2012-1029, -1049

United States Court of Appeals for the Federal Circuit

VERSATA SOFTWARE, INC. (formerly known as Trilogy Software, Inc.),
VERSATA DEVELOPMENT GROUP, INC.
(formerly known as Trilogy Development Group, Inc.), and
VERSATA COMPUTER INDUSTRY SOLUTIONS, INC.
(formerly known as Trilogy Computer Industry Solutions, Inc.),

Plaintiffs-Cross Appellants,

v.

SAP AMERICA, INC. AND SAP AG,

Defendants-Appellants.

Appeals from the United States District Court for the Eastern District of Texas in case no. 07-CV-0153, Magistrate Judge Charles Everingham.

BRIEF OF *AMICI CURIAE* 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, SUPPORTING THE PETITION FOR REHEARING *EN BANC*

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UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

VERSATA SOFTWARE V SAP AMERICA, 2012-1029, -1049

CERTIFICATE OF INTEREST

Counsel for Amici John D. Vandenberg certifies the following:

1. The full name of every party or amicus represented by me is:

   Microsoft Corporation, SAS Institute Inc., HTC Corp., Limelight Networks, Inc., Xilinx, Inc., Altera Corp., Harman International, American Bankers Association, Application Developers Alliance, and Electronic Frontier Foundation

2. The name of the real party in interest (if the party named in the caption is not the real party in interest) represented by me is:

   Not applicable.

3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the party or amicus curiae represented by me are:

   Limelight Networks, Inc. is a publicly held company that has no parent company. As of June 2012, Goldman, Sachs & Co. owned more than 10 percent of the shares of Limelight, and that ownership interest has not materially changed.

4. The names of all law firms and the partners or associates that appeared for the party or amicus now represented by me in the trial court or agency or are expected to appear in this court are:

   None appeared in the lower tribunal. Klarquist Sparkman, LLP, John D. Vandenberg and Stephen J. Joncus appear in this court for Amici.

June 12, 2013

/s/John D. Vandenberg
Signature of counsel

John D. Vandenberg
Printed name of counsel

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INTEREST OF *AMICI CURIAE*[1]

The ten *Amici* include software and hardware technology companies, software and banking organizations, and membership organizations. *Amici* share an interest in a predictable and even-handed application of patent laws to customizable software and programmable hardware.

Microsoft provides a wide range of software for a multitude of computing devices. **SAS** provides business analytics software. **Limelight Networks** provides digital presence management software. **HTC** provides smartphones. **Xilinx** and **Altera** each provides programmable logic devices. **Harman** provides audio and infotainment solutions. **Application Developers Alliance** is an association of more than 20,000 individual application developers and 100 companies. The **American Bankers Association** members hold approximately 95% of the industry's domestic assets. **Electronic Frontier Foundation** is a civil liberties organization protecting innovation and free expression.

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[1] *Amici* seek leave to file this brief under Federal Circuit Rule 35(g). *Amici's* unopposed motion for leave accompanies this brief. *Amici* have no direct stake in the result of this appeal. Pursuant to Federal Circuit Rule 29(c)(5), no party's counsel authored the brief in whole or in part, no party contributed money intended to fund preparing or submitting the brief, and no person other than the *Amici* or their counsel contributed money towards preparing or submitting this brief.

SUMMARY OF ARGUMENT

Does shipping user-customizable software or hardware which can practice a patented invention only if a user chooses to specially configure it to practice the invention, directly infringe that patent? The answer is "No" under controlling precedent.

In *Deepsouth*, the Supreme Court prudently grounded the strict-liability tort of direct patent infringement in the statutory text. It held that only the one who takes the final step of assembling or configuring the parts into the operable, functioning whole of the patented invention, "makes" that "patented invention" under Sec. 271(a). This interpretation applies equally to all forms of technology.

Here, SAP shipped something that fell short of being the patented invention. A user had to configure the software to use the patented invention not simply select a pre-assembled combination of elements. But the panel nevertheless held that SAP directly infringed because the "patented function" was "inherent" in the software. This is contrary to *Deepsouth*. Treating software as something that can "inherently" infringe improperly treats software inventions differently than other inventions.

The *en banc* Court has not yet addressed this important issue of statutory interpretation. This case is a good vehicle for doing so.

FACTUAL BACKGROUND

U.S. Patent No. 6,553,350 concerns computer-based pricing. Three claims are asserted—each reciting a combination of computer instructions, the instructions defined by their functions. Claim 26 is exemplary: "A computer readable storage media comprising: computer instructions causing a computer to implement the method of claim 17." (The underscored words are added from the agreed claim construction.) Claim 17, not asserted, recites "a method for determining a price of a product," combining steps of "arranging a hierarchy of organizational groups," "arranging a hierarchy of product groups," "storing pricing information in a data source," "retrieving applicable pricing information," "sorting the pricing information," "eliminating any of the pricing information that is less restrictive," and "determining the product price using the sorted pricing information."

