

No. \_\_\_\_\_

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

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SAP AMERICA, INC. AND SAP AG, PETITIONERS

*v.*

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

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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 business method patent claims that are the basis of the \$391 million judgment against petitioners have already been declared invalid as unpatentable abstract ideas by a special board of the Patent and Trademark Office created by Congress to eliminate such patents that were wrongly issued. Nonetheless, the court of appeals denied a stay of the infringement action without explanation. The court of appeals refused even to consider petitioners' challenge to the sufficiency of the evidence to support that award, and affirmed the judgment despite the fact that petitioners' product, as shipped, could not perform the claimed functionality, until modified by respondents' expert. The court of appeals' judgment presents the following questions:

1. Whether a computer software manufacturer may be liable for direct infringement of a patent drawn to computer instructions where the software, as shipped, does not contain sufficient instructions to perform the claimed operations.
2. Whether flaws in an expert's methodology may be raised as part of a challenge to the sufficiency of the evidence or only to the testimony's admissibility.
3. Whether a patent infringement action should be stayed where the Patent Trial and Appeal Board has declared invalid all patent claims at issue in the infringement action and the defendant, which sought such review at the first opportunity, might otherwise be compelled to pay an enormous damages judgment and be subjected to a permanent injunction on the basis of the invalid claims.

**PARTIES TO THE PROCEEDINGS BELOW  
AND RULE 29.6 STATEMENT**

The following list provides the names of all parties to the proceedings below:

Petitioners SAP America, Inc. and SAP AG were the appellants in the court of appeals. SAP AG owns 10% or more of the stock of SAP America, Inc.

Respondents Versata Software, Inc., Versata Development Group, Inc., and Versata Computer Industry Solutions, Inc. were the appellees in the court of appeals.

## TABLE OF CONTENTS

Opinions below .....	1
Jurisdiction .....	2
Statutory provisions involved .....	2
Statement of the case.....	2
A. Leahy-Smith America Invents Act .....	4
B. The district court proceedings.....	6
1. Versata's liability theory.....	6
2. Versata's lost profits theory .....	10
C. Appellate proceedings .....	11
D. Proceedings before the Patent Trial and Appeal Board .....	14
E. The Federal Circuit refuses to stay the appeal .....	15
Reasons for granting the petition .....	16
I. The Federal Circuit's holding significantly expands the scope of direct patent infringement.....	17
A. The Federal Circuit's ruling contradicts the fundamental statutory distinction between direct and indirect infringement and decades of established precedent regarding modification of accused products.....	19
B. The Federal Circuit's decision threatens the software industry by vastly expanding direct infringement liability .....	23
II. The Federal Circuit's holding that expert testimony is exempt from review for sufficiency of the evidence conflicts with <i>Daubert</i> .....	25

## IV

### Table of Contents—Continued:

III. The Court should clarify that infringement litigation should be stayed when the PTAB has invalidated the patent claims and the defendant, despite acting expeditiously, might be forced to pay a massive judgment on invalid claims .....	29
A. The Federal Circuit erred as a matter of law in denying SAP’s stay request following the PTAB’s invalidation of Versata’s patent claims .....	31
B. The Federal Circuit’s denial of a stay jeopardizes the effectiveness of CBM review .....	34
Conclusion .....	37
Appendix A — Court of appeals order (July 5, 2013) .....	1a
Appendix B — Court of appeals opinion (May 1, 2013) .....	3a
Appendix C — District court opinion and order (Dec. 21, 2010) .....	30a
Appendix D — District court order (Sept. 9, 2011) .....	35a
Appendix E — District court memorandum opinion and order (Sept. 9, 2011) .....	51a
Appendix F — District court order (May 7, 2011) .....	59a
Appendix G — District court order (May 5, 2011) .....	61a

V

Table of Contents—Continued:

Appendix H — District court order (Jan. 6, 2011).....	82a
Appendix I — Court of appeals order (Aug. 14, 2013) .....	84a
Appendix J — District court judgment (Sept. 9, 2011).....	86a
Appendix K — Statutory provision: Section 18(b) of the Leahy-Smith America Invents Act, Pub. L. 112-29, 125 Stat. 284 (2011).....	90a
Appendix L — Statutory provision: 35 U.S.C. 271(a)-(c) .....	91a
Appendix M — PTAB decision (June 11, 2013) .....	92a
Appendix N — Notice of appeal (Oct. 11, 2011).....	135a

## VI

### TABLE OF AUTHORITIES

	Page(s)
Cases:	
<i>ACCO Brands, Inc. v. ABA Locks Mfr., Co.</i> , 501 F.3d 1307 (Fed. Cir. 2007) .....	20
<i>Anascape, Ltd. v. Microsoft Corp.</i> , 475 F. Supp. 2d 612 (E.D. Tex. 2007) .....	31
<i>Bilski v. Kappos</i> , 130 S. Ct. 3218 (2010) .....	4, 23
<i>Brooke Grp. Ltd. v. Brown &amp; Williamson Tobacco Corp.</i> , 509 U.S. 209 (1993) .....	28
<i>Bros Inc. v. W.E. Grace Mfg. Co.</i> , 320 F.2d 594 (5th Cir. 1963) .....	35
<i>Conde v. Velsicol Chem. Corp.</i> , 24 F.3d 809 (6th Cir. 1994) .....	28
<i>Cross Med. Prods., Inc. v. Medtronic Sofamor Danek, Inc.</i> , 424 F.3d 1293 (Fed. Cir. 2005) .....	20
<i>Daubert v. Merrell Dow Pharms., Inc.</i> , 509 U.S. 579 (1993) .....	<i>passim</i>
<i>Deepsouth Packing Co. v. Laitram Corp.</i> , 406 U.S. 518 (1972) .....	<i>passim</i>
<i>Fantasy Sports Props., Inc. v. Sportsline.com, Inc.</i> , 287 F.3d 1108 (Fed. Cir. 2002) .....	20
<i>Fresenius USA Inc. v. Baxter Int’l</i> , 721 F.3d 1330 (Fed. Cir. 2013) .....	15, 33
733 F.3d 1369 (Fed. Cir. 2013) .....	34
<i>Global-Tech Appliances, Inc. v. SEB S.A.</i> , 131 S. Ct. 2060 (2011) .....	23

## VII

### Cases—Continued:

<i>High Tech Med. Instrumentation, Inc. v. New Image Indus., Inc.</i> , 49 F.3d 1551 (Fed. Cir. 1995) .....	20, 25
<i>Joint E. &amp; S. Dist. Asbestos Litig., In re</i> , 52 F.3d 1124 (2d Cir. 1995) .....	28
<i>Laitram Corp. v. Deepsouth Packing Co.</i> , 443 F.2d 928 (5th Cir. 1971).....	21
<i>Landis v. N. Am. Co.</i> , 299 U.S. 248 (1936).....	34
<i>Muniauction, Inc. v. Thomson Corp.</i> , 532 F.3d 1318 (Fed. Cir. 2008), cert. denied, 556 U.S. 1105 (2009).....	28
<i>Stevenson v. E.I. DuPont De Nemours &amp; Co.</i> , 327 F.3d 400 (5th Cir. 2003).....	28
<i>Summit 6 LLC v. Research in Motion Corp.</i> , No. 11-367, 2013 U.S. Dist. LEXIS 95164 (N.D. Tex. June 26, 2013).....	29
<i>Telemac Cellular Corp. v. Topp Telecom, Inc.</i> , 247 F.3d 1316 (Fed. Cir. 2001) .....	20
<i>Weisgram v. Marley Co.</i> , 528 U.S. 440 (2000) .....	26

