

No. 13-716

---

**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*

---

**REPLY BRIEF OF PETITIONER**

---

JAMES R. BATCHELDER  
LAUREN N. ROBINSON  
ROPES & GRAY LLP  
1900 University Avenue  
Palo Alto, CA 94303

JOHN W. THORNBURGH  
JUSTIN M. BARNES  
FISH & RICHARDSON, P.C.  
12390 El Camino Real  
San Diego, CA 92130

KEVIN R. HAMEL  
SAP America, Inc.  
3999 West Chester Pike  
Newtown Square, PA 19073

DOUGLAS HALLWARD-DRIEMEIER  
*Counsel of Record*

HENRY Y. HUANG  
ROPES & GRAY LLP  
One Metro Center  
700 12th Street, N.W., Suite 900  
Washington, D.C. 20005  
(202) 508-4600  
*Douglas.Hallward-Driemeier@  
ropesgray.com*

J. MICHAEL JAKES  
MICHAEL A. MORIN  
JOHN M. WILLIAMSON  
JENNIFER K. ROBINSON  
FINNEGAN, HENDERSON, FARABOW,  
GARRETT & DUNNER, LLP  
901 New York Avenue, NW  
Washington, DC 20001

[Additional counsel on inside cover]

---

DAVID J. BALL, JR.  
PAUL, WEISS, RIFKIND,  
WHARTON & GARRISON LLP  
2001 K Street, NW  
Washington, DC 20006

KATHERINE K. LUTTON  
FISH & RICHARDSON, P.C.  
500 Arguello Street, Suite 500  
Redwood City, CA 94063

THOMAS M. MELSHEIMER  
FISH & RICHARDSON, P.C.  
1717 Main Street, Suite 5000  
Dallas, TX 75201

## TABLE OF CONTENTS

Introduction .....	1
I. The Federal Circuit’s holding regarding the scope of direct infringement has broad-ranging implications.....	3
II. The Federal Circuit upended the law regarding sufficiency review involving expert testimony.....	8
III. The Federal Circuit’s refusal to grant a stay requires this Court’s immediate review.....	9
Conclusion.....	13
Addendum .....	1a

## II

### TABLE OF AUTHORITIES

	Page(s)
<b>Cases:</b>	
<i>Am. Petroleum Inst. v. EPA</i> , 683 F.3d 382 (D.C. Cir. 2012).....	9, 11
<i>Bausch &amp; Lomb, Inc. v. Alcon Lab., Inc.</i> , 914 F. Supp. 951 (W.D.N.Y. 1996).....	9, 11
<i>Bilski v. Kappos</i> , 130 S. Ct. 3218 (2010) .....	12
<i>Deepsouth Packing Co. v. Laitram Corp.</i> , 406 U.S. 518 (1972).....	4, 5
<i>Douglas v. Indep. Living Ctr. of S. Cal., Inc.</i> , 132 S. Ct. 1204 (2012) .....	10
<i>Fresenius USA, Inc. v. Baxter Int’l</i> , 721 F.3d 1330 (Fed. Cir. 2013).....	10, 12
<i>Grove v. Emison</i> , 507 U.S. 25 (1993).....	9
<i>Nat’l Cable &amp; Telecomms. Ass’n v. Brand X Internet Servs.</i> , 545 U.S. 967 (2005).....	12
<i>NUtech Ventures v. Norman Noble, Inc.</i> , No. 1:12CV2326, 2013 U.S. Dist. LEXIS 133092 (N.D. Ohio May 30, 2013).....	11
<i>Purcell v. Gonzalez</i> , 549 U.S. 1 (2006) (per curiam) .....	12
<i>Versata Software, Inc. v. Volusion</i> , No. 1:12- cv-00893 (W.D. Tex. June 20, 2013).....	10
<i>Zillow, Inc. v. Trulia, Inc.</i> , No. C12-1549, 2013 U.S. Dist. LEXIS 144919 (W.D. Wash. Oct. 4, 2013) .....	11
<b>Statutes:</b>	
35 U.S.C. 271(a).....	2, 3, 6

