

No. -

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IN THE  
**Supreme Court of the United States**

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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.*

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VERSATA DEVELOPMENT GROUP, INC.,  
*Petitioner,*

v.

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

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

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

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**PETITION FOR A WRIT OF CERTIORARI**

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## QUESTIONS PRESENTED

The Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011) (“AIA”), created a new post-grant procedure at the U.S. Patent and Trademark Office to address “the validity of covered business method patents.” *Id.* § 18(a)(1). The AIA defines a “covered business method patent” (“CBM”) as “a patent that claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service.” *Id.* § 18(d)(1). The statute exempts “patents for technological inventions” from CBM review. *Ibid.* The questions presented are:

1. Whether the phrase “covered business method patent”—and “financial product or service”—encompasses any patent claim that is “incidental to” or “complementary to a financial activity and relates to monetary matters.”
2. Whether the Federal Circuit’s standard for identifying patents falling within the “technological inventions” exception departs from statutory text by looking to whether the patent is valid, as opposed to whether it is “technological.”
3. Whether a software-related invention that improves the performance of computer operations is patent-eligible subject matter.
4. Whether, as this Court will decide in *Cuozzo Speed Technologies, LLC v. Lee*, No. 15-446, the Patent Trial and Appeal Board should give claim terms their broadest reasonable construction in post-grant adjudicatory proceedings, or should instead give them their best construction.

**CORPORATE DISCLOSURE STATEMENT**

Pursuant to this Court's Rule 29.6, petitioner Versata Development Group, Inc., states that it is a wholly owned subsidiary of Versata Enterprises, Inc., which in turn is a wholly owned subsidiary of Trilogy, Inc. Petitioner Versata Development Group, Inc. further states that no publicly held company owns 10% or more of its stock.

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Petitioner Versata Development Group, Inc., respectfully petitions for a writ of certiorari to review the judgments of the United States Court of Appeals for the Federal Circuit in these cases.<sup>1</sup>

### **OPINIONS BELOW**

The opinion of the court of appeals in Federal Circuit No. 2014-1194 (Pet. App. 1a-73a) is reported at 793 F.3d 1306. The final written decision of the Patent Trial and Appeal Board in that case (Pet. App. 112a-148a) is unreported. The opinion of the court of appeals in Federal Circuit No. 2014-1145 (Pet. App. 160a-165a) is reported at 793 F.3d 1352. The opinion and order of the district court in that case (Pet. App. 168a-194a) is reported at 959 F. Supp. 2d 912.

### **STATEMENT OF JURISDICTION**

The court of appeals entered judgment on July 9, 2015 (No. 2014-1194) and July 13, 2015 (No. 2014-1145). It denied rehearing and rehearing en banc in both cases on October 15, 2015. Pet. App. 158a-159a (No. 2014-1194), 199a-200a (No. 2014-1145). On January 5, 2016, the Chief Justice extended the time to file a petition for a writ of certiorari to March 11, 2016. This Court has jurisdiction under 28 U.S.C. § 1254(1).

### **STATUTORY PROVISIONS INVOLVED**

Relevant provisions of the Patent Act, 35 U.S.C. § 1 *et seq.*, and the Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011), are set forth in the Appendix. Pet. App. 201a-205a.

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<sup>1</sup> Argued together before a single Federal Circuit panel, the cases present “closely related questions” for which “a single petition for a writ of certiorari” is permissible under this Court’s Rule 12.4. See p. 9, *infra*.

## STATEMENT

### I. STATUTORY FRAMEWORK

Enacted in 2011, the Leahy-Smith America Invents Act (“AIA”), Pub. L. No. 112-29, 125 Stat. 284 (2011), effected “the most sweeping set of changes to the U.S. patent system in almost sixty years.” David S. Abrams & R. Polk Wagner, *Poisoning the Next Apple? The America Invents Act and Individual Inventors*, 65 Stan. L. Rev. 517, 519 (2013). Those changes included the creation of three types of adjudicatory proceedings in the U.S. Patent & Trademark Office (“PTO”): *inter partes* review, post-grant review, and covered business method patent (“CBM”) review. AIA §§6, 18. This case concerns CBM review, a post-grant process that allows the PTO to address “the validity of covered business method patents.” *Id.* § 18(a)(1).<sup>2</sup>

The AIA defines a “covered business method patent” as “a patent that claims a method or corresponding apparatus for performing data processing or other operations *used in the practice, administration, or management of a financial product or service.*” AIA § 18(d)(1) (emphasis added). The statute exempts “patents for technological inventions” from CBM review. *Ibid.* The AIA does not define “technological invention,” delegating that task to the PTO Director. *Id.* § 18(d)(2). PTO regulations define “technological invention” as an invention where “the claimed subject matter as a whole recites a technological feature that is novel and unobvious over the prior art,”

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<sup>2</sup> The CBM program expires “upon the expiration of the 8-year period beginning on the date that the [PTO’s] regulations issued under [§ 18(a)(1)] take effect.” AIA § 18(a)(3)(A). The CBM program will not expire until September 15, 2020, at the earliest. 37 C.F.R. § 42.300.

and “solves a technical problem using a technical solution.” 37 C.F.R. § 42.301(b).

CBM review is conducted as an adversarial proceeding before the Patent Trial and Appeal Board (“PTAB”). See 35 U.S.C. § 326. A party seeking to initiate CBM review may challenge the “claims of a patent on any ground [of invalidity] that could be raised under paragraph (2) or (3) of [35 U.S.C. §] 282(b).” *Id.* § 321(b). The PTO’s “determination \* \* \* whether to institute” CBM review is “final and nonappealable.” *Id.* § 324(e); see AIA § 18(a)(1)(E). However, the PTO’s “final written decision with respect to the patentability of any patent claim,” 35 U.S.C. § 328, is subject to review in the Federal Circuit, *id.* § 329.

## II. VERSATA’S INVENTION AND SAP’S INFRINGEMENT

### A. Versata’s Invention: The ’350 Patent

Petitioner Versata Development Group, Inc., developed software—a “hierarchical pricing engine”—used by sales representatives to provide speedy, accurate, and highly individualized pricing to customers. *Versata Software, Inc. v. SAP Am., Inc.*, 717 F.3d 1255, 1258-1259 (Fed. Cir. 2013) (“*Versata I*”), cert. denied, 134 S. Ct. 1013 (2014). As the Federal Circuit recognized, that pricing engine “used less data than the prior art systems and offered dramatic improvements in performance” over prior pricing software. *Ibid.* Versata obtained protection for that advance in U.S. Patent No. 6,553,350 (“the ’350 patent”).