### Statutes and regulations:

Leahy-Smith America Invents Act, Pub. L. 112-29, 125 Stat. 284 (2011) .....	<i>passim</i>
§ 18 .....	23
§ 18(a) .....	4, 5, 31
§ 18(b) .....	31
§ 18(b)(1) .....	5, 15, 31
§ 18(b)(1)(A).....	33

## VIII

### Statutes and regulations—Continued:

§ 18(b)(2) .....	5, 34
§ 18(b)(2)(C) .....	33
35 U.S.C. 6 .....	31
35 U.S.C. 101 .....	5, 14
35 U.S.C. 271 .....	17, 18
35 U.S.C. 271(a) .....	3, 23
35 U.S.C. 271(a)-(c) .....	17
35 U.S.C. 271(b)-(c) .....	20, 23
35 U.S.C. 301-303 .....	5
35 U.S.C. 321(b) .....	5
35 U.S.C. 323(c) .....	31
35 U.S.C. 324(a) .....	31
35 U.S.C. 326(a)(11) .....	5
35 U.S.C. 326(e) .....	5
37 C.F.R.:	
Section 42.73(d)(3) .....	33
Section 42.2 .....	33

### Miscellaneous:

157 Cong. Rec. S1053 (daily ed. Mar. 1, 2011) .....	32
157 Cong. Rec. (daily ed. Mar. 8, 2011)	
p. S1360-1364 .....	31
p. S1363 .....	5, 35
p. S1364 .....	33
p. S1365 .....	4
p. S1367 .....	4

IX

H.R. Rep. No. 98, 112th Cong., 1st Sess.

(2011) .....5, 31, 35

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**PETITION FOR A WRIT OF CERTIORARI**

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Petitioners SAP America, Inc. and SAP AG (collectively, SAP) respectfully petition for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit.

**OPINIONS BELOW**

The opinion of the court of appeals (App. 3a–29a) is reported at 717 F.3d 1255. That court’s orders denying SAP’s motion for a stay (App. 1a-2a) and denying SAP’s motion for rehearing and for rehearing en banc (App. 84a-85a) are unreported. The district court’s opinion and order on SAP’s post-trial motions for judgment as a matter of law on liability (App. 30a-34a), order granting a new trial on damages (App. 82a-83a), and orders on SAP’s motions to exclude certain expert

testimony regarding damages (App. 51a-81a) are unreported.

## **JURISDICTION**

The court of appeals entered judgment on May 1, 2013 and denied SAP's timely petition for rehearing and rehearing en banc on August 14, 2013. On October 24, 2013, the Chief Justice extended the time within which to file a petition for writ of certiorari to and including December 12, 2013, and the petition is being filed on that date. The jurisdiction of this Court rests on 28 U.S.C. 1254(1).

## **STATUTORY PROVISIONS INVOLVED**

Section 18(b) of the Leahy-Smith America Invents Act, Pub. L. 112-29, 125 Stat. 284 (2011), is reproduced at App. 90a. Sections 271(a) to (c) of Title 35 of the U.S. Code are reproduced at App. 91a.

## **STATEMENT OF THE CASE**

In the Leahy-Smith America Invents Act, Pub. L. 112-29, 125 Stat. 284 (2011) (AIA), Congress sought to mitigate the drain inflicted on the national economy by invalid business method patents. The AIA provides a new means for defendants in infringement lawsuits to obtain expert agency review, through an adversarial administrative proceeding, of such patents' validity. In the very first Covered Business Method review proceeding instituted under the Act, petitioner SAP prevailed: the Patent and Trademark Office's Patent Trial and Appeal Board (PTAB) declared invalid as mere abstract ideas the patent claims that are the basis of respondents' nearly \$400 million judgment against SAP.

Despite the expert agency’s determination that the patent claims asserted against SAP should never have issued, the court of appeals denied a stay of the appeal, which was still pending on rehearing. The court of appeals’ refusal, without explanation, to stay the infringement litigation in light of the patent claims’ having been declared invalid undermines Congress’s remedial scheme under the AIA, which explicitly grants courts authority to stay infringement litigation in favor of Covered Business Method reviews and directs the court of appeals to develop a body of precedent governing the grant of such stays. SAP now faces the prospect of having to pay a \$391 million judgment despite having successfully invalidated the patent claims at issue—whereas SAP’s competitors who might have “infringed” the same patent will avoid any similar liability.

In addition to undermining the AIA, the court below departed from long-established requirements for direct infringement liability and damages. The decision creates uncertainty for patentees and potential defendants alike, and poses a significant threat to computer software manufacturers in particular.

First, contravening 35 U.S.C. 271(a) and this Court’s holding in *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972), the court upheld liability for *direct* infringement against SAP because its software was *capable of being modified* to perform the claimed pricing function—despite the fact that the software, as shipped, could not perform those operations, and respondents’ own expert was the only person ever shown to have added the additional computer instructions necessary to do so. This holding has created considerable uncertainty, most immediately for manufacturers of

software designed to allow users to modify the program with new instructions of their choosing in order to achieve the users' desired functionality.

Second, the court of appeals improperly refused, based on a misreading of *Daubert v. Merrell Dow Pharmaceuticals, Inc.*, 509 U.S. 579 (1993), even to consider SAP's principal challenges to the sufficiency of the evidence supporting the jury's award of lost profits. The court erroneously declared that an expert's damages theory could be challenged *only* as part of an admissibility challenge under *Daubert*.

#### **A. Leahy-Smith America Invents Act**

Congress enacted the AIA to provide an effective administrative mechanism for eliminating invalid business method patents that should never have issued. This Court's decision in *Bilski v. Kappos*, 130 S. Ct. 3218 (2010), made clear that the claims in many business method patents issued under prior Federal Circuit precedent were too abstract to be patentable. Prior to *Bilski*, the U.S. Patent and Trademark Office (PTO) had been "forced to issue a large number of business-method patents, many or possibly all of which are no longer valid." 157 Cong. Rec. S1360, S1367 (daily ed. Mar. 8, 2011) (manager's summary). Recognizing "the havoc that frivolous business method patent litigation ha[d] wreaked upon the courts and the economy," *id.* at S1365 (statement of bill sponsor Sen. Schumer), Congress created the PTAB and a Transitional Program for Covered Business Method Review (CBM review) to allow a party "sued for \* \* \* [or] charged with infringement" of a "covered business method patent" to challenge the patent's validity before the expert agency that issued it. AIA § 18(a).

Congress authorized the PTAB to invalidate a CBM patent on any statutory ground—including lack of patentable subject matter under Section 101, a ground not previously permitted in reexamination proceedings. Compare 35 U.S.C. 321(b) with 35 U.S.C. 301-303. Upon instituting review, the PTAB must issue a decision within 12-18 months. 35 U.S.C. 326(a)(11).

CBM review allows defendants to challenge CBM patents before an expert agency, unburdened by the presumption of validity that patents enjoy in federal court litigation. AIA § 18(a); see 35 U.S.C. 326(e); see also H.R. Rep. No. 98, 112th Cong., 1st Sess. at 48 (2011) (House Rep.) (describing CBM review as “a meaningful opportunity to improve patent quality and restore confidence in the presumption of validity that comes with issued patents in court”).