### III

#### Miscellaneous:

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

p. S1364.....	11
p. S1365.....	12
p. S1367.....	12

---

---

**In the Supreme Court of the United States**

No. 13-716

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*

---

**REPLY BRIEF OF PETITIONER**

---

**INTRODUCTION**

Versata admits (Br. in Opp. 2) that it views these proceedings as a “race to the finish line” to enforce its \$391 million judgment before the Federal Circuit affirms the Patent Trial and Appeal Board (PTAB) decision declaring Versata’s patent invalid. Attempting to manipulate this “race,” Versata delayed 61 days before appealing from the PTAB, but filed its opposition to certiorari just five days after SAP filed the petition. While Versata contends that such procedural games should determine whether a party pays hundreds of millions on patent claims already ordered “CANCELLED as unpatentable,” Pet. App. 131a, that approach would frustrate Congress’s goals. The America

Invents Act (AIA) reflects Congress’s intent to weed out improperly issued financial patents by charging the PTAB with determining whether a covered business method patent was properly issued, and making that determination binding in ongoing infringement litigation. While Versata hopes to hit the jackpot by collecting \$391 million on an invalid patent—just ahead of the PTAB’s invalidity ruling being affirmed—such inconsistent results would undermine public confidence in our patent and judicial systems. The Court should grant certiorari and definitively reject such a “race” between the courts and expert agency.

Even apart from the improper denial of a stay, the Federal Circuit’s departure from established precedent requires review. While Versata characterizes the court’s rulings as “factual,” the opinion’s holding reflects otherwise. The court expressly held that: (1) the question whether direct infringement “require[s] that the patented function be ‘existing as shipped’ in the computer instructions” was a matter of “claim construction,” Pet. App. 13a, rather than a statutory requirement under 35 U.S.C. 271(a); and (2) SAP’s argument “that the jury could have not had sufficient evidence to award lost profits” because of flaws in Versata’s expert’s methodology could only be raised by challenging the testimony’s admissibility, Pet. App. 18a-19a. Those holdings conflict with this Court’s precedent and have created considerable uncertainty that independently warrant certiorari.

## I. THE FEDERAL CIRCUIT’S HOLDING REGARDING THE SCOPE OF DIRECT INFRINGEMENT HAS BROAD-RANGING IMPLICATIONS

A. While Versata casts the court of appeals’ infringement analysis as a mere factual holding, the opinion belies that cramped reading. The court expressly held that the question whether “the patented function [must] be ‘existing as shipped’ in the computer instructions” was a question of “*claim construction*.” Pet. App. 13a (emphasis added). The court rejected as a “misinterpret[ation] [of] *the claim language*” SAP’s argument that Versata must show “that the software, as shipped, contain[ed] computer instructions to perform the claimed functionality.” *Ibid.* (emphasis added). But the requirement that claimed functionality be “existing as shipped” in the accused product is a prerequisite for direct infringement under Section 271(a), not a matter of “claim language” that can be avoided by clever drafting or claim construction.<sup>1</sup>

The misperception of this *statutory* requirement as claim-construction-dependent is also evident in the lower courts’ divergent treatment of the related ’400 and ’350 patents. The lower courts appropriately recognized that it was insufficient to prove direct infringement of the ’400 patent for Versata to show “that

---

<sup>1</sup> Versata quotes (at 15) the Federal Circuit describing this as a “pure factual issue,” but the court’s assertion that the dispute “*thus becomes* a pure factual issue,” Pet. App. 14a (emphasis added), immediately follows its statement that SAP waived its legal argument “that the patented function [must] be ‘existing as shipped’ in the computer instructions” by failing to request “claim construction” to that effect. *Id.* at 13a. The court cannot shield its legal ruling by characterizing it as factual.