Versata’s “Pricer” software was a commercial embodiment of the ’350 patent. *Versata I*, 717 F.3d at 1259. The marketplace “praise[d]” Pricer as “very innovative” and a “breakthrough,” a fact “borne out in [Pricer’s] sales.” *Ibid.* Fortune-500 companies like IBM, Lucent, Motorola, and Hewlett-Packard utilized Pricer. *Ibid.*

Sales of Pricer to those and many other large “Tier 1” customers generated an average of \$5 million in revenue and \$3 million in profit for Versata. *Ibid.*

The reason for Pricer’s success was simple. Sales representatives often compete by providing price quotes tailored to each customer. Pricing “is a function of numerous factors,” including “[t]he type of product (*e.g.*, hardware, software, or a particular service), the size of the customer, the type of customer organization (*e.g.*, a wholesaler, distributor, or value added reseller), and the customer’s geographic location,” among “many factors.” Pet. App. 222a, 1:44-49. Providing potential customers with an accurate quote—and doing it quickly—can be critical to winning business.

Before Versata’s inventions, computerized pricing engines relied on databases that contained separate pricing tables that accounted for each customer and product variable affecting price. *Versata I*, 717 F.3d at 1258. Depending on the number of unique customer and product attributes, those tables could require tens of thousands, or even millions, of entries. *Ibid.* Multiple tables would have to be queried. *Ibid.* “Applying these [pricing] factors to a single transaction” thus “required accessing and applying large amounts of data” that was “stored on a mainframe computer.” *Ibid.* This process was “highly inefficient,” and “customers would often wait several days to get an accurate price.” *Ibid.*

The inventions claimed in the ’350 patent allowed sales representatives, using a laptop, to provide customers a price quote, in the field, in a matter of hours. Pet. App. 223a, 3:20-24. Rather than having individualized pricing entries for every customer and product combination that must be stored and queried separately, the invention involves the use of hierarchical data groups. The infor-

mation is organized in the first instance in terms of one hierarchical group concerning the purchasing organizations (“WHO”), and another concerning the products (“WHAT”). *Id.* at 223a, 3:24-28. Each of those groups could be divided into sub-categories (*e.g.*, hardware or software), which could in turn be divided into further sub-categories (*e.g.*, hardware subcategories might be CPUs and memory devices, which themselves could be divided into sub-categories). See *id.* at 225a, 7:54-60. Pricing rules are associated with each purchaser and product characteristic. See *id.* at 232a, 21-10:13; 225a, 8:3-16.

To determine a particular price, a sales representative identifies the customer and the product. Pet. App. 223a, 3:32-49. Previous pricing engines made multiple requests through multiple pricing tables until they located the correct price. But Versata’s pricing engine does it with far “fewer queries.” *Id.* at 227a, 11:63. It conducts a sweep of the applicable pricing categories and returns *all* potentially relevant results; it then disregards all “less restrictive” adjustments until it finds the most “specific” price adjustments for the particular customer and product. *Id.* at 232a, 19:7-53. For example, the pricing engine might request information about Steve and determine that he is a large reseller based in Houston, Texas, seeking to buy a certain number of a certain type of CPU. The pricing engine then sorts the information it receives (*e.g.*, baseline price of the product, sales tax in Houston, discounts for resellers, and discounts for large-volume purchasers); eliminates irrelevant information (perhaps the discount for large-volume purchasers trumps the discount for resellers); and calculates the final price. See *ibid.* Counter-intuitively, that approach—returning an over-



inclusive set of results and then sorting them to apply only the most relevant—sped up the process.

The '350 patent thus solved several problems in computer-based pricing. By using pricing rules that apply to customer or product groups sharing a common characteristic, the method eliminated the need to store separate pricing tables for each customer and product for each variable affecting price. Pet. App. 223a, 3:32-41; 226a 10:40-44. That dramatically reduced the amount of data storage required and the burden of updating and maintaining tables. *Id.* at 227a-228a, 11:55-57, 12:65-13:6. Critically, by drastically reducing the number of queries required, the invention's unique system of returning and sorting over-inclusive results achieved a major "speed advantage" over the prior art. *Id.* at 227a, 11:62-66.

#### **B. SAP Infringes the '350 Patent**

SAP America, Inc. and SAP AG (collectively, "SAP") provide enterprise software to thousands of entities worldwide. *Versata I*, 717 F.3d at 1259. That software runs processes such as accounting, procurement, human-resources, and pricing. *Ibid.* SAP's software originally ran pricing inquiries the traditional, inefficient way—it searched table after table. Sales representatives took days to return results.

In 1998, while Versata's patent application was pending, SAP switched to using Versata's patented approach. And it "bundled the hierarchical pricing capability into its full enterprise software to discourage the use of bolt-on products like Pricer." *Versata I*, 717 F.3d at 1259. The results were devastating. While Versata retained some existing customers, it "made no new sales as SAP's bundled software took hold." *Ibid.*

In 2007, Versata sued SAP for infringement of the '350 patent. *Versata I*, 717 F.3d at 1259. Ultimately, a jury found Versata's '350 patent both valid and infringed. *Id.* at 1259-1260. The jury awarded Versata \$260 million in lost-profits damages and \$85 million in reasonable royalties. *Id.* at 1260. The Federal Circuit "affirm[ed] the jury's infringement decision and concomitant damages awards." *Id.* at 1269.

### III. PROCEEDINGS BELOW

#### A. Covered Business Method Patent Review Proceedings Before the PTAB

While Versata's infringement action against SAP was pending, SAP petitioned the PTAB to institute a CBM review of the '350 patent. Pet. App. 10a. Versata urged that the '350 patent was not a CBM patent—and that it therefore was not subject to CBM review—because it did not claim "a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service," and that it fell within the AIA's exception for "technological inventions," AIA §18(d)(1) (emphasis added). See Pet. App. 92a-94a, 96a-97a.

The PTAB rejected Versata's arguments. It ruled that "covered business method patent" should be "broadly interpreted" to "encompass patents claiming activities that are financial in nature, *incidental to a financial activity* or *complementary to a financial activity*." Pet. App. 92a (emphasis added). So long as a patent "relat[es] to monetary matters," the PTAB determined, it is subject to CBM review. *Id.* at 93a. The PTAB ruled that the '350 patent was subject to CBM review because it "claims methods and products for determining a price \* \* \*, which are complementary to a financial activity and relate to monetary matters." *Ibid.*

The PTAB also rejected Versata’s argument that the ’350 patent falls within the AIA’s exception for “technological inventions.” Pet. App. 94a-98a. Focusing on claim 17, the PTAB ruled that the claim was not “technological” because it did not require “specific, unconventional software, computer equipment, tools or processing capabilities.” *Id.* at 97a. According to the PTAB, the claim did not “solve a technical problem using a technical solution.” *Id.* at 98a. “Organizing data into hierarchies,” the PTAB declared, “is not a technical solution as this is akin to creating organizational management charts.” *Ibid.* Accordingly, the PTAB granted SAP’s petition and initiated CBM review. *Ibid.*

In June 2013, the PTAB issued a final written decision. It resolved critical issues of claim construction against Versata based on application of the “broadest reasonable interpretation” standard, rather than the “plain and ordinary meaning” standard that would apply in district court proceedings. Pet. App. 130a. On the merits, the PTAB concluded that the challenged claims were “abstract ideas” that are not patent-eligible subject matter under §101. *Id.* at 147a. The PTAB denied rehearing. *Id.* at 149a-157a.