The AIA was designed to “provid[e] a more efficient system for challenging patents that should not have issued” and “reduc[e] unwarranted litigation costs and inconsistent damage awards.” House Rep., at 39-40. To further those aims, Congress augmented courts’ inherent authority to stay infringement litigation by expressly directing courts to consider stay applications during CBM reviews. AIA § 18(b)(1). The AIA instructs courts to analyze “whether a stay, or the denial thereof, will reduce the burden of litigation on the parties and on the court,” among other considerations. *Ibid.* Congress also provided for immediate interlocutory review under a de novo standard of the denial (or grant) of a stay, mandating that “the Federal Circuit shall review the district court’s decision to ensure consistent application of established precedent.” AIA § 18(b)(2). See 157 Cong. Rec. S1360, S1363 (daily ed.

Mar. 8, 2011) (statement of Sen. Schumer) (explaining that only in “rare instances” would a stay be denied pending CBM review).

## **B. The District Court Proceedings**

SAP provides software to thousands of companies, governments, and nonprofits worldwide to meet their needs, including with respect to financials, accounting, materials management, procurement, supply-chain planning, human resources, and pricing. App. 6a-7a. Because the needs of each business are unique, SAP’s software is designed to allow the user to create new computer instructions in order to perform the precise functions required by that entity. See, *e.g.*, SAP C.A. Op. Br. 11.

Respondents (collectively, Versata) filed suit against SAP in 2007, asserting five patents. Prior to trial, all asserted claims from three of the patents were dismissed. The district court held a jury trial in 2009 on the two remaining patents: the ’400 parent patent and the ’350 continuation patent, both drawn to a method and apparatus for pricing products for sale.

### **1. Versata’s Liability Theory**

Versata’s infringement theory centered on a type of “access sequence” in SAP’s accused products. An SAP “access sequence” directs the computer where and in what order to look for and obtain certain pricing-related data. In contrast to standard access sequences that search for and retrieve pieces of pricing data serially, a “hierarchical access” sequence does so in parallel.

As applied to the accused products, the pricing function claimed by Versata’s patents required “hierarchical access” to data arranged in both a hierarchy of

customer groups and a hierarchy of product groups. Each of the asserted '400 patent claims required “computer readable program code configured to cause a computer” to perform the claimed operations. Each of the asserted '350 patent claims (as construed) required “computer program instructions capable of” or “computer instructions causing a computer to implement” the same claimed operations.

Although SAP's accused products ship with approximately one hundred pre-programmed pricing procedures, only one of the shipped procedures includes a hierarchical access sequence. That sequence does not, however, search for or retrieve both customer hierarchy data and product hierarchy data, as Versata's asserted claims require. See C.A. App. 2637-2638.

Versata made no attempt to prove that any SAP customer had actually used SAP's products to perform the claimed operations. See App. 32a-33a.

Instead, despite the absence of the claimed function in the SAP product as shipped, Versata attempted to demonstrate that SAP's products *directly* infringed by relying on modifications made by Versata's expert to the software. Within SAP's software, Versata's expert:

- (1) created a new pricing table combining customer hierarchy and product hierarchy data;
- (2) created a new hierarchical access sequence instructing the computer to retrieve specified pricing data from the new table in a specified sequence;
- (3) added a new instruction directing the computer to calculate a discount based on the retrieved data; and

(4) modified an existing SAP pricing procedure to insert this new pricing functionality.

See C.A. App. 1607-1610, 1651.

There was no dispute that the new table, new access sequence, new calculation, and modified pricing procedure were necessary to perform the pricing operations claimed in Versata's patents, but were not present in SAP's accused products as shipped. Versata's liability theory stressed that SAP's products were, nonetheless, designed to enable users to make the types of modifications Versata's expert had made. See App. 15a.

The jury found infringement and returned a damages award of \$139 million. App. 30a.

In its post-trial briefing, SAP challenged the jury's liability determinations and damages award. As to liability, SAP argued that Versata failed to demonstrate direct infringement because, without Versata's additions and modifications to SAP's computer instructions, SAP's accused products could not perform the operations specified by Versata's asserted claims.

In its December 2010 ruling, the district court agreed with SAP that Versata's expert's modifications precluded finding infringement of the asserted claims of the '400 patent—but nonetheless upheld the finding of direct infringement of the '350 patent.

Addressing the '400 patent, the court noted that, in order to prove direct infringement, Versata was required 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 con-*

*figuration, or the addition of further program instructions.”* App. 32a (emphasis added). Versata had attempted “to demonstrate SAP’s direct infringement \* \* \* rel[ying] on an SAP product configured by Versata’s expert, rather than by SAP or any customer.” *Ibid.* Although Versata had produced “evidence that the products shipped by SAP *could be configured by a user* to practice the required operations \* \* \* without changing the SAP source code,” that was insufficient to prove direct infringement by SAP. *Ibid.* (emphasis added).

Although the child ’350 patent required the same operations as the parent ’400 patent, the district court denied SAP judgment as a matter of law on the ’350 patent. App. 33a-34a. The district court held that the ’350 patent claims were directly infringed because “no modification of SAP’s source code was required,” stressing slight differences in the respective claim language: the ’400 claims required “program code *configured to cause* a computer” to perform the claimed operations, whereas the ’350 patent claims (as construed) required “*computer instructions causing a computer to implement*” or “computer program instructions *capable of*” performing the claimed operations. App. 32a-33a (second and third emphasis added). In other words, in the court’s view, the need for “additional modification or configuration” or “the addition of further program instructions” by the user to perform the claimed operations defeats direct infringement only where the claim language specifies that the product, as shipped, must already be “configured to” perform those operations. In a later opinion, the district court confirmed this view, explaining that the distinction it drew was based on the fact that, “[i]n contrast to the ’400 patent, the

'350 patent requires only *the capability to practice* the asserted claims.” App. 53a (emphasis added).

## 2. Versata’s Lost Profits Theory

Although upholding SAP’s direct liability for infringing the ’350 patent, the district court ordered a new trial on damages because it had erred in admitting Versata’s damages expert’s testimony. App. 83a.

The second trial on damages proceeded in 2011. Although Versata had asserted only a reasonable royalty theory in the first trial, at the retrial Versata presented both a revised reasonable royalty theory and a new lost profits theory, seeking \$285 million in lost profits. The district court excluded the revised reasonable royalty theory under *Daubert* because it improperly utilized the entire market value of SAP’s product, without apportioning what value Versata’s purported invention contributed. App. 51a-58a; App. 59a; App. 61a-62a.

The district court overruled SAP’s objections to Versata’s lost profits theory (based on *Daubert* and untimely disclosure). See App. 62a-64a; C.A. App. 3706-3707. SAP noted that Versata’s expert’s testimony jumped between *three different* markets in attempting to make the requisite showing that Versata’s lost profits resulted from SAP’s alleged infringement of Versata’s supposed invention. SAP C.A. Op. Br. 24-28, 50-53 (collecting record evidence). Nor had Versata explained why its sales had also dropped off to customers of SAP competitors that lacked the operations claimed by Versata, such as Oracle and Peoplesoft. See *id.* at 21-23 (collecting record evidence).

The jury awarded \$260 million in lost profits (as well as \$85 million as a reasonable royalty), App. 87a—even though SAP’s software could not perform the claimed operations as shipped, and no one, apart from Versata’s expert, had ever been shown to create the additions and modifications to SAP’s software necessary to achieve that functionality.