the products shipped by SAP *could be configured by a user* to practice the required operations \* \* \* without changing the SAP source code.” Pet. App. 32a (emphasis added). Because Versata failed to show 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*,” SAP was granted JMOL on the parent ’400 patent. *Id.* at 8a (emphasis added). But the courts erroneously made the opposite ruling regarding the child ’350 patent. The courts attempted to reconcile the divergent outcomes based on the fact that the ’400 patent claims “program code *configured to cause* a computer” to perform claimed operations, whereas the ’350 patent (as construed) claims “computer instructions causing a computer to implement” or “computer program instructions *capable of*” performing the operations. *Id.* at 32a-33a (second emphasis added). The district court explained that, “[i]n contrast to the ’400 patent, the ’350 patent requires only *the capability to practice* the asserted claims.” *Id.* at 53a (emphasis added); see *id.* at 8a, 29a (leaving undisturbed district court’s opinion regarding ’400 patent). In other words, the opinions below rest on the (false) premise that a product may directly infringe despite requiring “additional modification or configuration, or the addition of further program instructions” by the user in order to perform the claimed functionality, unless the claim language specifically requires that the product be “configured to” perform the claimed operations. *Id.* at 8a.

That holding cannot be squared with this Court’s opinion in *Deepsouth Packing Co. v. Laitram Corp.*,

406 U.S. 518 (1972). There, the Court held that it is not an act of direct infringement to sell “elements *capable of being*, but never actually, associated to form the invention.” *Id.* at 529 (quoting *Radio Corp. of Am. v. Andrea*, 79 F.2d 626, 628 (2d Cir. 1935)) (emphasis added). The opinion below abandons this fundamental rule and, with it, the distinction between direct and indirect infringement codified in Section 271. The software industry has long relied on that bedrock principle, and its evisceration now would have devastating consequences.

Versata urges (at 19) the Court to disregard the conflict with *Deepsouth* because SAP first cited that case in its petition for rehearing before the Federal Circuit, but there is no requirement to cite particular precedent to preserve an argument. SAP’s *argument* has been consistent throughout the litigation: “While Versata’s expert was able, after considerable time and effort, to add to and modify SAP’s computer program instructions to permit hierarchical access of both customer and product hierarchies, that is *not* the test for infringement.” SAP C.A. Op. Br. 41; *id.* at 42 (stressing the distinction between direct and indirect infringement). That SAP initially relied on favorable Federal Circuit precedent, see *id.* at 41 (quoting *Telemac Cellular Corp. v. Topp Telecom, Inc.*, 247 F.3d 1316, 1330 (Fed. Cir. 2001) (“that a device is capable of being modified to operate in an infringing manner is not sufficient”)), and first cited *Deepsouth* on rehearing, after the panel diverged from the established rule, does not eliminate the conflict with *Deepsouth* or the need for this Court to re-establish the proper statutory construction.

B. Versata also suggests that the Federal Circuit’s narrow focus on the fact that “Versata’s expert did not alter or modify SAP’s [source] code,” Pet. App. 15a; *id.* at 12a, 14a, even as he modified or added multiple “computer instructions,” is a “fact-bound claim” unworthy of this Court’s review, Br. in Opp. 18. But that narrow focus on “source code” is precisely why the Federal Circuit’s decision creates profound uncertainty and untold potential liability for software manufacturers. Much software today is specifically designed to allow users to modify and configure it to add new instructions and functionality *without modifying* existing *source code*: “apps” for mobile devices are among myriad examples. As here, there can be no factual dispute apps *do* add further “computer instructions” and functionality to the “as shipped” software. Under the Federal Circuit’s decision, a smartphone maker is responsible for all apps that users later add, so long as no source code is altered. To impose on manufacturers direct infringement liability based on functionality added by the user’s own computer instructions dramatically expands the scope of direct infringement under Section 271(a).

