

**IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA,
ALEXANDRIA DIVISION**

VERSATA DEVELOPMENT GROUP, INC.,)
Plaintiff,) C.A. No. 1:13-CV-328 (GBL/IDD)
v.)
TERESA STANEK REA)
Acting Director of the)
United States Patent and Trademark Office,)
Defendant.)

**PLAINTIFF'S COMBINED OPPOSITION
TO THE MOTIONS TO DISMISS OF DEFENDANT TERESE STANEK REA
AND INTERVENORS SAP AMERICA, INC. AND SAP AG**

TABLE OF CONTENTS

TABLE OF AUTHORITIES ii

I. INTRODUCTION 1

II. STATEMENT OF FACTS 1

III. ARGUMENT 4

 A. Legal Standards 4

 B. This Court Has Subject Matter Jurisdiction Over Versata’s APA Claims 7

 1. Congress Did Not Preclude Judicial Review Over Defendant’s Statutory Construction of its Jurisdiction in Post-Grant Review Proceedings 7

 a) Congress Did Not Expressly Preclude Judicial Review of Defendant’s Statutory Construction of §§ 321(b) and 18(d)(1) 7

 b) The Legislative History and Statutory Scheme as a Whole Do Not Preclude Review 11

 2. Defendant’s Statutory Constructions of §§ 321(b) and 18(d)(1) Are Final For Purposes of the APA and Ripe for Judicial Review 13

 a) The Constructions of §§ 321(b) and 18(d)(1) are Final 13

 1. The Construction of § 321(b) is a Final Agency Action... 13

 2. The Construction of § 18(d)(1) is a Final Agency Action 17

 b) Versata Has No Other Adequate Remedy in Court 19

IV. CONCLUSION 20

TABLE OF AUTHORITIES

Cases

Abbott Labs. v. Gardner,
387 U.S. 136 (1967)..... passim

Allegheny Ludlum Corp. v. Comer,
No. 92-1156, 1992 U.S. Dist. LEXIS 20950 (W.D. Pa. July 28, 1992)..... 7

American Airlines Inc. v. Herman,
176 F.3d 283 (5th Cir. 1999)..... 6, 14

Appalachian Power Co. v. EPA,
208 F.3d 1015 (D.C. Cir. 2000)..... 14

Ashcroft v. Iqbal,
129 S. Ct. 1937 (2009)..... 5

Bell Atl. Corp. v. Twombly,
550 U.S. 544 (2007)..... 5

Bennet v. Spear,
520 U.S. 154 (1997)..... 6

Block v. Community Nut. Inst.,
467 U.S. 340 (1984)..... 5

Bowen v. Massachusetts,
487 U.S. 879 (1988)..... 7, 20

Burlington N. RR. Co. v. Surface Transp. Bd.,
75 F.3d 685 (D.C. Cir. 1996)..... 15

Callaway Golf Co. v. Kappos,
802 F. Supp. 2d 678 (E.D. Va. 2011) 9, 11, 13

Conley v. Gibson,
355 U.S. 41 (1957)..... 5

Cooper Techs. Co v. Dudas,
No. 07-853, 2007 WL 4233467 (E.D. Va., Nov. 30, 2007) 9

Env. Protection Info. Ctr. v. Pac. Lumber Co.,
266 F. Supp 2d 1101 (N.D. Ca. 2003)..... 7, 19

Fort Sumter Tours, Inc. v. Andrus,
564 F.2d 1119 (4th Cir. 1977)..... 6, 14, 15

Frozen Food Express v. United States,
351 U.S. 40 (1956)..... 18

FTC v. Standard Oil Co.,
449 U.S. 232 (1980)..... 15

Garcia v. Vilsack,
563 F.3d 519 (D.C. Cir. 2009)..... 7, 19

Heinl v. Godici,
143 F. Supp. 2d 593 (E.D. Va. 2001) 15, 19

Hosh v. Lucero,
680 F.3d 375 (4th Cir. 2012) 17

Marshall County Health Care Auth. v. Shalala,
988 F.2d 1221 (D.C. Cir. 1993)..... 8

MedImmune, Inc. v. Genentech, Inc.,
549 U.S. 118 (2007)..... 10

Patlex v. Mossinghoff,
585 F. Supp. 713 (E.D. Pa. 1983)..... 7, 16, 19

Pepsico, Inc. v. FTC,
472 F.2d 179 (2nd Cir. 1972) 7, 15, 18, 19

Pregis Corp. v. Kappos,
700 F.3d 1348 (Fed. Cir. 2012) 11, 12

Republic Indus., Inc. v. Central Pennsylvania Teamsters Pension Fund,
693 F.2d 290 (3d Cir. 1982) 7

Richmond, Fredericksburg, & Potomac R.R. Corp. v. United States,
945 F.2d 765 (4th Cir. 1991) 5

Sackett v. E.P.A.,
132 S.Ct. 1367 (2012)..... 6, 11

Shaughnessy v. Pedreiro,
349 U.S. 48 (1955)..... 6

Sys. Application & Techs., Inc. v. United States,
691 F.3d 1374 (Fed. Cir. 2012) 14

Traynor v. Turnage,
485 U.S. 535 (1988)..... 13

Warth v. Weldin,
422 U.S. 490 (1975)..... 4

Statutes

35 U.S.C. § 101..... passim
 35 U.S.C. § 102..... 2, 3
 35 U.S.C. § 112..... 2
 35 U.S.C. § 321..... 3
 35 U.S.C. § 321(b)..... passim
 35 U.S.C. § 324(a) 8, 9
 35 U.S.C. § 324(e) 8, 9, 11
 35 U.S.C. § 328(a) 20
 35 U.S.C. § 704..... 5, 17, 19
 5 U.S.C. § 551(4) 5, 14, 15, 17
 5 U.S.C. § 701(a)(1)..... 5
 5 U.S.C. § 704..... 6, 7, 8, 18
 Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011)..... passim