The court entered final judgment in the amount of \$391 million. App. 87a-88a. The court also entered a permanent injunction, which it stayed pending appeal. See App. 49a.

### **C. Appellate Proceedings**

On appeal, SAP challenged the infringement finding, the damages award, and the scope of the permanent injunction. On May 1, 2012, the court of appeals affirmed the judgment as to liability and damages, but vacated a portion of the injunction. App. 29a.

On liability, the court of appeals did not take issue with the district court’s finding that Versata’s lawsuit focused on “SAP’s product as configured by Versata’s expert, not how the software was made or sold.” App. 8a. Likewise, the court of appeals accepted, for purposes of SAP’s appeal, the district court’s determination that SAP’s products, “as made and sold,” did not “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.” *Ibid.*; see App. 29a (declining to address Versata’s cross-appeal regarding the ’400 patent).

The court of appeals nevertheless affirmed the judgment of direct infringement of the ’350 patent.

App. 16a. Because Versata’s “expert used the SAP interface to set up [the necessary] four pricing elements: a pricing calculation function; a pricing procedure; a condition table; and an access sequence,” he showed that SAP’s software “was capable of performing the claimed functionality.” App. 12a. As evidence of this supposed direct infringement, the court cited Versata’s expert’s testimony that SAP had designed the program to allow the user to make such modifications and had given “directions on how to implement pricing functionality in its software.” App. 14a-15a. SAP’s product thus infringed the ’350 patent directly because the software was “capable of performing the claimed functionality” following the modifications and additions by Versata’s expert. See App. 11a-16a.

Tellingly, the court of appeals faulted SAP for not seeking a claim construction “requir[ing] that the patented function be ‘existing as shipped’ in the computer instructions” as a claim limitation. App. 13a. Without such a limitation, the court of appeals held, it was sufficient to establish direct infringement that SAP’s “software, *as set up by Versata’s expert*, performed the claimed functionality,” even if “Versata did *not* prove that SAP’s software, as shipped to the customer” could do so. *Ibid.* (emphasis added).

Regarding damages, the court refused to consider two of SAP’s challenges to the lost profits award: that Versata’s analysis (1) failed to adhere to a single market and (2) ignored evidence that the collapse in demand for Versata’s product was not caused by any supposed infringement. The court of appeals held that those arguments could be raised on appeal only through

a *Daubert* challenge to *admissibility*, not in a challenge to the *sufficiency* of the evidence. App. 17a.<sup>1</sup>

As to the injunction, the court vacated in part, holding that “SAP should be able to provide maintenance or additional seats for prior customers of its infringing products, so long as the maintenance or the additional seat does not involve, or allow access to, the enjoined capability.” App. 28a. The court remanded with instructions to revise the injunction in accordance with its opinion. App. 29a.

On May 31, 2013, SAP sought rehearing and rehearing en banc. SAP explained that the refusal to consider SAP’s damages challenge conflicted with *Daubert*, and that the infringement decision eviscerated the boundary between direct and indirect infringement. Leading software companies and associations supported rehearing due to the dramatic expansion of direct infringement. Microsoft Corp. et al. C.A. Amicus Br. Additional amici urged rehearing on the damages holding as well. Cisco Systems, Inc. et al. C.A. Amicus Br.

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<sup>1</sup> SAP had, in fact, challenged Versata’s lost profits theory via a pretrial *Daubert* motion and objected mid-trial when Versata’s market-switching first became apparent, see C.A. App. 3706-3707. SAP had also identified those rulings in its notice of appeal, App. 135a-138a, and addressed them in its appellate brief, SAP C.A. Op. Br. 35-37, 49-50. The court of appeals’ assertion that “SAP has not appealed a *Daubert* ruling,” App. 18a, was therefore incorrect. But even if the statement were correct, it would be irrelevant to whether the argument was properly presented as part of a sufficiency challenge.

On August 14, 2013, the court of appeals denied rehearing without comment. App. 85a.

#### **D. Proceedings Before the Patent Trial and Appeal Board**

Meanwhile, one week after the district court's entry of final judgment below, Congress passed the AIA. Shortly after midnight on September 16, 2012, the first day that CBM review under the AIA became available, SAP filed a petition with the PTO challenging the validity of five claims of Versata's '350 patent, including the three claims still asserted against SAP in this case, on grounds, *inter alia*, that they were not directed to patentable subject matter under 35 U.S.C. 101. On January 9, 2013, the PTAB instituted review of the challenged claims upon finding that the claims were more likely than not invalid.

On June 11, 2013, the PTAB issued a final written decision ordering all five challenged patent claims cancelled. See App. 92a-93a. The PTAB found that "each of [the] challenged claims involves the use of an abstract idea: determining a price using organizational and product group hierarchies, which are akin to management organizational charts." App. 124a. In particular, "[t]he concept of organizational hierarchies for products and customers is abstract as it represents a 'disembodied concept,' a basic building block of human ingenuity." *Ibid.* "Similarly," the PTAB found, "determining a price is also abstract as it is essentially a method of calculating." *Ibid.*

The PTAB further found that the claims did not "incorporate sufficient meaningful limitations to ensure that the claims are more than just an abstract idea and not just a mere drafting effort designed to monopolize

the abstract idea itself.” App. 124a, 130a. The PTAB noted that, although “the challenged claims are drafted to include computer hardware limitations,” they require “only routine computer hardware and programming” and “may be implemented in *any* type of computer system or programming or processing environment.” App. 125a-126a. The PTAB stressed that Versata’s abstract “claims do not become patentable under § 101 simply for reciting a computer element.” App. 124a. Indeed, the PTAB found, “the underlying process that is implemented on such hardware could also be performed via pen and paper.” App. 125a.

The PTAB therefore “ORDERED that claims 17 and 26-29 of the ’350 patent are CANCELLED as unpatentable.” App. 131a.

On July 11, 2013, Versata requested rehearing, which the PTAB denied on September 13, 2013. On November 13, 2013, Versata appealed the PTAB’s decision to the Federal Circuit.

#### **E. The Federal Circuit Refuses to Stay the Appeal**

On June 17, 2013, after the PTAB had ordered Versata’s claims cancelled, and while SAP’s petition for rehearing and rehearing en banc was pending, SAP asked the court of appeals to stay the appeal pending review of the PTAB’s determination. SAP noted that a stay was appropriate in light of the AIA’s provision for stays in favor of CBM reviews. AIA §18(b)(1). Here, the grounds for a stay were particularly strong because the PTAB had *already declared the claims invalid*. On July 2, 2013, a Federal Circuit panel decided *Fresenius USA Inc. v. Baxter International*, which confirmed that the PTAB’s order, once affirmed on appeal, would

require vacatur of Versata's judgment if it were not yet final. 721 F.3d 1330, 1344.