Notably, Versata does *not* dispute the numerous ways in which its expert had to modify and/or add computer instructions in order to practice the claimed functionality. As sold, SAP’s software does *not* come with a “pricing procedure” that performs a “hierarchical access” on both product and customer hierarchies to generate a single price. To create that functionality, Versata’s expert modified SAP’s software by (1) creating a new hierarchical access sequence that would run on *both* product *and* customer hierarchies, (2) creating a new calculation instruction directing the computer to calculate a discount based on data retrieved by that

new access sequence, and (3) modifying an existing pricing procedure to run these new operations. While Versata acknowledges its expert's addition of an access sequence and pricing procedure, it dismissively characterizes them as "the population of data and the like." Br. in Opp. 20 n.7. But Versata's changes went far beyond data entry. See SAP C.A. Op. Br. 12 (explaining how a "pricing procedure" instructs the computer). Indeed, in its PTAB filings, Versata identified its "technological invention" as "*a software-implemented pricing procedure that performs hierarchical accesses.*" Patent Owner's Prelim. Resp. 15-16, *SAP Am., Inc. v. Versata Dev. Grp., Inc.*, CBM2012-00001 (PTAB Nov. 30, 2012) (emphasis added) (reproduced Add., *infra*, 1a-2a). Versata cannot have it both ways, claiming software-implemented "pricing procedures" as its technological invention in one forum while dismissing that same feature as post-solution "datastructure" in another, Br. in Opp. 17 n.6.

Versata (at 15) and the court of appeals (Pet. App. 12a) contend that Versata's expert was merely activating functionality "inherent" in SAP's source code, but the only functionality cited by Versata that is "inherent" in SAP's source code is its ability to execute new pricing procedures, calculation instructions, and access sequences created by customers. While SAP's software as shipped *does* include nearly 100 pricing procedures, *none* includes the required access sequence or calculation type that allow for the patented functionality. Thus, the "inherent functionality" to which the Federal Circuit and Versata point is merely the flexibility SAP's software allows for *the user* to create addi-

tional pricing procedures, calculation instructions, and access sequences.<sup>2</sup>

Manufacturing software that allows users to create infringing functionality has never, until now, been held an act of direct infringement. The Federal Circuit’s decision constitutes a dramatic change in the law that warrants this Court’s review.

## II. THE FEDERAL CIRCUIT UPENDED THE LAW REGARDING SUFFICIENCY REVIEW INVOLVING EXPERT TESTIMONY

Versata concedes (at 22) that a party may challenge the sufficiency of expert testimony to support the jury’s verdict, even if the party does not challenge the testimony’s admissibility under *Daubert*. That alone proves the Federal Circuit’s decision is erroneous, for it “reject[ed]” and refused to consider two sufficiency arguments as “improperly raised” because “[s]uch questions should be resolved under the framework of the Federal Rules of Evidence and through a challenge under *Daubert*.” Pet. App. 17a-18a.

Although Versata asserts (at 24) that the Federal Circuit did address the sufficiency arguments that it “reject[ed]” as improperly raised, that is not so. The court never addressed SAP’s arguments that Versata failed to prove lost profits from any single market because its expert used different markets for each of the

---

<sup>2</sup> Versata misleadingly asserts (at 7) that SAP’s engineer “confirmed that SAP’s source code included [the required] instructions.” The engineer confirmed only that the shipped products contain “code that would allow *a customer*” to create new access sequences and condition types. C.A. App. 1508, 1651.

four *Panduit* factors, SAP C.A. Op. Br. 50-53, and failed to account for Versata’s loss of market share to non-infringing competitors, see *id.* at 46-50.

As demonstrated in the Petition (at 28-29), the Federal Circuit’s holding on this point is already sowing confusion in district courts adjudicating patent cases, especially because those courts must follow regional circuit law on such procedural matters, but the Federal Circuit here declined to follow Fifth Circuit practice. Because only the Federal Circuit hears patent cases, its departure from settled Fifth Circuit precedent in favor of its own anomalous procedural rule can be rectified only by this Court.