Rules

37 C.F.R. § 42.207 2, 4, 10, 20
 37 C.F.R. § 42.208 3, 16, 18
 37 C.F.R. § 42.220 3, 4, 10, 20
 37 C.F.R. § 42.73 4
 Fed. R. Civ. P. 12(b)(1)..... 4

Other Authorities

145 Cong. Rec. H11769, H11805 (Nov. 9, 1999) 9
 H.R. 1249, House Judiciary Committee (June 29, 2011) 17
 H.R. rep. No. 106-1554 (1999)(Conf. Report) 9

Joe Matal, “A Guide to the Legislative History of the America Invents Act Part II of II,” 21
FED. CIR. B.J. 539, 616 (2012)..... 8, 11

S. Rep. No. 752, 79th Cong., 1st Sess. 26 (1945)..... 6, 10, 13

I. INTRODUCTION

Plaintiff, Versata Development Group, Inc. (“Versata”) opposes the motions to dismiss of Defendant, Teresa Stanek Rea, Acting Director of the United States Patent & Trademark Office (“Defendant”), and Intervenors, SAP America, Inc. and SAP AG (collectively “SAP”).

Defendant recently held various claims of Versata’s patent unpatentable under 35 U.S.C. § 101. In doing so, and by allowing the transitional post-grant review to proceed in the first place, Defendant exceeded its statutory authority. The first instance of overreaching was Defendant’s expansive interpretation of “covered business method patent” to mean anything that relates in any way to money. The second instance was Defendant’s consideration of challenges under § 101, which is not a “condition of patentability” and thus not reviewable.

Both instances are final agency actions, and the America Invents Act does not preclude their review here, either explicitly or implicitly. Further, while both Defendant and SAP state that there is a direct right to appeal these jurisdictional arguments, since the underlying proceeding at the United States Patent & Trademark Office (“PTO”) was the first such proceeding to be conducted, it cannot be certain how the U.S. Court of Appeals for the Federal Circuit (“Federal Circuit”) will view this issue—even with Defendant’s and SAP’s agreement that the appeal is available. Parties cannot confer appellate jurisdiction by agreement. Accordingly, Defendant’s and SAP’s motions to dismiss should be denied because of the significant interest in resolving these threshold questions of Defendant’s jurisdiction in the transitional post-grant review, and the risk that there is no other adequate relief in Court to remedy this improper taking of Versata’s property right.

II. STATEMENT OF FACTS

In 2007, Versata sued SAP in the U.S. District Court for the Eastern District of Texas for patent infringement. *See Versata v. SAP*, Case No. 2:08-cv-153. After the first trial, a jury

found that SAP had failed to prove any asserted claims of U.S. Patent No. 6,553,350 (“350 patent”) were invalid, and that SAP infringed. SAP then issued a software patch that it alleged eliminated future infringement. Versata disagreed. After a second trial, a jury found that SAP’s post-patch software continued to infringe and awarded \$345 million in damages.

The district court issued a final judgment on September 9, 2011 upholding liability and damages, and awarding interest. Separately, the district court issued a permanent injunction against SAP’s future infringement, which was stayed pending appeal. On October 11, 2011, SAP appealed the final judgment regarding infringement, damages and the injunction, but not validity. The Federal Circuit affirmed the district court’s judgment on May 1, 2013, remanding only as to the scope of the injunction. SAP filed a combined motion requesting rehearing and rehearing *en banc* on May 31, 2013.

On September 16, 2012, more than a year after the district court’s final judgment, SAP filed a petition with the PTO to institute a transitional post-grant review under § 18 of the Leahy-Smith America Invents Act. Section 18 provides for post-grant review of any “covered business method patent,” which is defined as “a patent that claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service” § 18(d)(1). Transitional post-grant reviews are held before the Patent Trial and Appeal Board. SAP’s petition raised arguments that SAP advanced during the litigation but failed to prove at trial. Specifically, the petition alleged that claims 17, 26, 27, 28, and 29 are unpatentable based on 35 U.S.C. §§ 101, 102 and 112.¹

Versata challenged the merits of SAP’s petition in a Patent Owner Preliminary Response under 37 C.F.R. § 42.207. Exh. 1. Because the Patent Owner Preliminary Response allows the patent owner to present any argument as to “why no post-grant review should be instituted,”

¹ Claims 17 and 27 were not at issue in trial.

Versata also challenged Defendant's overly expansive interpretation of its authority regarding the definition of "covered business method patents" that are properly reviewable under § 18 and its ability to accept challenges under 35 U.S.C. § 101.

On January 9, 2013, Defendant instituted a review of the '350 patent under §§ 101 and 102.² In response to Versata's arguments that the '350 patent does not qualify under a proper interpretation of "covered business method patent," Defendant stated:

We do not interpret the statute as requiring the literal recitation of the terms financial products or services. The term financial is an adjective that simply means relating to monetary matters. This definition is consistent with the legislative history for Section 18, which explains that the definition was intended to encompass patents claiming activities incidental and complementary to a financial activity.

Decision, Institution of Covered Business Method Review 37 C.F.R. § 42.208 (Paper 36), CBM2012-00001, at 23 (Exh. 2). Regarding § 101, Defendant stated "Versata states that the statute and controlling precedent lead to the conclusion that the USPTO may not consider [§ 101] challenges during a review . . . We disagree." *Id.* at 32.

On March 11, 2013, Versata filed its Patent Owner Response pursuant to 37 C.F.R. § 42.220, which only allows arguments regarding "any ground for unpatentability not already denied." Exh. 3. On March 13, 2013 Versata instituted this action challenging Defendant's interpretation of "covered business method patent" under § 18 and its determination that § 101 is a permissible ground for challenging a patent under § 321(b). In this action, Versata is *not* challenging the Defendant's decision that various claims of the '350 patent are more likely than not unpatentable under §§ 101 and/or 102, although Versata strongly disagrees with that decision. Rather, the *only* questions here are the PTO's interpretation of "covered business

² Following Defendant's decision to institute its review, SAP dropped its challenge under § 102 in order to proceed under §101 on an expedited basis. But SAP then filed an *ex parte* reexamination request regarding the '350 patent on the same grounds that it agreed to drop in the transitional post-grant review. Defendant declined to stay the *ex parte* reexamination in its Final Written Decision. Exh. 4, Final Written Decision, at p. 34.

method patent” under §18(d)(1) and the availability of §101 in transitional post-grant reviews under §18. These are the jurisdictional challenges that Versata properly asserted in its Patent Owner Preliminary Response under 37 C.F.R. § 42.207, the only place that Defendant’s rules allow such issues to be presented. *See* 37 C.F.R. § 42.220.