Unless the software is re-configured by a user to combine together the required functions, a computer loaded with SAP's as-shipped software cannot perform the patent's method. Plaintiff failed to show that any SAP customer had so re-configured the software to practice the invention, but the plaintiff's expert testified that he had done so.

These facts do not establish direct infringement. (Amici take no position on whether SAP would be liable for indirect infringement.)

ARGUMENT

I. *DEEPSOUTH* DEFINES MAKING A PATENTED INVENTION.

Deepsouth interpreted what it means to "make" a "patented invention" under 35 U.S.C. § 271(a). A "patented invention" is more than just a collection of functions or capabilities recited in a patent claim. It is the operable assembly of the whole apparatus as recited in the claim. *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 528-29 (1972). Therefore, one does not "make" a "patented invention" by making each of its constituent parts, not even when providing all of those parts together, side-by-side, for easy assembly. *Id*. Rather, only by assembling those parts together into an operable whole does one "make" a patented invention. *Id*.

Deepsouth concerned apparatus claims reciting shrimp de-veining machines. As here, they recited what the elements were capable of doing. *E.g*., one (claim 3, USP 2,694,218) recited:

> A shrimp de-veining machine comprising an inclined trough down which the shrimp are induced to slide, a knife in said trough positioned to be encountered by the shrimp to cut the membrane confining the vein, and a water spray to the trough directed upon the shrimp for sliding shrimp down the trough and for flushing out the vein through the severed membrane. (Emphases added).

Deepsouth's assembled shrimp de-veining machines infringed. In response to an injunction against further infringement, Deepsouth devised a

scheme "of shipping deveining equipment to foreign customers in three separate boxes, each containing only parts of the 1 3/4-ton machines, yet the whole assemblable in less than one hour." *Id.* at 524 (citation omitted). Deepsouth assembled all of the parts together except for two elements, and sold the assembled and unassembled parts as a unit, at the same price it had charged for its fully assembled machines. *Id*. at 527, n. 9.

The trial court agreed that the incomplete assembly escaped direct infringement because it did not "make" the "patented invention," citing three precedents. *Id*. at 524-25. The Fifth Circuit, however, reversed:

> In the Fifth Circuit panel's opinion, those courts that previously considered the question "worked themselves into . . . a conceptual box" by adopting "an artificial, technical construction" of the patent laws, a construction, moreover, which, in the opinion of the panel, "(subverted) the Constitutional scheme of promoting the Progress of Science and useful Arts" by allowing an intrusion on a patentee's rights, 443 F.2d at 938-839, citing U.S. Const., Art. I, § 8.

Id. at 525.

The Supreme Court sided with the trial court's straightforward interpretation of direct infringement. *Id*. at 527. The Court rejected the Fifth Circuit's unbounded view of Sec. 271(a):

> We cannot endorse the view that the "substantial manufacture of the constituent parts of [a] machine" constitutes direct infringement when we have so often held that a combination patent protects only against <u>the operable assembly of the whole, and not the manufacture of its parts</u>. "For as we

> pointed out in *Mercoid v. Mid-Continent Investment Co.*, [320 U.S. 661, 320 U.S. 676] a patent on a combination is a patent on the assembled or functioning whole, not on the separate parts." *Mercoid Corp. v. Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680, 320 U.S. 684 (1944) (emphases added).

Id. at 528.

> "[The] relationship is the essence of the patent."
>
> ". . . No wrong is done the patentee until the combination is formed. His monopoly does not cover the manufacture or sale of separate elements capable of being, but never actually, associated to form the invention. Only when such association is made is there a direct infringement of his monopoly, and not even then if it is done outside the territory for which the monopoly was granted."

Id. at 529 (citation omitted) (emphases added).

> "[I]n rewarding useful invention, the 'rights and welfare of the community must be fairly dealt with and effectually guarded.' *Kendall v. Winsor*, 21 How. 322, 62 U. S. 329 (1859). To that end, the prerequisites to obtaining a patent are strictly observed, and, when the patent has issued, the limitations on its exercise are equally strictly enforced." *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U. S. 225, 376 U. S. 230 (1964).

Id. at 530-31 (emphasis added).

The Supreme Court thereby prudently grounded this strict-liability tort of direct patent infringement in the statutory text. Making something that is about to become the invention is not enough. Only the one who takes the final step of assembling together the parts into the operable functioning whole "makes" the "patented invention." Under Sec. 271(a), the question is

not who made the pieces or their functions. The question is who combined those pieces together to form the claimed combination of elements constituting the whole operable invention. This is the law for any technology—including programmable hardware (*e.g.*, a field programmable gate array (FPGA)) and user-configurable software designed to be customized by users. The language of Sec. 271(a) does not discriminate based on field or form of technology.