### **III. THE FEDERAL CIRCUIT’S REFUSAL TO GRANT A STAY REQUIRES THIS COURT’S IMMEDIATE REVIEW**

Courts, including appellate courts, have long exercised inherent power to stay litigation to allow an agency to decide an issue within its expertise. See *Am. Petroleum Inst. v. EPA*, 683 F.3d 382, 386 (D.C. Cir. 2012) (staying appeal to “let[] the administrative process run its course before binding parties to a judicial decision”); *Bausch & Lomb, Inc. v. Alcon Lab., Inc.*, 914 F. Supp. 951, 952 (W.D.N.Y. 1996) (granting stay pending reexamination to avoid “conflicting determinations” and possibility defendant would pay damages on patent PTO might subsequently declare invalid). Where the federal courts owe deference to another body’s proceedings, this Court has decidedly rejected the “race to the finish line” approach advocated by Versata. Compare Br. in Opp. 2 with *Growe v. Emison*, 507 U.S. 25, 36-37 (1993) (where federal court was required to “defer[]” to state court panel, it was “wrong” to engage in

a “race to beat the \* \* \* Panel to the finish line”). If the expert agency rules before the judicial proceeding becomes final, the courts should respect it, even if the agency’s action comes after the court of appeals’ decision. See *Douglas v. Indep. Living Ctr. of S. Cal., Inc.*, 132 S. Ct. 1204, 1211 (2012) (vacating appellate court’s decision in light of later-issued agency ruling).<sup>3</sup> In the AIA, Congress made stays *more* available, not less, and the Federal Circuit’s unexplained denial of a stay here cannot stand.

There is no question that Congress wanted courts to defer to the PTAB’s expert determinations, even where infringement litigation had proceeded to judgment. See *Fresenius USA, Inc. v. Baxter Int’l*, 721 F.3d 1330, 1344 (Fed. Cir. 2013). Versata quotes an exchange from the legislative history indicating that the AIA’s enactment “would *not likely* have an effect on the pending appeal” where a court had already held the patent valid. Br. in Opp. 3. But that predictive statement does not address the appropriateness of a stay and says nothing about the impact on an appeal of a PTAB final written decision invalidating the patent-in-suit. The broader legislative exchange confirms that, if there were a “race,” the PTAB should prevail. Senator Schumer noted that, in those rare circumstances when infringement litigation was not initially stayed, the PTAB should accelerate its process, as it did here (completing its proceedings five months after instituting them), so the PTAB’s decision would issue before

---

<sup>3</sup> The agency’s ruling is particularly relevant here, since the PTO granted the ’350 patent in the first place.

the infringement litigation ended. 157 Cong. Rec. S1360, S1364 (daily ed. Mar. 8, 2011).

Other courts have recognized that the AIA’s four-factor analysis for issuing stays reflects Congress’s intent to encourage more stays, not fewer. See, *e.g.*, *Versata Software, Inc. v. Volusion*, No. 1:12-cv-00893 (W.D. Tex. June 20, 2013) (granting stay in light of PTAB ruling in favor of SAP, noting AIA’s “fourth factor” reflected Congress’s intent that “stay[s] should only be denied in extremely rare instances” (quotation omitted)). The district-court focus of the AIA’s first two factors does not militate against a stay in the Federal Circuit after the PTAB has already made a determination of invalidity. Indeed, even apart from the AIA, courts have inherent authority to issue a stay to avoid “the possibility of inconsistent results should the Court find infringement and the reexamination find the claims are invalid.” *NUtech Ventures v. Norman Noble, Inc.*, No. 1:12CV2326, 2013 U.S. Dist. LEXIS 133092 (N.D. Ohio May 30, 2013) (non-AIA reexamination); *Bausch & Lomb*, 914 F. Supp. at 952 (same). The appellate courts have similar inherent authority. See *Am. Petroleum Inst.*, 683 F.3d at 386. Here, the risk of inconsistency is palpable not only because of the PTAB’s ruling, but also because, as noted, see *supra* pp. 6-7, Versata has advanced inconsistent positions in the infringement and review proceedings—arguing before the PTAB that its purported “invention” includes “a software-implemented pricing procedure that performs hierarchical accesses,” while dismissing pricing procedures in this Court as user-created “data.” A stay would prevent Versata from benefitting from such inconsistencies. See, *e.g.*, *Zillow, Inc. v. Trulia, Inc.*, No. C12-1549, 2013 U.S. Dist. LEXIS 144919, at \*12-13



(W.D. Wash. Oct. 4, 2013) (granting stay because patentee would be bound by concessions during PTAB review).