In response, Defendant filed a motion to dismiss on May 16, 2013 based on Fed. R. Civ. P. 12(b)(1) and (6). SAP filed a motion to dismiss under Fed. R. Civ. P. 12(b)(1) on the same day. Both argue that Congress precluded APA review of Versata’s claims, and that Defendant’s decision with respect to the meaning of “covered business method patent” and its jurisdiction over § 101 challenges is not a final agency action reviewable under the APA. On June 11, 2013, while the Defendant’s and SAP’s motions were pending, Defendant issued its Final Written Decision pursuant to 37 C.F.R. § 42.73 in the underlying proceeding, holding that claims 17 and 26-29 of Versata’s ’350 patent are unpatentable under § 101. Exh. 4 at 2. While the Final Written Decision is appealable to the Federal Circuit, that decision does not discuss Versata’s jurisdictional challenges to the transitional post-grant review, which are at issue in this action.

Because Defendant has grossly overstepped its authority and improperly taken Versata’s property right, and the risk that no other adequate remedy exists in court to review Defendant’s *ultra vires* action, the motions to dismiss of Defendant and SAP should be denied.

III. ARGUMENT

A. Legal Standards

Federal Rule 12(b)(1) serves as the basis to challenge a court’s subject matter jurisdiction. In resolving such challenges, courts must accept the factual allegations in the complaint as true, and must construe the complaint in favor of the complaining party. *See Warth v. Weldin*, 422 U.S. 490, 501 (1975). Courts may also consider evidence outside of the pleadings. *See Richmond, Fredericksburg, & Potomac R.R. Corp. v. United States*, 945 F.2d

765, 768 (4th Cir. 1991). “The moving party should prevail only if the material jurisdictional facts are not in dispute and the moving party is entitled to prevail as a matter of law.” *Id.*

Federal Rule 12(b)(6) motion tests the sufficiency of the pleadings. “Federal Rule of Civil Procedure 8(a)(2) requires only a short and plain statement of the claim showing that the pleader is entitled to relief, in order to give the defendant fair notice of what the . . . claim is and the grounds upon which it rests.” *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 555 (2007) (internal quotations omitted). A claim must meet the “plausibility test” of *Twombly*, and if it meets that standard, the motion to dismiss should be denied. 550 U.S. at 544. A claim is plausible when it states “factual content that allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged.” *Ashcroft v. Iqbal*, 129 S. Ct. 1937, 1949 (2009).

Subject to certain exceptions, the APA provides judicial review for a “final agency action.” 35 U.S.C. § 704. “[A]gency action” includes any agency “rule” that is “an agency statement of general or particular applicability and future effect designated to implement, interpret, or prescribe law or policy.” 5 U.S.C. § 551(4) and (13); *see also Abbott Labs. v. Gardner*, 387 U.S. 136, 149 (1967). The APA applies “except to the extent that statutes preclude judicial review.” 5 U.S.C. § 701(a)(1); *see Block v. Community Nut. Inst.*, 467 U.S. 340, 345 (1984).

Based on the strong presumption favoring review, “to preclude judicial review . . . a statute, if not specific in withholding such review, must upon its face give clear and convincing evidence of an intent to withhold it.” *Abbott Labs.*, 387 U.S. at 140 n.2. The clear and convincing evidence standard, while not a rigid evidentiary test, is “a useful reminder to courts that, where substantial doubt about the congressional intent exists, the general presumption

favoring judicial action is controlling.” *Id.* at 351; *see also Sackett v. E.P.A.*, 132 S.Ct. 1367, 1373 (2012). Indeed, in passing the APA, the Senate Committee on the Judiciary remarked:

Very rarely do statutes withhold judicial review. It has never been the policy of Congress to prevent the administration of its own statutes from being judicially confined to the scope of authority granted or to the objectives specified. Its policy could not be otherwise, for in such a case statutes would in effect be blank checks drawn to the credit of some administrative officer or board.

S. Rep. No. 752, 79th Cong., 1st Sess. 26 (1945).

The APA provides for the review of final agency actions, as opposed to those which are merely preliminary, procedural or intermediate. 5 U.S.C. § 704. But courts have “interpreted the ‘finality’ element in a pragmatic way.” *Abbott Labs.*, 387 U.S. at 149. Indeed, the Fourth Circuit has recognized that courts are to “take a functional approach in resolving ripeness questions.” *Fort Sumter Tours, Inc. v. Andrus*, 564 F.2d 1119, 1123 (4th Cir. 1977). Under this flexible analysis “a formal administrative order . . . is not an absolute prerequisite to judicial review.” *Id.*³ Rather, courts are to “consider chiefly two factors in analyzing a ripeness problem: first, ‘the fitness of the issues for judicial decision. . .’ and second, ‘the hardship to the parties of withholding court consideration.’” *Id.* (quoting *Abbott Labs. v. Gardner*, 387 U.S. 136, 149 (1967)). In doing so, the “Administrative Procedure Act’s ‘generous review provisions’ must be given a ‘hospitable’ interpretation.” *Id.* at 140-41 (quoting *Shaughnessy v. Pedreiro*, 349 U.S. 48, 51 (1955)).