The court of appeals denied SAP's motion on July 5, 2013. App. 1a. Although Congress had directed the Federal Circuit to provide guidance regarding the standard for issuing stays, the order contained no reasoning. See *ibid.*

### REASONS FOR GRANTING THE PETITION

The court of appeals' three fundamental errors, while distinct and each independently deserving of this Court's review, reveal in combination how far the Federal Circuit has diverged in the context of business method patents from principles established by Congress, this Court, and the other courts of appeals. The court below affirmed a \$391 million judgment against SAP for supposedly directly infringing Versata's patent notwithstanding that: (i) the patent had since been found by the PTAB to claim unpatentable abstract ideas, and SAP had therefore sought a stay of the infringement appeal; (ii) the patent claimed operations that could be performed only after the user modified SAP's program with the user's own additional computer instructions; and (iii) Versata's expert had attributed lost profits to an SAP product that was not shown *ever* to have been modified to practice Versata's claimed pricing operation other than by Versata's own expert. Rather than heeding Congress's intent and staying this infringement litigation after all of the business method patent claims at issue were declared invalid by the PTAB, the court affirmed a finding of direct infringement and damages award in a holding that flies in the face of this Court's decisions in *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972), and *Daubert v.*

*Merrell Dow Pharmaceuticals, Inc.*, 509 U.S. 579 (1993).

These errors, in combination, create significant uncertainty, both for litigants and the lower courts, and, in particular, threaten to inflict significant adverse consequences on software manufacturers. This Court should grant the petition to clarify that (i) sale of a product, such as a software program, that cannot perform a claimed operation as shipped, does not *directly* infringe even if that product is capable of being modified by the user to perform that operation; (ii) expert testimony, even if admissible under *Daubert*, is subject to challenge for sufficiency of the evidence; and (iii) a court should not refuse to stay patent infringement litigation where, as here, the patent claims at issue have been held invalid by the PTAB, and the defendant, which sought review without delay, otherwise faces the prospect of paying an enormous judgment for supposed “infringement” of the invalid patent.

#### **I. THE FEDERAL CIRCUIT’S HOLDING SIGNIFICANTLY EXPANDS THE SCOPE OF DIRECT PATENT INFRINGEMENT**

The court of appeals’ ruling eviscerates the statutory distinction in 35 U.S.C. 271 between direct and indirect infringement, negating the rule that sale of an accused product does not directly infringe if that product must be further configured or modified by the user in order to perform the claimed operations. See 35 U.S.C. 271(a)-(c); *Deepsouth*, 406 U.S. at 528.

SAP’s accused products do not include the required computer instructions necessary to perform the claimed functions. SAP’s products are, however, designed to enable its users to modify the instructions to

best accomplish the particular user's business objectives. In this case, Versata employed an expert to modify SAP's program to achieve the desired functionality. C.A. App. 1607-1611, 10164, 10153-10157. Although providing part of a claimed apparatus, or providing instructions for using the apparatus, can constitute *indirect* infringement, Versata never proved such indirect infringement because, *inter alia*, it never demonstrated that SAP or any SAP customer *directly* infringed by actually modifying and configuring SAP's products with the additional computer instructions necessary to perform the claimed operations.

The court of appeals nevertheless upheld a judgment of direct infringement against SAP, holding that there is no requirement that the "patented function be 'existing as shipped' in the" accused product unless the claim language, by its express terms or as construed by the court, required that the apparatus be "configured to" perform the operation. App. 13a. This holding directly contradicts *Deepsouth* and Section 271; creates direct liability where previously not even indirect liability would exist; and, by eliminating the need to prove the additional elements of indirect infringement (such as inducement and end-users' actual infringement), vastly expands the potential scope of liability for manufacturers of software that allows customized modification by end-users.

**A. The Federal Circuit’s Ruling Contradicts the Fundamental Statutory Distinction Between Direct and Indirect Infringement and Decades of Established Precedent Regarding Modification of Accused Products**

By departing from settled law, the court of appeals’ expansion of direct infringement creates considerable uncertainty for litigants and lower courts, and is poised to wreak havoc on the software industry, imposing direct liability on software manufacturers for their customers’ alterations and additions.

For over two decades, since this Court’s decision in *Deepsouth*, it has been clear that direct infringement of an apparatus claim requires that the accused product, as shipped, include all claimed limitations—not merely that the product be capable of being modified into an infringing incarnation. In *Deepsouth*, the Court held that “a combination patent protects only against the operable assembly of the whole, and not the manufacture of its parts.” 406 U.S. at 528. After the defendant’s product was held to be infringing, it began selling the unit disassembled into “three separate boxes, each containing only parts of the 1 ¾-ton machines, yet the whole assemblable in less than one hour.” *Id.* at 524. This Court held that “the manufacture or sale of separate elements *capable of being, but never actually*, associated to form the invention” did not constitute direct infringement. *Id.* at 529 (quoting *Radio Corp. of Am. v. Andrea*, 79 F.2d 626, 628 (2d Cir. 1935)) (emphasis added). “Only when such association is made is there a direct infringement.” *Ibid.*

Although a manufacturer like the one in *Deepsouth* might be liable for *indirect* infringement, Congress has

provided for such liability only upon proof of additional elements. See 35 U.S.C. 271(b)-(c) (requiring “active[]” inducement or “knowing” the product was “especially made or especially adapted for use in an infringement”).

In other contexts, the Federal Circuit has applied *Deepsouth*’s teaching to hold that “a device does not infringe simply because it is possible to alter it in a way that would satisfy all the limitations of a patent claim.” *High Tech Med. Instrumentation, Inc. v. New Image Indus., Inc.*, 49 F.3d 1551, 1555 (1995); see, e.g., *ACCO Brands, Inc. v. ABA Locks Mfr., Co.*, 501 F.3d 1307, 1313 (Fed. Cir. 2007) (“Because the accused device can be used at any given time in a noninfringing manner, the accused device does not necessarily infringe the ’989 patent.”); *Cross Med. Prods., Inc. v. Medtronic Sofamor Danek, Inc.*, 424 F.3d 1293, 1311-1312 (Fed. Cir. 2005) (“To infringe an apparatus claim, the device must meet all of the structural limitations.”). Likewise, in the software context, the court has recognized that, to constitute direct infringement, the “means [must be] *already present in the underlying software*,” which the user merely “activate[s].” *Fantasy Sports Props., Inc. v. Sportsline.com, Inc.*, 287 F.3d 1108, 1118 (Fed. Cir. 2002). Until the present decision, the law was clear: the fact “that a device is *capable of being modified* to operate in an infringing manner is not sufficient, by itself, to support a finding of infringement.” *Telemac Cellular Corp. v. Topp Telecom, Inc.*, 247 F.3d 1316, 1330 (Fed. Cir. 2001) (emphasis added).

The opinion below abandons this fundamental rule. The court of appeals held it sufficient to establish direct infringement that SAP’s software, as *modified* by Versata’s expert, performed the claimed functionality, even

though “Versata did not prove that SAP’s software, as shipped to the customer” could do so. App. 13a.<sup>2</sup> The court improperly faulted SAP for not requesting a claim construction to “require that the patented function be ‘*existing as shipped*’ in the computer instructions.” *Ibid.* (emphasis added; quotation omitted). But the requirement that the accused product meet all claim limitations “as shipped” is a fundamental principle of direct infringement, not a matter of case-specific claim construction. Under the court of appeals’ reasoning, *Deepsouth* becomes nothing more than a speed bump for the clever draftsman.

But *Deepsouth* cannot be so narrowed. The claim language there also recited the functions that the elements were capable of performing, such as “for sliding shrimp” and “for flushing out the vein.” *Laitram Corp. v. Deepsouth Packing Co.*, 443 F.2d 928, 931 n.1 (5th Cir. 1971). While the pieces had this “inherent functionality,” App. 12a, the product could perform the claimed functions only after the pieces had been configured by the user. See *Deepsouth*, 406 U.S. at 524, 528-529. There was thus no need for SAP to request a claim construction interpreting the ’350 claims to “require that the patented function be ‘existing as shipped’ in the computer instructions” as a claim limitation. App.