#### **B. Versata’s District Court Action**

While the CBM review was underway, Versata sued the PTO in district court under the Administrative Procedure Act (“APA”), urging that the ’350 patent was not subject to CBM review. The district court dismissed the suit for lack of subject matter jurisdiction and failure to state a claim. Pet. App. 166a-167a. That ruling was based, in part, on the view—then urged by the PTO—that Versata could obtain appellate review of the PTAB’s exercise of authority under the CBM provisions once the PTAB issued its final decision. A direct appeal of the

PTAB's final decision, the court ruled, would provide Versata "an alternative adequate remedy" for arguing that its patent was not subject to CBM review at all. *Id.* at 169a-170a.

### C. The Federal Circuit's Decisions

Versata appealed both the PTAB's and the district court's final decisions. The Federal Circuit acknowledged that the cases "involved essentially the same parties, the same patent, and the same basic issues"; it therefore consolidated them for purposes of oral argument. Pet. App. 3a n.1, 20a. The court of appeals affirmed in both cases. *Id.* at 1a-73a; *id.* at 160a-165a.

1. The Federal Circuit first held that it had jurisdiction to address whether Versata's patents encompass "covered business methods" subject to CBM review. Pet. App. 29a. The government had urged that the Federal Circuit lacked jurisdiction because 35 U.S.C. §324(e) provides that "[t]he determination by the Director *whether to institute* a post-grant review \* \* \* shall be final and nonappealable." Pet. App. 14a (emphasis added). The court rejected that argument. The court had jurisdiction, it ruled, because "the final written decision rendered by the PTAB," and not the initial decision to institute review, was before it on appeal. *Id.* at 13a-14a. When reviewing the PTAB's final written decision, the court had jurisdiction to "review issues decided during the PTAB review process, regardless of when they first arose in the process, if they are part of or a predicate to the ultimate merits." *Id.* at 58a. Whether the PTAB had authority to conduct CBM review for the '350 patent—and to issue a final decision invalidating that patent through the CBM process—were thus reviewable on appeal. *Ibid.*

2. The court then turned to whether the '350 patent was a CBM patent. The AIA's definition of "covered business method patent" encompasses only claims for "performing data processing or other operations used in the practice, administration, or management of a financial product or service." AIA §18(d)(1). Versata argued that the phrases "financial product" and "financial service" have established meanings: They encompass loans, investments, insurance, etc. that are typically offered by banks, brokerages, and insurance companies. Pet. App. 33a-34a. They do not, Versata urged, encompass anything related to "monetary matters." Indeed, that would make virtually *any* innovation related to commerce a covered business method. *Ibid.*

The court disagreed. Deferring to and adopting the PTAB's definition, it ruled that §18 encompasses anything "incidental to" or "complementary to a financial activity and relat[ing] to monetary matters." Pet. App. 33a-34a. The court concluded that "the '350 patent and the invention it comprises fall well within" that broad definition. *Id.* at 36a.

The court also rejected Versata's argument that the '350 patent falls within the AIA's exception for "technological inventions." Pet. App. 36a-39a. The Federal Circuit had, in a prior appeal, described the '350 patent as covering a "hierarchical pricing engine" that "use[s] less data than the prior art systems and offer[s] dramatic improvements in performance." *Versata I*, 717 F.3d at 1258-1259. In this appeal, the court characterized the relevant patent claim as "basically a method of determining a price." Pet. App. 38a. Thus, it held, "the invention that comprises the '350 patent is essentially not a technological one as that term ordinarily would be understood." *Id.* at 39a.

3. The court then turned to whether the claims of the '350 patent are “unpatentable as abstract ideas under 35 U.S.C. § 101.” Pet. App. 57a. The court observed that, in *In re Cuozzo Speed Technologies, LLC*, 793 F.3d 1268 (Fed. Cir. 2015), cert. granted *sub nom. Cuozzo Speed Technologies LLC v. Lee*, No. 15-446, it had “approved the USPTO’s use of the [broadest reasonable interpretation standard (“BRI”)] in PTAB claim construction.” Pet. App. 41a. The court then approved the “use of BRI in claim construction” in this CBM case as well. *Ibid.*

Applying the BRI standard, the panel determined that the patent claims at issue were “directed to the abstract idea of determining a price, using organizational and product group hierarchies, in the same way that the claims in *Alice* were directed to the abstract idea of intermediated settlement, and the claims in *Bilski* were directed to the abstract idea of risk hedging.” Pet. App. 52a. The court also concluded that “none of the claims have sufficient additional limitations to transform the nature of any claim into a patent-eligible application of an abstract idea.” *Ibid.*

The court did not deny that it had previously described the '350 patent as a “hierarchical pricing engine” that “use[s] less data than the prior art systems and offer[s] dramatic improvements in performance.” *Versata I*, 717 F.3d at 1258-1259. But the court concluded that, for purposes of § 101 analysis, “the claims at issue do not improve some existing technological process or solve some technological problem in conventional industry practice.” Pet. App. 54a. Acknowledging that its decision was “hardly a clear guidepost for future cases arising under § 101,” the court affirmed the PTAB’s decision finding the claims of the '350 patent invalid under § 101. *Id.* at 57a.

4. In a separate opinion, Pet. App. 160a-165a, the Federal Circuit affirmed the dismissal of Versata’s APA suit. The plain terms of 35 U.S.C. § 324(e), the court reasoned, precluded judicial review of the decision to institute a CBM review. Pet. App. 163a-164a. The court emphasized that allowing judicial review of the PTAB’s final written decision—including the PTAB’s authority to subject the ’350 patent to CBM review at all—struck the appropriate balance between Congress’s “desire for a prompt and efficient review process” and “the traditional role of judicial review of agency action.” *Id.* at 164a.<sup>3</sup>

5. Versata petitioned for rehearing and rehearing en banc in both cases. The Federal Circuit denied both petitions on October 15, 2015. Pet. App. 158a-159a (No. 2014-1194), 199a-200a (No. 2014-1145).

#### **REASONS FOR GRANTING THE PETITION**

This case presents important and recurring issues regarding the scope of the PTO’s authority to subject patents to CBM review under the Leahy-Smith America Invents Act (“AIA”) § 18, Pub. L. No. 112-29, 125 Stat. 329 (2011). Since CBM review was initiated in 2012, it has had dramatic effects. When invoked, CBM review typically derails pending infringement suits in district court (where invalidity challenges are subject to a “clear and convincing” standard). Instead, proceedings shift to the agency (where a lesser preponderance standard governs).