Generally, two conditions must be satisfied for an agency decision to be final. *See Bennet v. Spear*, 520 U.S. 154, 177-78 (1997). First, the action must mark the “consummation of the agency’s decision-making process” and not be merely tentative or interlocutory. *Id.* Second, the action must be one by which rights or obligations have been determined, or from which legal

³ Courts should take a “pragmatic” and “flexible” view of finality when interpreting the nature of an agency action. *See American Airlines Inc. v. Herman*, 176 F.3d 283, 289 (5th Cir. 1999); *see also Abbott Labs.*, 387 U.S. at 149.

consequences will flow. *Id.* Pure legal issues are particularly ripe for judicial review under the APA. *See Abbott Labs*, 387 U.S. at 149. Such pure legal issues exist where “the agency acts beyond its jurisdiction as a matter of law.” *Pepsico, Inc. v. FTC*, 472 F.2d 179, 187 (2nd Cir. 1972); *see also Allegheny Ludlum Corp. v. Comer*, No. 92-1156, 1992 U.S. Dist. LEXIS 20950, at *16-17 (W.D. Pa. July 28, 1992) (“federal courts may dispense with the exhaustion doctrine in facial challenges to the re-examination procedure”) (citing *Republic Indus., Inc. v. Central Pennsylvania Teamsters Pension Fund*, 693 F.2d 290, 296 (3d Cir. 1982), *Patlex v. Mossinghoff*, 585 F. Supp. 713, 726 (E.D. Pa. 1983)).

Finally, APA review of final agency actions requires that there is no other adequate alternative remedy in court. 5 U.S.C. § 704. In “evaluating the availability and adequacy of alternative remedies,” one “must give the APA a hospitable interpretation.” *Garcia v. Vilsack*, 563 F.3d 519, 523 (D.C. Cir. 2009)(internal quotations omitted). Alternative remedies to APA claims are inadequate if the statute at issue does not allow the petitioner to remedy an alleged wrong. *See Env. Protection Info. Ctr. v. Pac. Lumber Co*, 266 F. Supp. 2d 1101, 1111 (N.D. Cal. 2003). Similarly, an alternative remedy is not adequate where the remedy offers only “doubtful and limited relief.” *Bowen v. Massachusetts*, 487 U.S. 879, 901 (1988).

B. This Court Has Subject Matter Jurisdiction Over Versata’s APA Claims

1. Congress Did Not Preclude Judicial Review Over Defendant’s Statutory Construction of its Jurisdiction in Post-Grant Review Proceedings

a) Congress Did Not Expressly Preclude Judicial Review of Defendant’s Statutory Construction of §§ 321(b) and 18(d)(1).

Defendant and SAP argue that Congress expressly precluded judicial review of post-grant reviews under the APA. Not so. First, the statute only provides that the decision whether to institute a post-grant review is “nonappealable.” The statute does not say “non-reviewable” or

the like. Defendant’s attempt to conflate APA review with appeals is misplaced. While the role of a district court in an APA action is similar to that of an appellate court because the issues presented are generally ones of law—amenable to adjudication without resort to trial-type proceedings—that does not transform an APA review into an appeal. *See Marshall County Health Care Auth. v. Shalala*, 988 F.2d 1221, 1226 (D.C. Cir. 1993). Nor do any of the cases cited by Defendant or SAP stand for the proposition that Congress refers to APA review when it uses the word “appealable” or “nonappealable” in a statute. *Cf.* 5 U.S.C. § 704 (entitled “Actions *Reviewable*”; not actions *appealable*) (emphasis added); *see also* Joe Matal, “A Guide to the Legislative History of the America Invents Act Part II of II,” 21 FED. CIR. B.J. 539, 616 (2012) (“Matal Article”) (co-author of Defendant’s brief noting that “[b]ecause the use of § 325(d), second sentence, is discretionary, and the Director’s decision to institute a review is ‘final and nonappealable,’ the AIA should eliminate *Federal Circuit appeals over whether a petition for review met the substantive standards for starting a proceeding.*”) (emphasis added).

Second, even assuming “nonappealable” means non-reviewable under the APA (it does not), only the determination as to whether at least one claim is more likely than not unpatentable would be immune from review. Specifically, the governing statute states that the Director may authorize a post-grant review only where “the Director *determines* that the information presented in the petition . . . would demonstrate that it is more likely than not that at least 1 of the claims challenged in the petition is unpatentable.” 35 U.S.C. § 324(a)(emphasis added). The statute further states that “[t]he *determination* by the Director whether to institute a post-grant review *under this section* shall be final and non-appealable.” 35 U.S.C. § 324(e)(emphasis added). Thus, simply put, the “final and nonappealable” language of Section 324(e) means that an immediate appeal to the U.S. Court of Appeals for the Federal Circuit (“Federal Circuit”) is not

available for the *substantive* threshold determination “that it is more likely than not that at least 1 of the claims challenged in the petition is unpatentable” made under *Section 324*. §§ 324(a), (e). Review of determinations under *other sections*, such as § 321(b) (what grounds are available for petitions) and 18(d) (the definition of covered business method patent), is not precluded by § 324(e), which expressly states it is limited to determinations under *that section*.

Third, Defendant’s and SAP’s highly formulaic approach, and the sweeping relief being requested, are contrary to settled precedent. Specifically, from § 324(e)’s “nonappealable” language, they request that this Court hold that *all* determinations involved in a decision to institute a post-grant review are immune from review under the APA. This position was expressly rejected in a case involving the *inter partes* reexamination statute which contained almost identical language to that found in the post-grant review statute. *Callaway Golf Co. v. Kappos*, 802 F. Supp. 2d 678, 685 (E.D. Va. 2011) (discussing essentially identical language in the *inter partes* reexamination statute and noting “Section 312(c) only exempts from judicial review the PTO’s substantive determination that a reexamination application raises ‘a substantial new question of patentability.’ The statute *does not* divest the courts of jurisdiction over all decisions related to *inter partes* reexaminations.”) (emphasis added);⁴ *see also Cooper Techs. Co v. Dudas*, No. 07-853, 2007 WL 4233467, at *3 (E.D. Va., Nov. 30, 2007).⁵

Defendant attempts to back away from the complete immunity from APA review that it requests. (D.I. 18 at 16-17) But Defendant’s statement that Versata’s jurisdictional arguments

⁴ *Cf.* 35 U.S.C. § 324(e) (“The determination by the Director whether to institute a post-grant review under this section shall be final and nonappealable”) and old § 312(c) (“A determination by the Director under subsection (a) shall be final and non-appealable.”).