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<sup>2</sup> That the court of appeals so held is confirmed by the court’s acceptance, for purposes of SAP’s appeal, of the district court’s determination that SAP’s product, “as made and sold,” did not “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,” and therefore did not infringe the ’400 patent’s “configured to cause” claim. App. 8a.

13a. Under *Deepsouth*, this “limitation” is a necessary statutory element of direct infringement.

The court of appeals’ seeming distinction between “computer instructions” and “source code” only exacerbates its holding’s pernicious effects. The court deemed it sufficient that “Versata’s expert did not alter or modify *SAP’s code* in order to achieve the claimed functionality.” App. 15a (emphasis added); see also App. 12a (stating expert “did not require any modification to *SAP’s source code*”) (emphasis added). But the asserted claims were not drawn to “source code.” Thus, under the decision below, software *directly* infringes a patent drawn to “computer instructions” so long as an expert can find a way to modify, configure, or add computer instructions to the accused software to achieve the specified functionality without changing the “source code.” Yet such a rule has absolutely no basis in the statute or this Court’s precedents, and, indeed, contradicts their fundamental distinction between direct and indirect infringement.

Tellingly, the court cited, as supposed evidence of direct infringement, SAP’s purported intent and alleged instructions to customers. See, *e.g.*, App. 15a. It recounted that Versata’s expert followed “SAP’s own directions” and that “SAP *expects its customers* to set up access sequences [and] specific pricing procedures.” *Ibid.* (emphasis added). Yet these findings are directed to the expectation that customers would create customized access sequences and pricing procedures *generally*—not the *specific* access sequence and pricing procedure created by Versata’s expert, which were never shown to have been used by any customer, but were necessary to make the software capable of performing

the claimed functionality. Moreover, because Versata presented no evidence that SAP’s customers ever did create a hierarchical access sequence that would directly infringe Versata’s patent, Versata could not have proved indirect infringement on this theory. In any event, the court of appeals’ findings demonstrate its conflation of direct and indirect infringement. “[K]nowledge or intent is irrelevant” to direct infringement, see *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060, 2065 n.2 (2011), whereas it can be critical to *indirect* infringement, see 35 U.S.C. 271(b)-(c). The court of appeals thus improperly expanded the scope of direct infringement, while relieving Versata of its burden to prove the elements of indirect infringement.

**B. The Federal Circuit’s Decision Threatens the Software Industry by Vastly Expanding Direct Infringement Liability**

Patents claiming a monopoly on methods of doing business, like Versata’s, pose a particular threat to the economy, as both this Court and Congress have recognized. See, *e.g.*, *Bilski v. Kappos*, 130 S. Ct. 3218 (2010); AIA § 18. The decision below demonstrates this risk, in the context of software products that are increasingly central to modern business, and even home life. By holding that patent claims directed to “computer instructions” can be infringed by products that must be modified or configured by the user with additional computer instructions in order to perform the claimed operations, the court has exposed manufacturers to potentially disastrous liability.

The decision permits manufacturers to be held *directly* liable under 35 U.S.C. 271(a) for providing only

part of the instructions necessary for practicing a supposed invention. While knowingly providing components or instructions actually used to practice an invention can sometimes create liability for *indirect* infringement, such actions have never before been held to constitute direct infringement.

By eliminating the boundary between direct and indirect infringement, the decision below carries immense practical consequences—and vast potential liability—for the software industry. Many commercial software products are, like SAP’s, designed so that customers can add instructions or functionality on top of the underlying source code. For example, common word processing software (such as Microsoft Word) enables users to create macros, which comprise sets of instructions for performing common tasks. Internet web browsers permit users to install “plug-ins” coded by third parties that add features to the browser. And smartphones and other mobile devices run software that allows users to install “apps” created by third parties. In each instance, while the basic commercial software package is *capable* of such modifications, the computer instructions do not exist in those products until the user or a third party provides them. Accordingly, until now, software companies, including SAP, have not had reason to fear being directly liable for infringing patents directed to “computer instructions” to perform claimed operations that their products, as shipped, simply do not provide sufficient computer instructions to perform. Following the decision below, however, these companies cannot know where the boundaries of direct infringement lie. The economy will suffer if manufacturers must limit their products’ versatility to

avoid liability predicated on users' potential modifications.

By distorting fundamental principles of direct infringement, the Federal Circuit's ruling has disrupted the settled expectations of an entire industry.<sup>3</sup> Certiorari is necessary to reestablish the fundamental limitation on direct liability that any product, including software, directly infringes only if it "satisf[ies] all the limitations of a patent claim." *High Tech Med.*, 49 F.3d at 1555.<sup>4</sup>

## II. THE FEDERAL CIRCUIT'S HOLDING THAT EXPERT TESTIMONY IS EXEMPT FROM REVIEW FOR SUFFICIENCY OF THE EVIDENCE CONFLICTS WITH *DAUBERT*

The nearly \$400 million award in this case is particularly shocking in light of the PTAB's ruling that Versata's "invention" is not patentable, and the fact that SAP's product, as shipped, could not perform the purported invention. But while these facts should have raised red flags, the court of appeals refused even to

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<sup>3</sup> Numerous software companies joined an amicus brief in the court of appeals urging the court to grant SAP's petition for rehearing or rehearing en banc on this issue. See Microsoft Corp., SAS Institute Inc., HTC Corp., Limelight Networks, Inc., Xilinx, Inc., Altera Corp., Harman International, American Bankers Assn., Application Developers Alliance, and Electronic Frontier Foundation C.A. Amicus Br.

<sup>4</sup> The pending petition in *Akamai Techs., Inc. v. Limelight Networks, Inc.*, Nos. 12-786, -970, in which the Court sought the views of the Solicitor General, presents a different question regarding the proper boundary between direct and indirect infringement under *Deepsouth*.

consider SAP’s challenge to the sufficiency of Versata’s expert’s testimony to support the \$260 million lost profits award. Rather, in direct conflict with this Court’s opinion in *Daubert v. Merrell Dow Pharmaceuticals, Inc.*, 509 U.S. 579 (1993), and other courts of appeals, the court below held that flaws in an expert’s testimony are immune from review in a challenge to the sufficiency of the evidence and may be brought *only* as part of a *Daubert* challenge to the testimony’s admission.

It is beyond dispute that, “in ruling on a motion for judgment as a matter of law, the court is to inquire whether there is any ‘legally sufficient evidentiary basis for a reasonable jury to find for [the motion’s opponent].’” *Weisgram v. Marley Co.*, 528 U.S. 440, 453-454 (2000) (citing Fed. R. Civ. P. 50(a)(1)). Yet the court of appeals refused to consider SAP’s sufficiency challenge simply because it was not raised in the form of an appeal from a *Daubert* ruling on admissibility. This holding threatens litigants’ right to challenge the sufficiency of the evidence against them on appeal. To ensure uniform application of Rule 50 across the courts of appeals and resolve the confusion the Federal Circuit has created, the Court should grant this petition to reaffirm *Daubert*’s guidance that admission of evidence under *Daubert* does not immunize expert testimony from further scrutiny.