Given those consequences, Congress carefully circumscribed the availability of CBM review. The statute defines “covered business method patent” as a patent that

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<sup>3</sup> Versata includes the APA case in this petition along with the direct challenge to PTAB’s final decision solely to forestall any argument that it should have proceeded under the APA instead.

claims “a method or corresponding apparatus for performing data processing or other operations used in the *practice, administration, or management of a financial product or service.*” AIA §18(d)(1) (emphasis added). The phrase “financial product or service” has a common, everyday meaning. It refers to products and services associated with investments and finance, such as banking, insurance, stocks, and bonds. See 12 U.S.C. §§1843(k)(5), 5481(15). Indeed, that is precisely how Congress defined these phrases in the Dodd-Frank Act, and how other agencies have understood it.

By contrast, the Federal Circuit held that language sweeps in any claim that is “incidental” or “complementary” to “*monetary matters,*” Pet. App. 33a-35a (emphasis added)—essentially, anything used in *commerce*. The court then compounded the issue by interpreting the statutory exception to CBM review for “technological inventions” narrowly, such that practically no software-based patent would be exempt. See *id.* at 36a-39a. The decision thus obliterates the carefully constructed boundaries on PTO authority Congress expressly built into the statute.

The results have been predictable. Time and again, the PTAB has subjected patents with absolutely no relationship to any “financial product or service” to CBM review. And it has done so even where the patent, by any reasonable measure, is directed to a “technological invention.” Precisely that happened here. The Federal Circuit held that Versata’s ’350 patent was for a “financial product or service” simply because it is used in commerce—because merchants can use it to quote product prices to customers. And it denied that the ’350 patent was a “technological invention” exempt from CBM review, despite the fact that it had previously found that



the claimed “hierarchical pricing engine” 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, 1258-59 (Fed. Cir. 2013) (“*Versata I*”), cert. denied, 134 S. Ct. 1013 (2014). This Court’s review is warranted.

The court’s ruling under 35 U.S.C. § 101 warrants review as well. In *Alice Corp. Pty. Ltd. v. CLS Bank Int’l*, 134 S. Ct. 2347 (2014), this Court suggested that a patent claim will be patent-eligible if, notwithstanding its invocation of an otherwise abstract idea, it “improve[s] an existing technological process.” *Id.* at 2358. Courts (and the PTO) have struggled with how to apply that standard to software-based inventions, particularly inventions that utilize existing hardware. As a result, many software-based advances that improve the performance of general-purpose hardware—no less than a new processor might improve performance—have been struck down as mere “abstract ideas.” Review is warranted.

#### **I. THE PROPER SCOPE OF COVERED BUSINESS METHOD PATENT REVIEW IS AN IMPORTANT AND RECURRING ISSUE**

As the government explained below, CBM review “procedures are popular, and appeals from such proceedings constitute a growing portion of the [Federal Circuit’s] docket.” PTO Reh’g Pet. in No. 2014-1194, *Versata Dev. Grp., Inc. v. SAP Am., Inc.*, at 5 (Fed. Cir. Aug. 2015). Indeed, since CBM review became available in 2012, over 400 CBM petitions have been filed, with the number steadily increasing each year. PTO, *Patent Trial and Appeal Board Statistics 2*, 7 (Jan. 31, 2016). Those procedures can profoundly shift authority—from district courts to the PTO—and outcomes as well. And the results of CBM review have been dramatic. Of the 88

patents that have been through CBM review, the PTAB invalidated 85. *Id.* at 10.

**A. The Federal Circuit’s Construction of “Covered Business Method Patent” Eviscerates Critical Limits on the Scope of CBM Review**

1. The AIA limits CBM review to claims “performing data processing or other operations used in the practice, administration, or management of a *financial product or service*.” AIA § 18(d)(1) (emphasis added). The phrases “financial product” and “financial service” have a specific meaning: They refer to products or services such as loans, investments, insurance, etc., typically offered by banks, brokerages, and insurance companies.

That understanding comports with industry understanding and common usage alike. The Dodd-Frank Act defines the very same phrase—“financial product or service”—to mean things like “extending credit and servicing loans,” “extending or brokering leases of personal or real property,” “providing real estate settlement services,” and “providing financial advisory services.” 12 U.S.C. § 5481(15). And the FTC defines “financial product or service” as “any product or service that a financial holding company could offer by engaging in a financial activity.” 16 C.F.R. § 313.3(l)(1). “Financial activity” in turn is defined as including “[l]ending, exchanging, transferring, investing for others, or safeguarding money and securities,” “[i]nsuring, guaranteeing, or indemnifying against loss,” and “advising an investment company,” 12 U.S.C. § 1843(k)(4)(A)-(C). Common sense confirms that understanding. A Google search for “financial products” or “financial services” returns results for companies offering insurance, investment vehicles, mortgages, and bank accounts. None of those understandings equates

“financial product or service” with *anything* used in commercial transactions (*e.g.*, cash registers, databases).

The phrase “financial products and services” is a term of art that sweeps in a range of services and products having to do with *finance*—obtaining or extending credit, investing money, insuring against risk. It does not encompass all commerce: No one would say the local grocer offers a financial product or service simply because he trades tomatoes for dollars. And that distinction makes perfect sense contextually. Congress adopted the CBM procedure in the wake of this Court’s decision in *Bilksi v. Kappos*, 130 S. Ct. 3218 (2010), which held that a patent utilized for risk hedging—a paradigmatic financial service—was not patent-eligible under 35 U.S.C. § 101.

In the decision below, however, the Federal Circuit deferred to the PTAB’s theory that “[t]he term financial is an adjective” modifying “products or services.” Pet. App. 33a. As a result, the court concluded, it “simply means *relating to monetary matters*.” *Ibid.* (emphasis added). But the logic is flawed. In the phrase “financial institution,” “financial” is an adjective modifying “institution.” But that does not mean “financial institution” is any “institution” with a relationship to money (*e.g.*, any company that sells goods for money). Rather, the words “financial institution” denote an entity that conducts *finance* (*e.g.*, banks, brokerages, insurance companies). If Congress had intended CBM review to encompass anything “relating to monetary matters,” it would have used the phrase “*commercial* products or services.” But it limited review to “financial products and services” instead.

The Federal Circuit, moreover, ignored the express requirement that the claim be “used [to] *practice, administer, or manage*[ ]” a financial product or service. AIA

§ 18(d)(1) (emphasis added). That means claims used to practice, administer, or manage issues of finance—making loans, investments, etc. But the Federal Circuit adopted the PTAB’s definition, which requires only that the patent claim be “‘*incidental* to a financial activity or *complementary* to a financial activity.’” Pet. App. 34a (emphasis added). Patents for cash registers and vaults, for example, are not used to “practice, administ[er], or manage[ ]” a “financial product or service”; they are used to conduct commerce. Yet they would be “covered business method patents” under the Federal Circuit’s definition because they are “incidental” or “complementary” to “monetary matters.” *Id.* at 33a-34a.