⁵ *See also* H.R. Rep. No. 106-1554 (1999)(Conf. Report), 145 Cong. Rec. H11769, H11805 (Nov. 9, 1999)(“ Similar to section 303 of existing law, new section 312 of the Patent Act confers upon the Director the authority and responsibility to determine, within three months after the filing of a request for *inter partes* reexamination, whether a substantial new question affecting patentability of any claim of the patent is raised by the request. Also, the decision *in this regard* is final and not subject to judicial review.”) (emphasis added). The legislative history did not say the decision is immune in *all* regards.

are appealable is speculative at this junction. While Versata agrees with Defendant and SAP that the Federal Circuit should entertain these jurisdictional arguments, the parties' agreement on this point cannot confer jurisdiction or bind the Federal Circuit. Because this is the very first transitional post-grant review, the issue of whether the arguments are presentable on appeal has never been addressed. Versata should not be required to "bet the farm" by dismissing this action now and forcing Versata to pursue its arguments only on direct appeal in the hope the Federal Circuit will agree to entertain them. *See MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 128-29 (2007) ("where threatened action by *government* is concerned, we do not require a plaintiff to expose himself to liability before bringing suit to challenge the basis for the threat . . .").

Moreover, SAP argues that Versata's arguments would only be appealable to the extent Defendant's actions or reasoning in denying these arguments are incorporated into the Final Written Decision. (D.I. 10-2 at 12, n.7) But the Final Written Decision, whose content are obviously controlled by Defendant, does not mention the meaning of "covered business method patent" or discuss the jurisdictional basis for Defendant's decision under § 101. Exh. 4. Thus, under SAP's logic, Versata's jurisdictional challenges are not appealable after all, which undercuts the entire thrust of Defendant's and SAP's motions to dismiss.⁶

⁶ Moreover, SAP at least seems to suggest that Defendant wrote rules designed to preclude any direct appeal. SAP suggests that if the jurisdictional issues were not re-asserted in the final briefing, they are not properly preserved for appeal. (D.I. 10-2 at 12, n.7) But the rules promulgated by Defendant for the transitional post-grant review preclude a party from doing just that. Under 37 C.F.R. § 42.220, a patent owner may only argue "any ground of unpatentability not already denied" in the Patent Owner Response. In contrast, the Patent Owner *Preliminary* Response under 37 C.F.R. § 42.207, allows any argument as to "why no post-review should be instituted." Thus, under SAP's logic, the rules for transitional post-grant review require, as a prerequisite to appeal, that the patent owner reassert jurisdictional arguments from its Patent Owner Preliminary Response that it is precluded from presenting. This cannot be the law. Further, to then find Versata's jurisdictional arguments unreviewable under the APA would give Defendant the "blank check" that the APA was designed to prevent. *See* S. Rep. No. 752, 79th Cong., 1st Sess. 26 (1945).

The correct interpretation of § 324(e) is that it only precludes immediate “appeals over whether a petition for review met the substantive standards for starting a proceeding.” Matal Article at 616. It does not bar the present action. This interpretation is consistent with the decisions of other courts that have held that essentially identical language “only exempts from judicial review the PTO’s substantive determination” related to the threshold question of patentability. *Callaway Golf Co.*, 802 F. Supp. 2d at 685. For at least these reasons, § 324(e) does not divest this court of jurisdiction to review Defendant’s erroneous statutory interpretations of other sections concerning the *types* of patents that may be challenged or the *grounds* upon which challenges may be based. *See id.*

b) The Legislative History and Statutory Scheme as a Whole Do Not Preclude Review

Additionally, the legislative history and the statutory scheme of the AIA as a whole do not rebut the strong presumption of judicial review of Defendant’s overly expansive statutory constructions of §§ 321(b) and 18(d)(1). Defendant and SAP mistakenly contend that the efficiency and streamlining objectives of Congress with respect to the post-grant review process trump judicial review. (D.I 18 at 18) However, “[t]he APA’s presumption of judicial review is a repudiation of the principle that efficiency of regulation conquers all.” *Sackett v. E.P.A.*, 132 S.Ct. 1367, 1374 (2012). Under Defendant’s and SAP’s logic, nearly all administrative actions would be immune from review. Of course that is not the law. *Id.*

Here, the Defendant’s and SAP’s citations to legislative history and statutory mandates fail to provide clear and convincing evidence that Congress intended for Defendant to be immune from review under the APA. Indeed, SAP cites to an inapposite case, *Pregis Corp. v. Kappos*, 700 F.3d 1348 (Fed. Cir. 2012), as alleged support for its argument that Congress has precluded all other avenues of judicial review of Defendant’s actions. (D.I. 10-2 at 7) But in

Pregis, the Federal Circuit simply upheld this Court’s correct determination that the Patent Act precludes APA challenges to Defendant’s decision to issue a patent. 700 F.3d at 1357. *Pregis* does not state that Defendant is immune from APA review in *all* instances. Nor does it address the transitional post-grant review program for “covered business method patents” at issue here.

Defendant and SAP also make much of the purported goal behind the transitional review program to provide a quick and inexpensive *alternative* to litigation for resolving patent validity. (*see* D.I 18 at 20 and D.I. 10-2 at 2 respectively). But those claims ring especially hollow here. Rather than being a speedy alternative to litigation, this post-grant review is an after-the-fact rehash of defenses SAP previously raised and lost in the district court proceeding (now affirmed by the Federal Circuit). While Defendant notes the theoretical potential for one party to file for APA review years after a final judgment (ignoring well-established principles of *res judicata*), that is precisely what the SAP did with the transitional post-grant review—it filed a petition more than a year after the final judgment issued from the district court. That did not prevent Defendant from accepting the petition (again ignoring well-established principles of *res judicata*). And it should not prevent this Court from proceeding.