On appeal, SAP argued that Versata’s evidence was insufficient as a matter of law to support the lost profits award, chiefly because the expert’s model was fundamentally unsound. See SAP C.A. Op. Br. 46-57. First, it ignored the fact that the market for Versata’s product collapsed independent of any alleged infringement—including among customers of SAP’s competi-

tors who were not alleged to have infringed Versata's supposed invention. *Id.* at 46-49. Second, Versata's expert used multiple, inconsistent definitions of the relevant "market" in attempting to prove lost profits from allegedly infringing sales. *Id.* at 50-53. For example, Versata used a narrow market to claim there were no noninfringing alternatives (not a tenable proposition in a more broadly-defined market); then used a logically incompatible, more broadly-defined market to calculate the number of supposedly lost sales; and then used yet a third market to calculate the profit Versata would have made from each sale. See *id.* at 51-53. The court of appeals recognized that SAP's argument amounted to a claim that "the jury could have not had sufficient evidence to award lost profits because the expert's testimony was fatally flawed." See App. 18a-19a.

The court nevertheless "reject[ed] these two arguments as improperly raised \* \* \* [u]nder the guise of sufficiency of the evidence" because the challenges "question[ed] \* \* \* whether [the expert's] damages model is properly tied to the facts of the case." App. 17a-18a. Rather, the court held, "[s]uch questions should be resolved under the framework of the Federal Rules of Evidence and through a challenge under *Daubert*." *Ibid.* In other words, arguments that *can* be raised in the context of *Daubert* challenges may *only* be raised there.

This holding directly contradicts this Court's guidance in *Daubert* and the application of that guidance by other courts of appeals. *Daubert* makes clear that the sufficiency of evidence to support a verdict is independent of the evidence's admissibility: notwithstanding the evidence's admission, if "the trial court con-

cludes that the scintilla of evidence presented supporting a position is insufficient to allow a reasonable juror to conclude that the position more likely than not is true, *the court remains free to direct a judgment.*” *Daubert*, 509 U.S. at 595-596 (emphasis added); see also, e.g., *Brooke Grp. Ltd. v. Brown & Williamson Tobacco Corp.*, 509 U.S. 209, 242 (1993) (“When an expert opinion is not supported by sufficient facts to validate it in the eyes of the law, or when indisputable record facts contradict or otherwise render the opinion unreasonable, it cannot support a jury’s verdict.”).

Accordingly, the other courts of appeals—including the Fifth Circuit, whose law should have applied here<sup>5</sup>—have consistently held that litigants can challenge the sufficiency of the evidence based on grounds that could also be probative of admissibility. See, e.g., *Stevenson v. E.I. DuPont De Nemours & Co.*, 327 F.3d 400, 406-407 (5th Cir. 2003) (holding that “waiver of any challenges to the admissibility of the expert testimony does not preclude such a sufficiency review by this Court” because “*Daubert* did not change the traditional role of a sufficiency inquiry, but only expanded the trial court’s role regarding the admissibility of expert evidence”); *In re Joint E. & S. Dist. Asbestos Litig.*, 52 F.3d 1124, 1131, 1133-1137 (2d Cir. 1995); *Conde v. Veliscol Chem. Corp.*, 24 F.3d 809, 812-814 (6th Cir. 1994).

The court of appeals’ break from the holdings of this Court and the regional circuits has already begun

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<sup>5</sup> The Federal Circuit reviews motions for judgment as a matter of law under regional circuit law. *Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318, 1323-1324 (Fed. Cir. 2008), cert. denied, 556 U.S. 1105 (2009).

to sow confusion. For example, in *Summit 6 LLC v. Research in Motion Corp.*, the defendants in a patent infringement suit sought to limit damages by arguing that the plaintiffs' expert's methods were "flawed and unreliable." No. 11-367, 2013 U.S. Dist. LEXIS 95164, at \*32 (N.D. Tex. June 26, 2013). In response, the plaintiffs cited the opinion in this case to argue that defendants were inappropriately challenging the *admissibility* of the evidence in the context of a motion for judgment as a matter of law. *Id.* at \*31 n.9. The district court noted the confusion caused by the court of appeals, although it did not need to resolve the issue because the expert's testimony was sufficient in any event. *Ibid.* Lower courts are likely to be particularly confused how to resolve such motions in patent cases, because they would typically follow regional circuit law on such procedural questions—yet here the Federal Circuit disregarded regional circuit precedent.

The Court should grant the petition and reaffirm that, contrary to the Federal Circuit's holding, the fact that arguments regarding flaws in expert testimony could have been raised as part of a *Daubert* motion does not relieve the court of the obligation to consider the evidence's sufficiency.

### **III. THE COURT SHOULD CLARIFY THAT INFRINGEMENT LITIGATION SHOULD BE STAYED WHEN THE PTAB HAS INVALIDATED THE PATENT CLAIMS AND THE DEFENDANT, DESPITE ACTING EXPEDITIOUSLY, MIGHT BE FORCED TO PAY A MASSIVE JUDGMENT ON INVALID CLAIMS**

The court of appeals' unwillingness to grant a stay on the facts of this case raises the question when, if ev-

er, it would find a stay appropriate to prevent enforcement of an invalid patent. Here, *all* the asserted patent claims have already been *ruled invalid* by the PTAB, the defendant faces the prospect of paying a *\$391 million judgment* for supposed “infringement” of this invalid patent, the defendant filed the petition for CBM review on the first possible day, and SAP’s appeal raised very serious issues that went to the heart of Versata’s infringement and damages theories. Moreover, denying a stay in these circumstances without even issuing a reasoned decision fails to heed Congress’s mandate that the Federal Circuit give guidance to lower courts on this issue—a failure all the more harmful given that most circumstances will be far less compelling than these.

The Court should grant the petition to review the denial of the stay in addition to the errors described above. Although a stay in the court of appeals would have obviated the need for this Court to address those substantial questions, that does not make the case less worthy of review. Given the lack of a stay, and the court of appeals’ erroneous infringement and damages holdings, SAP faces the very real prospect that it could be forced to pay the \$391 million judgment that the court of appeals has affirmed. By granting the petition on this question, too, the Court would correct a decision that otherwise threatens to undermine significantly Congress’s purposes in establishing the PTAB and CBM review.

**A. The Court of Appeals Erred as a Matter of Law in Denying SAP’s Stay Request Following the PTAB’s Invalidation of Versata’s Patent Claims**

CBM review was enacted to “provid[e] a more efficient system for challenging patents that should not have issued” and to “reduc[e] unwarranted litigation costs and inconsistent damage awards.” H.R. Rep. No. 98, 112th Cong., 1st Sess. 39-40 (2011). To achieve these purposes, the AIA provides two principal forms of relief to defendants who, like SAP, are accused of infringing an invalid business method patent. A defendant can obtain prompt PTAB adjudication of a CBM petition upon a showing that the patent is “more likely than not invalid.” AIA § 18(a); 35 U.S.C. 6, 323(c), 324(a). A defendant can also obtain a stay of the infringement litigation itself, pending the CBM review. AIA § 18(b).