This case illustrates the flaws in that approach. The Federal Circuit held that, because the ’350 patent “claims methods \* \* \* for determining a price,” it is “complementary to a financial activity and relate[s] to monetary matters,” and therefore is a CBM. Pet. App. 33a. To be sure, Versata’s pricing engine “relates to monetary matters”—it is a valuable tool for conducting *commercial* transactions. But it is not a “*financial* product or service” like insurance, investment, or banking. Nor is it “used [to] practice, administ[er], or manage[ ]” such financial products or services.

2. The absurdly broad definition of “covered business method patent” adopted in this case has led to absurd results. “[H]aving succeeded, by benefit of excessive judicial deference, in expanding the scope of a statute beyond a reasonable interpretation of its language, the emboldened agency” has repeatedly “press[ed] the rationale of that expansion to the limits of its logic.” *NLRB v. Int’l Bhd. of Elec. Workers, Local 340*, 481 U.S. 573, 597 (1987) (Scalia, J., concurring). This is not a case

with a hypothetical parade of horrors. The parade has arrived—in concrete outcomes that defy statutory text.

For example, in *Google Inc. v. Unwired Planet, LLC*, CBM2014-00005, 2014 WL 1396977 (P.T.A.B. Apr. 8, 2014), the patent concerned a method of providing locations (“subscriber delivered, location-based services”). In the PTAB’s words, the patent involved receiving information over wireless networks and “processing the location information to provide an output desired for a particular application.” *Id.* at \*2. The PTAB explained that the patent provided “exemplary requests for [location-based] services,” and *one* of the examples listed was a request to find “the nearest ATM.” *Id.* at \*1, 6. The PTAB found that, because “[a]n ATM allows clients of a financial institution to perform financial transactions electronically,” an invention for finding the nearest ATM was a “financial product or service” within the CBM definition. *Id.* at \*6. Thus, the PTAB concluded that because the invention helps one *find the physical location* of something—and one such thing could be a device that arguably provides a “financial service”—the patent is a “covered business method patent.” *Ibid.*

Similarly, in *CRS Advanced Technologies, Inc. v. Patent of Frontline Technologies*, CBM2012-00005, 2013 WL 6665059 (P.T.A.B. Jan. 23, 2013), the patent concerned a system and method that automatically identifies workers who will be absent from an organization and secures a substitute replacement. *Id.* at \*2. The PTAB found that the patent was a CBM because the claims were “broad enough to include substitute [employee] fulfillment for retail banks (or any other financial institution). Retail banks are involved in financial activity. \* \* \* Thus, substitute fulfillment is an activity that is at least ‘incidental’ and/or ‘complementary to a financial activity’ and quali-

fies” as a CBM. *Id.* at \*5. By that logic, a patent for a method that detects when ink in a printer is low and signals that a replacement cartridge is required would be a CBM, because banks use printers.

Those are only a few of many extreme examples that have followed in the wake of the decision in this case. See, *e.g.*, *PNC Bank, N.A., v. Secure Access, LLC*, CBM2014-00100, 2015 WL 5316490 (P.T.A.B. Sept. 8, 2015) (patent for method of authenticating websites was a CBM because it could be used to authenticate the website of a financial institution); *Google Inc. v. Better Food Choices LLC*, CBM2015-00071, 2015 WL 5016579 (P.T.A.B. Aug. 20, 2015) (patent for method of providing customized nutrition information was a CBM because it was incidental to the purchase of food); *Epicor Software Corp., v. Protegrity Corp.*, CBM2015-00006, 2015 WL 9898994 (P.T.A.B. June 30, 2015) (patent for method and apparatus that improves database security was a CBM because data security is important in banking, and banking is a financial activity); *Google Inc. v. Unwired Planet, LLC*, CBM2014-00006, 2014 WL 1396978 (P.T.A.B. Apr. 8, 2014) (patent for determining whether a wireless communications device is in the area of a particular hotel, restaurant, or store was a CBM because it could locate businesses).

None of this is to suggest that the patents discussed above are necessarily valid. They may well be obvious, anticipated, or cover non-eligible subject matter. The fact remains, however, that Congress expressly limited CBM review to patents used in the administration of “financial products or services.” The PTO has arrogated to itself far broader authority. As these examples show, the PTAB need only connect the dots between a patent and some aspect of commercial activity to convert nearly any

invention into a CBM. Far from confining the PTO to the limits of its statutory mandate, the Federal Circuit has blessed that result. Review is warranted.

**B. The Federal Circuit’s Definition of the “Technological Invention” Safe Harbor Also Warrants Review**

Congress did not merely limit CBM review to claims “used” to “practice, administ[er], or manage[.]” a “financial product or service.” AIA § 18(d)(1). It also excluded from CBM review all “technological inventions.” *Id.* § 18(d)(2). The Federal Circuit, however, construes § 18’s safe harbor for “technological inventions” so narrowly as to deny it any practical effect.

1. Purporting to define “technological invention,” the PTO’s regulations state that an invention is “technological” where “the claimed subject matter as a whole recites a technological feature that is novel and unobvious over the prior art,” and “solves a technical problem using a technical solution.” 37 C.F.R. § 42.301(b). The definition is circular: It says that “technological inventions” encompasses inventions that are technological. The Federal Circuit acknowledged that definition does not “offer anything very useful.” Pet. App. 37a.

“[C]raft[ing] its own understanding,” the PTAB has declared—and the Federal Circuit has agreed—that the standard would *not* be met by: “1) mere recitation of *known* technologies; 2) reciting the use of *known prior art* technology; and 3) combining prior art structures to *achieve the normal, expected, or predictable result* of that combination.” Pet. App. 37a-38a (emphasis added) (quotation marks omitted). That makes no sense. It defines “technological invention” in terms of whether the PTAB thinks an invention is *patentable*—not whether it is *technological*. A patent that “recit[es] known technologies” is

obviously technological; it just may be unpatentable because the purported advance was already known. For example, an inventor who claims to have invented the computer may not be entitled to a patent—computers already exist. But the claimed invention is clearly technological. The Federal Circuit’s contrary decision, moreover, makes the PTAB’s jurisdiction turn on whether it likes or dislikes the patent. Under it, the PTAB has jurisdiction under the CBM provision—*i.e.*, the patent claim is not “technological”—so long as the PTAB is inclined to invalidate the patent. Nothing indicates Congress intended that bizarre result.

Again, this case proves the point. Focusing on claim 17 of the ’350 patent, the PTAB held it was not technological because it “could be achieved ‘in any type of computer system,’” and “‘no specific, unconventional software, computer equipment, tools or processing capabilities are required.’” Pet. App. 38a-39a. The Federal Circuit agreed. See *id.* at 38a. But the fact that a patented method can be performed using a general-purpose computer hardly proves it is *not* technological. And few would deny that software is “technological,” even if it is “conventional” (whatever that means in this context). The Federal Circuit’s analysis thus excludes a wide swath of technological inventions from § 18’s safe harbor, leaving the PTO free to address them despite § 18’s restrictions on its authority.

