presents the Issue Squarely

Respondents argue that Versata’s ’350 patent fails under the *Alice/Mayo* test. See SAP Br. 22-27; Gov’t Br. 19-22. But the § 101 issue here turns on questions *Alice* left unresolved—how courts should apply the Court’s suggestion that a claim will be patent-eligible where it “improve[s] an existing technological process,” *Alice*, 134 S. Ct. at 2358, or otherwise “effect[s] an improvement” in a “technical field,” *id.* at 2359.

For example, the Federal Circuit has reached conflicting conclusions regarding the role of the specification in determining whether the claim is a technological improvement. In *Enfish, LLC v. Microsoft Corp.*, — F.3d —, No. 2015-1244 (Fed. Cir. May 12, 2016), it held that a method for utilizing a “self-referential table” in *databases* was “directed to an improvement of an existing technology”; it reached that conclusion based on “the *specification’s* teachings that the claimed invention achieves other benefits over conventional databases, such as * * * *faster search times*, and *smaller memory requirements*.” Slip op. 15 (emphasis added). Versata’s method achieved the same improvements in a similar way. The ’350 patent’s specification explained that, compared to prior art, the method’s use of hierarchies of organizational and pricing groups for *databases* reduced the need for *memory resources*, Pet. App. 223a, 4:4-9, and its “reduction in the number of queries to the database also result[ed] in a *speed advantage*,” *id.* at 227a, 11:62-66 (emphasis added). While *Enfish* considered the “specification’s teachings,” the Federal Circuit here ignored those same technologi-

cal effects because they “are *not recited in the claims.*” *Id.* at 55a (emphasis added).⁵ In any event, the fact that there is room for vigorous debate over this and other questions related to § 101 demonstrates that this case is an appropriate vehicle.⁶

III. THE CASE SHOULD AT LEAST BE HELD PENDING THE COURT’S DISPOSITION OF *CUOZZO*

The final issue is whether the BRI claim-construction standard applies in AIA post-grant proceedings—an issue currently before the Court in *Cuozzo*. See Pet. 32-34. SAP urges that the issue would not affect the outcome here. SAP Br. 28. But the government disagrees: “[B]ecause the court of appeals did not definitively state that the choice between competing interpretive standards was immaterial,” “the petition should be held pending the decision in” *Cuozzo*. Gov’t Br. 25. The government is correct.

CONCLUSION

The petition should be granted. At a minimum, the petition should be held pending this Court’s decision in *Cuozzo* and disposed of as appropriate in light of that decision.

⁵ *Enfish* purported to distinguish this case because the patent here allegedly added “conventional computer components to well-known business practices.” Slip op. 16. But the patents in both cases achieved memory and speed advantages on conventional computers through novel data structures—“self-referential tables” in *Enfish*, and “hierarchical” groups here.

⁶ SAP also cites *Enfish* as proof that § 101’s threat to computer-implemented inventions is “gross[ly] overstate[d].” SAP Br. 25-26. But 5 days after *Enfish*, the Federal Circuit struck down another such invention in *TLI Communications LLC v. AV Automotive, L.L.C.*, — F.3d —, Nos. 2015-1372 *et al.*, (Fed. Cir. May 17, 2016).

Respectfully submitted.

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