SAP’s argument concerning the multiplication of proceedings is similarly disingenuous. Here, it is SAP who petitioned for the transitional post-grant review more than a year after losing in district court, and it is SAP who then filed an *ex parte* reexamination request after agreeing to drop its prior art unpatentability contentions in the transitional post-grant review (which it had failed to prove in the district court litigation). Likewise, Defendant’s parade of horrors about the opening of a new “front” in the overall patent validity “war” is simply wrong. (D.I. 18 at 17) This case is not about the “patent validity war,” but rather an agency grossly overstepping its authority. For the same reason, because the present action involves the proper scope of the

PTO's authority, it is not a "needless multiplicity" as asserted by SAP, (D.I. 10-2 at 14), and certainly not contrary to the objectives of the AIA. While the AIA expanded the purview of Defendant, it was not a "blank check." *See* S. Rep. No. 752, 79th Cong., 1st Sess. 26 (1945).

Defendant nevertheless contends that allowing this APA action to continue would "completely destroy the streamlined system Congress created for administrative and judicial review of issued patents" (D.I. 18 at 19) Not so. Versata is challenging Defendant's incorrect statutory interpretations of "covered business method patent" and the grounds available for challenging patents in the transitional post-grant review proceedings—collateral orders to the decision to institute. *Cf. Traynor v. Turnage*, 485 U.S. 535, 544-45 (1988) (statutory prohibition of all judicial review did not preclude jurisdiction over otherwise unreviewable collateral statutory claim). Versata is not seeking review of Defendant's "more likely than not determination." Nor is there any indication that Versata's APA suit has delayed the transitional post-grant proceeding. *See* Final Written Decision, Exh. 4.

In sum, there is no evidence that Congress intended to *completely* insulate Defendant's transitional post-grant reviews from APA review. *See Abbott Labs.*, 387 U.S. at 141; *Callaway Golf Co.*, 802 F. Supp. 2d at 685 ("The statute does not divest the courts of jurisdiction over all decisions related to *inter partes* reexaminations.").

2. Defendant's Statutory Constructions of §§ 321(b) and 18(d)(1) Are Final For Purposes of the APA and Ripe for Judicial Review

a) The Constructions of §§ 321(b) and 18(d)(1) are Final

1. The Construction of § 321(b) is a Final Agency Action

There is no question that Defendant's construction of § 321(b) and determination that it has jurisdiction to entertain challenges under § 101 constitute agency action. Under the APA, agency action includes "an agency statement of general or particular applicability and future

effect designated to implement, interpret, or prescribe law or policy.” 5 U.S.C. § 551(4) and (13). Rather, Defendant and SAP only allege that the action is not *final* in the sense required by the APA. But the finality requirement is a flexible, pragmatic one. *Abbott Labs.*, 387 U.S. at 149; *Andrus*, 564 F.2d at 1123; *Herman*, 176 F.3d at 283.

Here, Defendant has definitively concluded that § 101 is a proper basis for challenging patents in transitional post-grant reviews as evidenced by the other transitional post-grant reviews it has instituted under § 101. *See* Cases CBM2012-00005, CBM2012-00007.⁷ Defendant has further held that certain claims of Versata’s ’350 patent are unpatentable under § 101—taking a final position on § 101 in excess of its statutory authority that has caused a specific and direct harm to Versata. Defendant’s interpretation concerning the availability of § 101 challenges can be nothing *but final*. And this was the case when the transitional post-grant review proceeding was instituted—Defendant did not state that *it was more likely than not that § 101 is an available grounds for review*. Rather, Defendant disagreed with Versata’s assertions and instituted the review on that basis. That institution served as a final decision that § 101 is an available basis for challenging a patent. Exh. 2 at 32-36. There was nothing preliminary about it. Defendant’s determination in this respect is not made less final by the fact that Defendant separately made a preliminary determination regarding whether petitioner had shown that it is more likely than not that at least one claim of the ’350 patent was unpatentable. *See, e.g., Appalachian Power Co. v. EPA*, 208 F.3d 1015, 1022-23 (D.C. Cir. 2000); *cf.* 5 U.S.C. § 551(13)(defining “agency action” to include “the whole or a part of an agency . . . order”); *see also Sys. Application & Techs., Inc. v. United States*, 691 F.3d 1374, 1383-84 (Fed. Cir. 2012) (noting there was “nothing interlocutory, uncertain, or tentative” regarding army decision to

⁷ Challenges under § 101 have been brought in the petitions for CBM2013-00008, 2013-00013, 2013-00014, 2013-00015, 2013-00016, 2013-00017, 2013-00018, 2013-00019, 2013-00021 and 2013-00025. This proves that Defendant’s determination that § 101 challenges are available has been taken as the PTO’s definitive position.

reopen bidding process after concluding initial round). For these reasons, the cases cited by Defendant and SAP concerning agency decisions to institute proceedings are inapposite. *E.g.*, *FTC v. Standard Oil Co.*, 449 U.S. 232 (1980); *Burlington N. RR. Co. v. Surface Transp. Bd.*, 75 F.3d 685, 690 (D.C. Cir. 1996); *Heinl v. Godici*, 143 F. Supp. 2d 593,597-98 (E.D. Va. 2001).

Versata raised its APA claims after Defendant instituted the proceeding under § 101, because that was the point at which Defendant demonstrated it had taken a final position concerning the availability of § 101 challenges in transitional post-grant reviews. However, as the Fourth Circuit has recognized “a formal administrative order . . . is not an absolute prerequisite to judicial review.” *Andrus*, 564 F.2d at 1123. Here, Defendant’s pattern of conduct also clearly demonstrates that it has promulgated a *final* “agency statement of general or particular applicability and future effect designated to implement, interpret, or prescribe law or policy,” 5 U.S.C. § 551(4) and (13), which represents the consummation of Defendant’s decision-making process in this regard. Indeed, Defendant has posted its decision to institute the transitional post-grant review of Versata’s ’350 patent under “Representative Decisions to Institute” on its website.⁸ Because Defendant’s determination has resulted in it holding that various claims of Versata’s ’350 patent are unpatentable—an unlawful taking in excess of Defendant’s authority—this “final agency action” clearly has affected Versata’s rights. *Abbott Labs*, 387 U.S. at 149; *see also Pepsico*, 472 F.2d at 187. In other words, Defendant’s finding that § 321(b) gives it jurisdiction over § 101 has determined Versata’s substantive rights and obligations, and legal consequences flowed from that order—*i.e.*, Defendant’s holding that claims of the ’350 patent are unpatentable under § 101. *Bennet*, 520 U.S. at 177-78 .