2. Once again, a genuine parade of horrors has followed. For example, the *Unwired Planet* case, discussed above (at 18), concerned an invention that uses wireless networks to identify nearby services. One would think such an invention would meet the exception for “technological inventions.” But the PTAB disagreed. Because the PTAB was “unpersuaded that such a function is novel



or unobvious,” *i.e.*, not patentable, the PTAB concluded it was not “technological.” 2014 WL 1396977, at \*7.

Similarly, in *Tradestation Group Inc. v. Trading Technologies Int’l Inc.*, CBM2015-00161 (P.T.A.B. Jan. 27, 2016), the claims covered “a graphic user interface (‘GUI’) that dynamically displays the market depth of a commodity traded in a market and allows a trader to place an order efficiently.” *Id.* at 3. The relation to a financial service was apparent—the display is used to trade commodities. But it is far from clear how the PTAB could conclude that the claimed display—essentially, a monitor interface customized for e-trading—was not a “technological invention.” Yet the PTAB concluded just that. It decided that, because the patent “recite[d] steps of displaying an order entry region for receiving commands” relating to e-trading, it did not “solve a technical problem using a technical solution.” *Id.* at 18. In considering *the same patent*, however, Judge Coleman of the Northern District of Illinois reached the opposite conclusion: “[T]he claims are directed to a technological improvement” and “recite an inventive concept.” Dkt. No. 1073, *Trading Techs. Int’l, Inc., v. CQG, Inc.*, No. 05-cv-4811, at 9 (N.D. Ill. Feb. 24, 2015). The PTO thus has converted the “technological invention” exception from a safe harbor—a means of distinguishing business methods from technology—into a license for assuming jurisdiction over any claim it thinks unworthy. That, however, is not the statute Congress enacted.

### C. The Issue Is Important

Courts must “tak[e] seriously, and apply[] rigorously, in all cases, statutory limits on agencies’ authority. Where Congress has established a clear line, the agency cannot go beyond it \* \* \*.” *City of Arlington v. FCC*, 133

S. Ct. 1863, 1874 (2013). Congress could have subjected all patents touching upon “monetary matters” to CBM review. It could have extended CBM review to all “business method patents.” It did not. It limited review to “covered business method patents,” a category limited to claims “used in the practice, administration, or management of a *financial product or service*.” AIA §18(d)(1) (emphasis added). And it excluded “technological inventions.” *Ibid.* Those limitations on the PTAB’s authority must be respected.

Indeed, those limits are critical. Congress has afforded a variety of procedures for challenging patents at the PTO, including *inter partes* review, post-grant review, and CBM review. But those procedures are circumscribed in important ways. For example, a petition for *inter partes* review must be filed within 9 months after the patent is granted, 35 U.S.C. §311(c)(1); can assert challenges only “under section 102 or 103,” *id.* §311(b); and can rely only on “prior art consisting of patents or printed publications,” *ibid.* Similarly, post-grant review must be initiated within 9 months of a patent’s issuance, *id.* §321(c), and has a limited scope as well, see *id.* §321(b).

CBM review has its own limits. Unlike *inter partes* and post-grant review, CBM review is not subject to a 9-month limit. Challenges to “covered business method patents” can be asserted at *any* time, so long as litigation is reasonably threatened. AIA §18(a)(1)(A). But CBM review is limited in other respects: It extends *only* to claims used in “administration” of a “financial product or service.” *Id.* §18(d)(1). The Federal Circuit’s expansive view of that phrase—to encompass anything where money might be implicated—thus plays havoc with the AIA’s carefully structured scheme. By rendering a broad

swath of patents subject to CBM review, it makes the careful limitations Congress placed upon *inter partes* and post-grant review all but meaningless.

The expansion of CBM review also distorts the balance of authority between the PTO and the district courts. Accused infringers can challenge the patent's validity as a defense in district court. 35 U.S.C. § 282. Declaratory judgment actions are available as well. Congress provided CBM review as another alternative, but only for a limited category of patents. Under the Federal Circuit's expansive standard, however, accused infringers can shift virtually any suit from court to the agency. Recent studies show that, when the accused infringer seeks CBM review, the district court will stay the litigation pending the PTAB's decision nearly 90% of the time. See Jonathan Stroud, *Staying Litigation for Covered Business Method Post-Grant Reviews*, 17 Colum. Sci. & Tech. L. Rev. 120, 135 (2015).

Shifting adjudicatory responsibility from the courts to the agency has profound practical impacts. In CBM review, the challenging party need only prove invalidity by a preponderance of the evidence. See AIA § 18(a)(1)(A); 35 U.S.C. § 326(e). In district court, by contrast, the defendant must prove invalidity "by clear and convincing evidence." *Microsoft Corp. v. i4i Ltd. P'ship*, 131 S. Ct. 2238, 2242 (2011); 35 U.S.C. § 282. At some point, patentees should be entitled to rely on a presumption that their long-ago issued patents are valid. Yet CBM review allows defendants to evade stringent district-court standards and seek invalidation at any time under a mere "preponderance" standard.

## II. COURTS REQUIRE GUIDANCE ON HOW TO EVALUATE COMPUTER-IMPLEMENTED INVENTIONS IN THE WAKE OF *ALICE*

This Court granted review in *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 134 S. Ct. 2347 (2014), to address a question of critical importance in today’s digital era: “Whether claims to computer-implemented inventions \* \* \* are directed to patent-eligible subject matter within the meaning of 35 U.S.C. § 101” (rather than being categorically excluded as abstract ideas). Pet. i, *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, No. 13-298 (filed Sept. 4, 2013). While this Court indicated that such claims *can* be patent-eligible under § 101, the fact is that lower courts (and the PTO) remain hopelessly confused about how to evaluate them. Since *Alice*, few software-related patents have survived § 101 challenges. Software is one of the main drivers of technological innovation in our economy today. It is critical that this Court provide additional guidance.

### A. *Alice* Indicates that Technological Improvements—Including Software—Should Be Patent-Eligible

Although § 101 of the Patent Act broadly defines patentable subject matter, it implicitly precludes efforts to patent “[l]aws of nature, natural phenomena, and abstract ideas.” *Alice*, 134 S. Ct. at 2354. In *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 132 S. Ct. 1289 (2012), this Court announced a two-step inquiry for deciding whether a patent claims an unpatentable natural phenomenon or abstract idea. At step one, a court must decide whether the claim at issue is directed to a patent-ineligible concept in the first instance. *Id.* at 1296-1297. If the answer is “yes,” the court then must consider the elements of the claim, both individually and

“as an ordered combination,” to determine whether the additional elements “transform the nature of the claim” into a patent-eligible application of any underlying concept. *Id.* at 1297-1298.