II. THE PANEL'S RULING VIOLATES *DEEPSOUTH*.

Applying this statutory interpretation in this case is easy. SAP shipped something that was not yet the invention. SAP did not "make" this "patented invention" because it did not pre-configure or pre-assemble the digital parts of its software into the operable, functioning whole that is claimed. A user could not simply load SAP's software into a computer, select a pre-configured combination of elements, click "go," and practice this patented invention. Instead, the panel described Plaintiff's expert as "using and configuring the inherent functions of SAP's software." Slip Op. at 6 (emphasis added). Under *Deepsouth*, that configuring "made" the "patented invention."

The panel does not mention *Deepsouth* or its interpretation of Sec. 271(a). Nor does it ask the controlling question required by *Deepsouth*: did

the user configure the digital parts into the operable, functioning whole? The panel's decision and analysis cannot be reconciled with *Deepsouth*.

The panel found direct infringement even though the expert, patent in hand, had to configure and "setup" the software to practice the patent's invention. The Supreme Court, in contrast, found no direct infringement even though the machine could be assembled into an infringing configuration using the accused infringer's assembly instructions.

The panel referred to "the patented function," not "the patented invention." Slip Op. at 10. It found that the expert had merely "configur[ed] the inherent functions of SAP's software" and "activated functions already present in the software." *Id.* at 6, 11. But that is irrelevant under the statute. Section 271(a) does not impose liability for making "functions." It imposes liability for making the "patented invention." Again, *Deepsouth* is instructive. All of the claim-recited functions were nestled side-by-side in the three boxes of machine parts. Assembling that de-veining machine did not modify the "inherent functions" of its knife, trough and water spray. Yet, only that assembly would "make" the "patented invention" under Section 271(a).

The panel found that "the code, without modification, was designed to provide the claimed functionality." Slip Op. at 11. That, again, does not

distinguish *Deepsouth*. Each part and sub-assembly made by Deepsouth was designed to provide the claim-recited functionality.

III. THE PANEL PROVIDES NO CLEAR STANDARD.

The panel's decision raises more questions than it answers. At what point does a user's customization of software not merely "activate" the software's "inherent functionality?" What if the software's modules could be combined into 100 non-infringing combinations? Presumably, shipping a software development tool or FPGA does not directly infringe every patent on every program or circuit that could be created with that tool, but where does the Court draw that line? No panel decision of this Court provides clear guidance for designers of customizable software and programmable hardware. *Deepsouth* provides that standard, but the panel does not apply it.

Panels of this Court have differed in their reading of *Deepsouth*, but only this *en banc* Court may overrule precedent of its predecessor court. "[*Deepsouth*] holds that, where the novelty of a patented machine arises from the particular configuration in which its components are combined, mere manufacture of the unassembled components of the machine does not amount to manufacture of the machine and, hence, does not directly infringe the patent claiming the machine." *Decca Ltd. v. U.S.*, 640 F.2d 1156, 1168 (Ct. Cl. 1980).

IV. THIS IS STATUTORY INTERPRETATION NOT CLAIM CONSTRUCTION.

The panel faults SAP for not seeking a different claim construction. Slip Op. at 10. But, this is a statutory interpretation issue, and claim construction cannot trump statutory interpretation. It turns on the meaning of "make" and "patented invention." *Deepsouth* demonstrates this also.

The claims asserted here recite media encoded with instructions for (*viz*., capable of) causing a computer to perform recited actions. SAP's software as shipped perhaps had the potential of being configured so that it could instruct the computer in the claimed manner—just as the de-veining machine parts had the potential of being assembled into a machine capable of performing the functions recited in those patent claims. But before the software could so instruct the computer, or the machine could de-vein the shrimp, a user needed to assemble the pieces together in the claimed configuration. That user who takes that final step is the one who "makes" the "patented invention."

This Court should hear this case *en banc* to bring much-needed certainty to this important issue.

Respectfully submitted,

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June 12, 2013

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

VERSATA SOFTWARE V SAP AMERICA, 2012-1029, -1049

CERTIFICATE OF SERVICE

I, Elissa Matias, being duly sworn according to law and being over the age of 18, upon my oath depose and say that:

Counsel press was retained by KLARQUIST SPARKMAN, LLP , Attorneys for Amicus Curiae to print this document. I am an employee of Counsel Press.

On **June 12, 2013**, counsel for Amici Curiae has authorized me to electronically file the foregoing **BRIEF OF *AMICI CURIAE* 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, SUPPORTING THE PETITION FOR REHEARING *EN BANC*,** with the Clerk of Court using the CM/ECF System, which will serve via e-mail notice of such filing to all parties' counsel registered as CM/ECF users, including lead counsel for the parties:

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Two Paper copies will also be mailed, via Express Mail, to the lead counsel for the parties, at the addresses listed above, on this date.

Additionally, sixteen paper copies will filed with the Court, via Federal Express, within the time provided in the Court's rules.

June 12, 2013

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