The statute contemplates that such a stay may be sought and granted even before the PTAB has actually ruled on a CBM petition. It provides that courts “shall” consider stay applications “*relating to* a transitional proceeding for that patent.” AIA § 18(b)(1) (emphasis added). Although courts had inherent discretionary authority to stay litigation pending patent reexaminations at the PTO, see, *e.g.*, *Anascape, Ltd. v. Microsoft Corp.*, 475 F. Supp. 2d 612, 615 (E.D. Tex. 2007), the AIA specifically authorizes such stays pending CBM review and also identifies four factors that courts must consider, including, in addition to the traditional factors, “whether a stay, or the denial thereof, will reduce the burden of litigation on the parties and on the court.” AIA § 18(b)(1); see also 157 Cong. Rec. S1360-1364 (dai-

ly ed. Mar. 8, 2011) (statement of bill sponsor Sen. Schumer) (describing stay provision as “properly emphasiz[ing] \* \* \* whether a stay will reduce the burden of litigation on the parties and on the court” and “plac[ing] a very heavy thumb on the scale in favor of a stay being granted”).

Because a stay was far more appropriate here than in the run-of-the-mill case, the denial here casts significant doubt on whether, as Congress intended in the AIA, district court stays will be routinely granted in favor of PTAB proceedings. Whereas the AIA contemplates that a stay may be granted even before the PTAB invalidates a patent—based on the *possibility* that the patent may be invalidated—here, the PTAB had *already* issued its final written decision ordering Versata’s patent claims cancelled when SAP sought a stay. Cf. 157 Cong. Rec. S1053 (daily ed. Mar. 1, 2011) (statement of Sen. Schumer) (explaining that only in “rare instances” would a stay be denied). Because the PTAB had already ordered the claims cancelled, the court of appeals did not need to assess the likelihood of the PTAB’s instituting review or granting the petition. Moreover, staying the federal litigation would undoubtedly have advanced Congress’s purposes of reducing the burdens imposed by invalid CBM patents. Because the PTAB had ordered cancelled *all* patent claims at issue in this litigation, the court of appeals’ stay would have eliminated all remaining issues, including the need for that court to rule on SAP’s then-pending petition for rehearing, the district court’s obligation to recraft the permanent injunction and calculate

post-judgment interest on remand,<sup>6</sup> a potential appeal from remand proceedings, and this Court’s review of the court of appeals’ significant departures from this Court’s precedent. Cf. AIA § 18(b)(1)(A). Once the PTAB’s ruling becomes final on appeal, the federal court will be required to dismiss any ongoing litigation. *Fresenius USA Inc. v. Baxter Int’l*, 721 F.3d 1330, 1344 (Fed. Cir. 2013).<sup>7</sup>

Furthermore, the equities of the case plainly counseled in favor of a stay. At the time SAP sought the stay, SAP already faced a nearly \$400 million judgment for supposed “infringement” of an invalid patent that no one (except Versata’s expert) had ever been shown to have practiced. The AIA “places a very heavy thumb on the scale in favor of a stay being granted” even where the only burdens in question are unnecessary litigation costs. See 157 Cong. Rec. S1360, S1364 (daily ed. Mar. 8, 2011).

A stay was particularly appropriate here because SAP had invoked CBM review at the first possible opportunity and promptly sought a stay after the PTAB had ruled Versata’s claims invalid. Cf. AIA § 18(b)(2)(C). Whereas SAP’s competitors will have the benefit of SAP’s prompt action, the denial of a stay could mean that SAP, and *only* SAP, has to pay a large judgment based on Versata’s invalid patent.

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<sup>6</sup> Notably, due to a retirement, this highly complex case will be remanded to a new district court judge lacking familiarity with the patent or the litigation’s tortuous history.

<sup>7</sup> In the meantime, Versata is already barred from taking any action in the PTO inconsistent with the PTAB’s ruling. See 37 C.F.R. 42.73(d)(3), 42.2.

But the court instead quickly denied SAP’s stay request, only three days after *Fresenius* reaffirmed the primacy of the PTAB’s ruling. Some members of the Federal Circuit, including the author of the opinion below, oppose giving priority to the PTAB’s review of business method patents. See *Fresenius USA Inc. v. Baxter Int’l*, 733 F.3d 1369, 1372-1373 (2013) (O’Malley, J., joined by Rader, C.J., and Wallach, J., dissenting from denial of rehearing en banc) (stating that “PTO’s actions cannot, and should not be permitted to, dislodge the judgment for past infringement,” even when the infringement action remains pending). But Congress determined that the expert agency, operating under a corrected standard and unencumbered by the presumption of validity, was best suited to eliminate the scourge of business method patents that should never have issued. When the PTAB has performed its task, the courts should give effect to its findings of invalidity, not rush to affirm a judgment based on the false premise that the underlying “invention” was patentable.

#### **B. The Federal Circuit’s Denial of a Stay Jeopardizes the Effectiveness of CBM Review**

The court of appeals’ unexplained refusal to grant a stay in this case risks undermining the core purposes of the AIA. Congress explicitly mandated that the Federal Circuit establish a legal standard governing stays under the AIA: “The United States Court of Appeals for the Federal Circuit shall review the district court’s decision to *ensure consistent application of established precedent*, and such review may be *de novo*.” AIA § 18(b)(2) (emphasis added). Ordinarily, the grant or denial of a stay is committed to a court’s discretion and reviewed accordingly. See, e.g., *Landis v. N. Am. Co.*,

299 U.S. 248, 254–255 (1936). Here, by contrast, Congress has mandated the “establish[ment of] precedent” regarding four uniform factors, as well as de novo review to enforce “consistent application” by the lower courts.

Yet instead of heeding Congress’s command to “establish precedent,” the Federal Circuit denied SAP’s stay application despite the most compelling circumstances and without issuing a reasoned opinion. The court not only failed to provide guidance to the lower courts, but also turned on its head “congressional intent that a stay should only be denied in extremely rare instances.” 157 Cong. Rec. S1360, S1363 (daily ed. Mar. 8, 2011) (statement of Sen. Schumer).

The court’s refusal to grant a stay carries the potential of foiling the goals of the AIA—not least in this very case. SAP faces the prospect of potentially being forced to pay—alone among potential “infringers” of the invalid patent claims, and despite being the party to have obtained their invalidation—a nearly \$400 million judgment for supposed “infringement” of patent claims that have been invalidated. Cf. *Bros Inc. v. W.E. Grace Mfg. Co.*, 320 F.2d 594, 610 (5th Cir. 1963) (A patent “ought to exist against all or none.”) (quoting *Zachos v. Sherman-Williams Co.*, 166 F.2d 79, 81 (5th Cir. 1948) (per curiam)). So manifestly unjust an outcome not only fails to accomplish the AIA’s purpose of reducing the burden of invalid patents on defendants, but also undermines faith in the patent system as a whole. Cf. House Rep., at 48 (describing CBM review as “a meaningful opportunity to improve patent quality and restore confidence in the presumption of validity that comes with issued patents in court”).

The Court should grant the petition in order to protect other important federal interests as well. In addition to protecting individual defendants from burdensome litigation and unjust results, the stay provision also protects the interests of the public and the PTO. Congress established the PTAB and CBM review to enable the expert agency to address, through an administrative process, the significant drag on the economy inflicted by business method patents that should never have issued. The PTAB has a significant interest in seeing that its administrative determinations are given effect, and the public has an interest in ensuring that valuable products like SAP's business software are not blocked or limited because of an improperly issued patent. These federal interests are substantially undermined by the court of appeals' denial of a stay below. If the Court has any question in that regard, SAP respectfully suggests that the Court invite the views of the United States.

## CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted,

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