In *Alice*, the Court held that the same test applies when determining whether a computer-implemented invention is patent-eligible. See 134 S. Ct. at 2355. The specific question before the Court was whether a purportedly “computer-implemented scheme for mitigating ‘settlement risk’” was patent-eligible. *Id.* at 2352-2353. At step one, the Court found that the claim was “drawn to the concept of intermediated settlement.” *Id.* at 2356. That business method, the Court held, is an abstract idea, much like the claimed method of hedging found abstract in *Bilski v. Kappos*, 130 S. Ct. 3218 (2010). *Alice*, 134 S. Ct. at 2356.

At step two, the Court noted that the claims were “implemented using a computer.” *Alice*, 134 S. Ct. at 2353. Taken as a whole, however, the claims did nothing more than “instruct the practitioner to implement the abstract idea of intermediated settlement on a generic computer,” using “[p]urely conventional” computer functions. *Id.* at 2358-2359. They “add[ed] nothing of substance to the underlying abstract idea.” *Id.* at 2360. The case thus was an easy one: A claim that identifies an abstract idea, like intermediated settlement, and only the instruction to “apply it with a computer,” does not convert that abstract idea into patent-eligible subject matter. *Id.* at 2358 (quotation marks omitted).

The Court did, however, distinguish the claims before it from patents that achieve a *technological advance*. The Court suggested that the abstract-ideas exception does not apply if the invention “improve[s] an existing technological process,” “improve[s] the functioning of the

computer itself,” or otherwise “effect[s] an improvement in any other technology or technical field.” 134 S. Ct. at 2358-2359. While the Court did not hold that an invention *must* represent a technological advance in an existing industry or process to be patent-eligible under § 101, *Alice*’s reasoning suggests that a claim that *does* represent such an advance is patent-eligible.

### **B. Courts Have Struggled in Applying § 101 to Computer-Implemented Inventions Post-*Alice***

Perhaps because *Alice* did not involve a true computer-implemented invention, there is a widespread view in the lower courts that “*Alice* did not answer the bigger questions, only incrementally clarifying § 101.” *Cal. Inst. of Tech. v. Hughes Commc’ns Inc.*, 59 F. Supp. 3d 974, 984 (C.D. Cal. 2014). The courts thus remain hopelessly confused as to “when, if ever, do computer patents survive § 101?” *Ibid.*

1. Courts have struggled to develop “a definition of an ‘abstract idea’ that is not itself abstract.” Pet. App. 48a. Courts are struggling further still when attempting to determine whether the elements of a computer-implemented claim add enough to “‘transform the nature of the claim’ into a patent-eligible application” of any underlying abstract idea. *Alice*, 134 S. Ct. at 2355. The Federal Circuit has acknowledged as much, conceding that it finds “[d]istinguishing between claims that recite a patent-eligible invention and claims that add too little to a patent-ineligible abstract concept” to be “difficult.” *DDR Holdings, LLC v. Hotels.com, L.P.*, 773 F.3d 1245, 1255-1256 (Fed. Cir. 2014).

This case is emblematic of the confusion that now pervades lower-court decisions. In a prior appeal, the Federal Circuit explained that the ’350 patent was an invention in the field of “computerized pricing engines.” *Ver-*

*sata I*, 717 F.3d at 1258. The court described the patent as covering a “hierarchical pricing engine,” and explained that it “used less data than the prior art systems and offered dramatic improvements in performance” over prior pricing software. *Id.* at 1258-1259. The invention sped up the searching process and the identification of prices no less than, for example, a faster processor or memory chip might. It just did that by improving the process rather than the hardware. For that reason, the commercial embodiment of the patent, Versata’s “Pricer” software, had “received praise as a ‘breakthrough’ that was ‘very innovative.’” *Id.* at 1259.

In the decision below, however, the Federal Circuit invalidated the patent. “[T]he function performed by the computer at each step,” it declared, is “purely conventional” because the steps involved “storing, retrieving, sorting, eliminating and receiving” data. Pet. App. 53a. And it rejected Versata’s argument that the invention represented a technological advance that dramatically improved computer performance because “these supposed benefits are not recited in the claims at issue.” *Id.* at 55a.

That analysis is deeply flawed. The purpose of patent claims is to define the “scope of a patent holder’s monopoly right.” *Teva Pharm. USA, Inc. v. Sandoz, Inc.*, 135 S. Ct. 831, 847 (2015). There has never been a requirement that a patentee extoll the *benefits* of the invention in the claim itself. The Federal Circuit offered no reason why Versata should have been expected to do so here. The ’350 patent *did* describe some of the technological improvements it provided—including the reduced need for memory resources, Pet. App. 223a, 4:4-9, and how the “reduction in the number of queries to the database also results in a speed advantage,” *id.* at 227a, 11:62-

66. It did so in the patent’s *specification*, which is where advances over the prior art are typically discussed.

The Federal Circuit dismissed the significance of many elements of the ’350 patent’s claims as “inherent in the abstract idea of determining a price using organization and product group hierarchies.” Pet. App. 53a. But that ignores that a hierarchical system had never been used in the way recited in the ’350 patent to “use[] less data” and “offer[] dramatic improvements in performance” in the field of computer-based pricing. *Versata I*, 717 F.3d at 1258-1259. The Federal Circuit nowhere explained why a new computer chip that increases a computer’s speed and performance should be patent-eligible, but a new software method that achieves similar advances when performing a specific task—with no need to replace hardware—should not be.

2. Those same issues have plagued the federal courts. For example, some courts have focused on *Alice*’s statement that “wholly generic computer implementation is not generally” sufficient to transform an “abstract idea” into a “patent-eligible application” of that idea. 134 S. Ct. at 2357-2358. They have construed that language to mean that, in their § 101 analysis, they are required to ignore the presence of all claim limitations reciting general-purpose computing elements, regardless of context, and without consideration of how the patent utilizes those elements. See, e.g., *Thales Visionix, Inc. v. United States*, 122 Fed. Cl. 245, 255-256 (2015) (ignoring significance of motion-sensing devices in claim for advanced system of motion tracking because sensors were pre-existing, “generic” hardware); *McRO, Inc. v. Naughty Dog, Inc.*, 49 F. Supp. 3d 669, 681 (C.D. Cal. 2014) (ignoring all elements found in prior art when evaluating claim



for automated lip synchronization of computer-generated animated characters).