Defendant’s position has created a substantial hardship for Versata. On June 7, 2013, during the hearing on SAP’s motion to intervene, SAP represented that it will attempt to undo

⁸ See http://www.uspto.gov/ip/boards/bpai/representative_orders_and_opinions.jsp (last visited June 13, 2013).

the nearly \$400 million dollar judgment that Versata obtained in the district court—a judgment affirmed by the Federal Circuit. While Versata does not believe SAP has any basis for reaching from the grave to disturb this judgment, under SAP’s theory of the case, Defendant’s *ultra vires* determination under § 101 has created a substantial hardship for Versata.

Defendant’s construction of § 321(b) to authorize § 101 as available grounds for a post-grant review is a pure question of law. Pure questions of law are well-suited to APA review. *See Abbott Labs*, 387 U.S. at 149. Moreover, in certain circumstances, courts review pure questions of law prior to receiving a final agency action. *Heinl*, 143 F. Supp. 2d at 603 (“[I]n limited circumstances, a plaintiff making a facial challenge to agency rules or regulations need not ‘await a final agency action’ or exhaust administrative remedies”); *Patlex Corp.*, 585 F. Supp. at 720. Versata has pled a facial challenge that Defendant misconstrued § 321(b)**Error! Bookmark not defined.** as a matter of law, and is exceeding its statutory authority. Thus, even if Defendant’s actions were somehow construed to not be “final” as that term is understood in the context of the APA (they are final), this Court may still review Defendant’s incorrect interpretation of § 321(b).

Further, Versata’s legal challenge to Defendant’s construction of § 321(b) affects not only the legal rights of Versata, but also multiple industries--indeed virtually all patents relating to commercial products or services include claims “relating in any way to money.” And under Defendant’s expansive interpretation of its jurisdictional grant, it could entertain § 101 challenges to all of them. Experience to date confirms the extent to which § 101 challenges are being made in transitional post-grant reviews. Thus far, eleven other petitions have raised § 101 challenges,⁹ and Defendant has consistently upheld its construction of § 321(b) regarding § 101

⁹ *See* Petitions of CBM2012-5, CBM2012-7, CBM2013-8, CBM2013-13, CBM2013-14, CBM2013-15, CBM2013-16, CBM2013-16, CBM2013-17, CBM2013-19, CBM2013-19, CBM2013-21.

challenges. *See* Exh. 5, Institution of Covered Business Method Review, CBM2012-00005, at 10. The harm caused by Defendant’s *ultra vires* action is not only the damage to these industries, or the unlawful taking of property rights, but also the immense waste of government resources as Defendant conducts reviews under § 101 for which it has no authority.¹⁰

Since Defendant’s construction of § 321(b) is both a final agency action and a pure question of law, it is not precluded from judicial review under § 704. Further, once this Court determines the scope of Defendant’s authority to consider § 101 challenges in transitional post-grant reviews, there will be no flood of serial appeals challenging institution proceedings on this basis. Defendant’s parade of horrors to this effect is misplaced. (D.I. 18 at 18)

2. *The Construction of § 18(d)(1) is a Final Agency Action*

There can similarly be no reasonable dispute that Defendant’s construction of a “covered business method patent” under § 18(d)(1) is an agency action as defined under the APA. 5 U.S.C. § 551(4) and (13). Defendant’s interpretation of this threshold requirement for transitional post-grant reviews dictates what patents are reviewable and thus is a statement of general and specific applicability designated to prescribe and implement law—i.e. the new transitional proceedings. *Id.* Defendant’s erroneous statutory construction is also a question of law. *Hosh v. Lucero*, 680 F.3d 375, 378 (4th Cir. 2012) (statutory construction question of law). *See also Abbott Labs*, 387 U.S. at 149 (questions of law well-suited for APA review).

Here, Defendant and SAP allege that Defendant’s interpretation is not a *final* agency action, and thus not reviewable. As with the § 101 issue, this is belied by the fact that Defendant has taken the same position in other transitional post-grant reviews. *See* CBM2012-00005. In

¹⁰ A major goal of the AIA was to address the scarcity of resources at the PTO. Report on H.R. 1249, House Judiciary Committee (June 29, 2011), at 163 (“Today, however, we are closer than we have ever been to crafting legislation that will strengthen the patent system and afford [Defendant] the resources it requires to clear the still sizeable backlog of patent applications and move forward to deliver to all American inventors the first rate service they deserve.”).

any event, “a formal administrative order. . . is not an absolute prerequisite to judicial review.” *Andrus*, 564 F.2d at 1123; *Frozen Food Express v. United States*, 351 U.S. 40, 43-44 (1956) (finding finality where agency construed statutory class of “agricultural commodities” in order).

Defendant’s institution order is also the consummation of Defendant’s decision-making process with respect to its construction of “covered business method patent.” Defendant did not allege that it is *more likely than not* that the ’350 patent is a covered business method patent.

Rather, Defendant definitively stated:

We do not interpret the statute as requiring the literal recitation of the terms financial products or services. The term financial is an adjective that simply means relating to monetary matters. This definition is consistent with the legislative history for Section 18, which explains that the definition was intended to encompass patents claiming activities incidental and complementary to a financial activity. We hold that Versata’s ’350 patent claims methods and products for determining a price and that these claims, which are complementary to a financial activity and relate to monetary matters, are considered financial products and services under § 18(d)(1).