In asserting that SAP “forfeited” any invalidity defense, Versata ignores the nature of the PTAB proceeding, which reviews the patent under a different standard and without the presumption of validity. See *Fresenius*, 721 F.3d at 1344; see also *Nat’l Cable & Telecomms. Ass’n v. Brand X Internet Servs.*, 545 U.S. 967, 983 (2005) (holding that agency deference “does not depend on the order in which the judicial and administrative constructions occur”).<sup>4</sup> And Versata’s attempt (at 32) to sully SAP with accusations of “gamesman[ship]” lacks merit. SAP filed its CBM proceeding on the first day the process was available and sought a stay immediately after the PTAB issued its final written decision.

The court of appeals cannot, contrary to Versata’s suggestion (at 27), shield its gross deviation from Congressional purpose from this Court’s review simply by declining to issue a reasoned decision. See *Purcell v. Gonzalez*, 549 U.S. 1 (2006) (per curiam) (granting review and overturning appellate order denying, without explanation, stay of injunction). The Federal Circuit’s denial of a stay threatens to undermine the effective-

---

<sup>4</sup>The infringement trial took place nearly a year before this Court made clear in *Bilski v. Kappos*, 130 S. Ct. 3218 (2010), that many business method patents were “no longer valid.” 157 Cong. Rec. S1360, S1367 (daily ed. Mar. 8, 2011). When Congress created an administrative process to weed out “frivolous business method patent[s]” that had wreaked “havoc” upon productive companies, *id.* at S1365, it did not exclude defendants already subject to suit for infringing such improperly issued patents.

ness of the CBM review process by discouraging lower courts from entering stays in similar circumstances. To the extent the threat to the agency's statutory task is not self-evident, SAP respectfully suggests that the Court request the views of the United States.

### CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted,

JOHN W. THORNBURGH	DOUGLAS HALLWARD-DRIEMEIER
THOMAS M. MELSHEIMER	JAMES R. BATCHELDER
KATHERINE K. LUTTON	LAUREN N. ROBINSON
JUSTIN M. BARNES	HENRY Y. HUANG
FISH & RICHARDSON, P.C.	ROPES & GRAY LLP

DAVID J. BALL, JR.	J. MICHAEL JAKES
PAUL, WEISS, RIFKIND,	MICHAEL A. MORIN
WHARTON & GARRISON	JOHN M. WILLIAMSON
LLP	JENNIFER K. ROBINSON
	FINNEGAN, HENDERSON,
KEVIN R. HAMEL	FARABOW, GARRETT & DUNNER,
SAP AMERICA, INC.	LLP

*Counsel for Petitioners*

DECEMBER 2013

## **ADDENDUM**

1a

UNITED STATES PATENT AND TRADEMARK  
OFFICE

BEFORE THE PATENT TRIAL AND APPEAL  
BOARD

SAP AMERICA, INC. ET AL.

Petitioner

v.

Patent of VERSATA DEVELOPMENT GROUP,  
INC.

Patent Owner

Case CBM2012-00001

Patent 6,553,350

**PATENT OWNER VERSATA DEVELOPMENT  
GROUP, INC.'S PRELIMINARY RESPONSE**

\* \* \* \* \*

SAP, in its Petition, fails to address the subject matter of the challenged claims “as a whole,” as required by 37 C.F.R. § 42.301(b), and simply ignores extensive evidence from the ‘350 patent and the district court action detailing how the claimed invention solved the technical problems with the prior art pricing systems using the technical solution enabled by the claimed invention. Because the ‘350 patent is directed to a technological invention, SAP’s Petition should be denied.

- a. **The subject matter of each of the challenged claims of the '350 patent as a whole recites a technological feature that is novel and unobvious**

The novel and unobvious technological feature recited by each of claims 17 and 26-29 considered as a whole is: the hierarchical data structure enabling a hierarchical arrangement of organizational (i.e., customer) groups and product groups used in combination with a software-implemented pricing procedure that performs hierarchical accesses to the hierarchical arrangements of organizational and product data to retrieve pricing information adjusted using denormalized numbers to determine a product price.

\* \* \* \* \*