As other courts have noted, that mode of analysis has devastating consequences for software-related patents. Software improvements *themselves* “will almost inevitably be an algorithm or concept which, when viewed in isolation, will seem abstract.” *Caltech*, 59 F. Supp. 3d at 990. It is thus “difficult to imagine any software patent that survives” under an approach to §101 that divorces the software innovation in a patent claim from how it interacts with, and the functionality it confers upon, the general-purpose hardware on which it runs. *Ibid.*

3. Nothing in *Alice* suggests the Court intended that software-based patents should inevitably fail under §101. The lesson of *Alice* is that, if the claimed invention is an unpatentable abstract idea, it does not become patentable merely because the claims also require the use of ordinary computer functionality (storing, processing, etc.). “Simply appending conventional steps, specified at a high level of generality” to a method already “well known in the art” is not “enough” to supply the “inventive concept” necessary to transform an abstract idea into a “patent-eligible application” of that idea. *Alice*, 134 S. Ct. at 2357 (quotation marks omitted). But that does not mean that otherwise novel and patentable methods—counter-intuitive methods that yield tangible results—are unpatentable whenever they use a computer. Software claims are patentable not because they use a computer, but notwithstanding that use.

This Court has suggested that a software-based claim should be patent-eligible if it “improve[s] an existing technological process,” *Alice*, 134 S. Ct. at 2358, or “effect[s] an improvement in” a “technical field,” *id.* at 2359. Technological inventions “have historically been eligible

to receive the protection of our patent laws.” *Diamond v. Diehr*, 450 U.S. 175, 184 (1981). This Court’s intervention is required to ensure that software-based technological advances receive that protection.

### C. The Issue Is Important and Recurring

The proper standard for assessing the patent-eligibility of computer-implemented inventions is critically important. From the perspective of companies that hold patents to software-based inventions, the issue has reached crisis status. Since *Alice*, the Federal Circuit has upheld a patent to a computer-implemented invention against a § 101 challenge only *once*—in *DDR Holdings*, 773 F.3d 1245. The other 12 times it has confronted the issue (including in the decision below), it held the patent claims invalid. See *Mortg. Grader, Inc. v. First Choice Loan Servs. Inc.*, 811 F.3d 1314 (Fed. Cir. 2016); *Vehicle Intelligence & Safety LLC v. Mercedes-Benz USA, LLC*, — F. App’x —, 2015 WL 9461707 (Fed. Cir. 2015) (per curiam); *Intellectual Ventures I LLC v. Capital One Bank (USA)*, 792 F.3d 1363 (Fed. Cir. 2015); *Internet Patents Corp. v. Active Network, Inc.*, 790 F.3d 1343 (Fed. Cir. 2015); *OIP Techs., Inc. v. Amazon.com, Inc.*, 788 F.3d 1359 (Fed. Cir. 2015); *Allvoice Devs. US, LLC v. Microsoft Corp.*, 612 F. App’x 1009 (Fed. Cir. 2015); *Content Extraction & Transmission LLC v. Wells Fargo Bank, Nat’l Ass’n*, 776 F.3d 1343 (Fed. Cir. 2014); *Ultramercial, Inc. v. Hulu, LLC*, 772 F.3d 709 (Fed. Cir. 2014), cert. denied, 135 S. Ct. 2907 (2015); *buySAFE, Inc. v. Google, Inc.*, 765 F.3d 1350 (Fed. Cir. 2014); *Planet Bingo, LLC v. VKGS LLC*, 576 F. App’x 1005 (Fed. Cir. 2014); *Digitech Image Techs., LLC v. Elecs. for Imaging, Inc.*, 758 F.3d 1344 (Fed. Cir. 2014).

The situation is little different in the district court. Since *Alice*, district courts have invalidated 69.2% of pat-

ents (128 in total) challenged under §101. Robert R. Sachs, *#AliceStorm: When It Rains, It Pours . . .* (Jan. 22, 2016) (“*When It Rains*”), <http://www.bilskiblog.com/blog/2016/01/alicestorm-when-it-rains-it-pours.html>. Likewise, few software-related patents survive PTO review. In the two years since *Alice*, the PTAB has yet to issue a single final decision upholding a patent under §101 in CBM proceedings. See *ibid.* And between 2012 and 2015, rejection rates at the PTO for many types of e-commerce patents doubled. See Robert R. Sachs, *The One Year Anniversary: The Aftermath of #AliceStorm* (June 20, 2015), <http://www.bilskiblog.com/blog/2015/06/the-one-year-anniversary-the-aftermath-of-alicestorm.html>.

That crisis affects a critical component of the U.S. economy. The U.S. software industry was worth \$425 billion in 2012, and over the eight years prior, was responsible for 15.4% of total productivity gains by American workers. SIIA, *The U.S. Software Industry: An Engine for Economic Growth and Employment 2* (2014), <https://www.siiia.net/Adin/FileManagement.aspx/LinkClick.aspx?fileticket=yLPW0SrBfk4%3D&portalid=0>. “[B]oth economic theory and practical experience suggest that the availability of patents for software promotes innovation by supplying (additional) incentives to inventors.” Julie E. Cohen & Mark. A. Lemley, *Patent Scope & Innovation in the Software Industry*, 89 Cal. L. Rev. 1, 5 (2001). The current uncertainty regarding the viability of such patents threatens that essential incentive for technological innovation.

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

At a minimum, this case 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). That case presents whether, “in IPR proceedings, the [PTAB] may construe claims in an issued patent according to their broadest reasonable interpretation rather than their plain and ordinary meaning.” Pet. ii, *Cuozzo Speed Technologies, LLC v. Lee*, No. 15-446 (filed Oct. 6, 2015). In this case, the Federal Circuit relied on *Cuozzo* in holding that the “broadest reasonable interpretation” (“BRI”) standard applied to this CBM review. Pet. App. 39a, 41a.

For example, a critical claim construction issue before the PTAB concerned the term “pricing information,” and whether, in claim 17, the term should be construed to require “denormalized numbers.” Pet. App. 39a-40a. Denormalized numbers are numbers that may assume different meaning and units, determined by the software during runtime and depending on the pricing operation being performed. *Id.* at 40a n.17. Versata and SAP initially agreed that the term “pricing information” required the use of denormalized numbers. *Id.* at 40a. The PTAB, however, ruled that under BRI, the term “pricing information” did not require denormalized numbers. *Ibid.* That claim-construction ruling eliminated Versata’s argument that the use of denormalized numbers demonstrated that the claim was for a “technological invention,” and thus not subject to CBM review. See *id.* at 37a-38a. Thus, while the Federal Circuit stated that the PTAB’s preferred construction “likely” did not affect the case’s outcome, *id.* at 42a, it studiously avoided saying it would *not*—and with reason: The CBM analysis may well have changed if the Federal Circuit had not applied BRI and had instead accepted the parties’ interpretation under the “one correct construction” standard.

Accordingly, the Court should at least hold this petition pending its decision in *Cuozzo*.

**CONCLUSION**

The petition for a writ of certiorari should be granted. At a minimum, the petition should be held pending this Court's decision in *Cuozzo Speed Technologies, LLC v. Lee*, No. 15-446, and disposed of as appropriate in light of the Court's decision in that case.

Respectfully submitted.

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