Exh. 2, Decision, Institution of Covered Business Method Review 37 C.F.R. § 42.208 (Paper 36), CBM2012-00001, at p.23. This was not a preliminary decision. *Cf.* 5 U.S.C. § 704. It was Defendant’s *final* decision concerning the definition of “covered business method patents” and the applicability to the claims of the ’350 patent. Because of this *final* decision, Versata’s patent was brought into a proceeding without any statutory justification and then held to be unpatentable—an unlawful taking of Versata’s property right. There is no question that Defendant’s construction of a “covered business method patent” has determined Versata’s substantive rights. *Abbott Labs.*, 387 U.S. at 149; *Pepsico*, 472 F.2d at 187.

Versata’s APA challenge of Defendant’s overly broad construction of “covered business method patent,” regardless of how it was applied to the ’350 patent, is a question of law

appropriate for review under the APA.¹¹ *See Abbott Labs.*, 387 U.S. at 149; *see also Heinl*, 143 F. Supp. 2d at 603; *see also Patlex*, 585 F. Supp. at 720. This legal issue affects not only Versata's rights, but the class of patent owners as a whole who do not have patents directed to financial products or services but who may become subject to a post-grant review proceeding under Defendant's erroneous statutory interpretation. *See* Exh. 6 and 5 (Defendant asserting overly broad definition of covered business method patent against another patent owner).

Defendant's overbroad interpretation of "covered business method patent" has caused harm to Versata, other parties that have patents that are, *at most*, merely incidental or complementary to a financial activity, and to the Government itself. *See Pepsico*, 472 F.2d at 187. With respect to Versata, as noted above, Defendant's overbroad interpretation resulted in the proceeding that recently determined that various claims of the '350 patent are unpatentable. SAP has represented that it will use this determination to attack Versata's \$400 million judgment against it. While Versata strongly disagrees that the claims are unpatentable, or that SAP has any basis for upsetting the final judgment of the district court as affirmed by the Federal Circuit, the risk present under SAP's theory of the case creates a sufficiently substantial harm to warrant this Court's exercise of jurisdiction over Versata's claims.

b) Versata Has No Other Adequate Remedy in Court

Additionally, an action is reviewable under the APA where the petitioner has "no other adequate remedy in a court." § 704. In "evaluating the availability and adequacy of alternative remedies," this Court "must give the APA a "hospitable interpretation." *Garcia v. Vilsack*, 563 F.3d 519, 523 (D.C. Cir. 2009). Alternative remedies to APA claims are inadequate if the statute

¹¹ Versata requests that, as a matter of efficiency, this Court evaluate claims 17 and 26-29 of the '350 patent against the proper interpretation of "covered business method patent" under §18(d) and hold that the '350 patent is *not* a covered business method patent as defined by the statute. However, in the alternative, Versata requests that this Court direct to the PTO to reevaluate whether the '350 patent is a "covered business method patent" under the proper definition as determined by this Court.

at issue does not allow the petitioner to otherwise remedy an alleged wrong. *See Env. Protection Info. Ctr. v. Pac. Lumber Co*, 266 F. Supp. 2d 1101, 1111 (N.D. Cal. 2003).

While Defendant and SAP agree that Versata's APA claims are directly appealable to the Federal Circuit, their agreement cannot confer jurisdiction upon, or bind, the Federal Circuit. Under 35 U.S.C. § 328(a), Defendant is required to issue a Final Written Decision "with respect to the patentability of any patent claim challenged by the petitioner" The Final Written Decision need not reconsider issues of law unrelated to the patentability of the claims. Here, that is precisely what happened—the Final Written Decision does not address Versata's contention that § 101 is not a proper ground, or that Defendant's interpretation of "covered business method patent" is impermissibly broad. While the parties agree that the Final Written Decision is appealable to the Federal Circuit, no party can guarantee that Versata's jurisdictional claims are reviewable (not surprising as this is the *first* transitional post-grant review). Consequently Versata should not be required to "bet the farm" by only pursuing its claims on direct appeal. *See MedImmune*, 549 U.S. at 128-29; *see also Bowen*, 487 U.S. at 901 (APA review appropriate where there is doubt concerning alternative remedy).¹²

IV. CONCLUSION

For the foregoing reasons, Defendant's and SAP's motions to dismiss should be denied.

¹² This is particularly true where SAP has hinted that Versata's arguments may not be reviewable on direct appeal based upon Versata's adherence to the rules issued by Defendant that limit the arguments a patent owner may include in its Patent Owner Response compared to a Patent Owner Preliminary Response. (D.I. 10-2 at 12, n.7) *See also* 37 C.F.R. § 42.207 (patent owner preliminary response may argue any basis for not instituting proceeding) and § 42.220 (patent owner response limited to arguing grounds of unpatentability not already denied).

Dated: June 14, 2013

Respectfully Submitted,

/s/ Martin M. Zoltick

Nancy J. Linck (*pro hac vice* to be filed)

R. Danny Huntington (VSB No. 16407)

Martin M. Zoltick (VSB No. 30058)

Derek F. Dahlgren (VSB No. 79570)

ROTHWELL, FIGG, ERNST & MANBECK, PC

607 14th Street, N.W., Suite 800

Washington, D.C. 20005

(202) 783-6040

Versata-APA@rfem.com

*Attorneys for Plaintiff Versata Development
Group Inc.*

CERTIFICATE OF SERVICE

I hereby certify that on June 14, 2013, I electronically filed the foregoing **PLAINTIFF'S COMBINED OPPOSITION TO THE MOTIONS TO DISMISS OF DEFENDANT TERESEA STANEK REA AND INTERVENORS SAP AMERICA, INC. AND SAP AG** with the Clerk of Court using the CM/ECF system, which will send a notification of such filing ("NEF") to the following:

Dennis Carl Barghaan , Jr.
United States Attorney's Office
2100 Jamieson Ave
Alexandria, VA 22314
703-299-3700
dennis.barghaan@usdoj.gov

Elizabeth Diane Ferrill
Finnegan Henderson Farabow Garrett & Dunner LLP
901 New York Ave NW
Washington, DC 20001-4413
202-408-4445
elizabeth.ferrill@finnegan.com

/s/ Martin M. Zoltick
Martin M. Zoltick