

**IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA**

_____)	
CLS BANK INTERNATIONAL,)	
)	
Plaintiff,)	
)	Case No. 07-CV-00974-RMC
v.)	
)	
ALICE CORPORATION PTY. LTD.,)	
)	
Defendant.)	
_____)	
)	
ALICE CORPORATION PTY. LTD.,)	
)	
Counterclaim-Plaintiff,)	
)	
v.)	
)	
CLS BANK INTERNATIONAL,)	
)	
Counterclaim-Defendant,)	
)	
and)	
)	
CLS SERVICES LTD.,)	
)	
Counterclaim-Defendant.)	
_____)	

**RENEWED MOTION OF CLS BANK INTERNATIONAL AND CLS SERVICES LTD.
FOR SUMMARY JUDGMENT THAT THE CLAIMS OF ALICE’S PATENTS ARE
INVALID FOR LACK OF PATENTABLE SUBJECT MATTER**

(Oral Argument Requested)

Plaintiff and Counterclaim-Defendant CLS Bank International and Counterclaim-Defendant CLS Services Ltd (collectively, “CLS”), by their undersigned attorneys, move this Honorable Court for an Order granting summary judgment against Defendant and Counterclaim-Plaintiff Alice Corporation Pty. Ltd. (“Alice”) dismissing Alice’s amended counterclaims,

granting CLS' request for declaratory judgment, and declaring that the claims of the Alice patents at issue in this litigation — claims 33 and 34 of U.S. Patent Nos. 5,970,479, all claims of U.S. Patent No. 6,912,510, all claims of U.S. Patent No. 7,149,720, and all claims of U.S. Patent No. 7,725,375 — are invalid, on the grounds that the inventions they purport to claim do not fall within the scope of patentable subject matter provided by 35 U.S.C. §101.

The grounds for this motion are set forth in the accompanying memorandum of law.

CLS requests oral argument on the motion.

Dated: August 27, 2010

Respectfully submitted,

/s/ Steven J. Glassman

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**MEMORANDUM IN SUPPORT OF CLS' RENEWED MOTION FOR SUMMARY
JUDGMENT THAT THE CLAIMS OF ALICE'S PATENTS ARE INVALID
FOR LACK OF PATENTABLE SUBJECT MATTER**

TABLE OF CONTENTS

	<u>Page</u>
PRELIMINARY STATEMENT	1
STATEMENT OF FACTS	3
A. Alice Has Four Patents Based on the Same Patent Specification.....	3
B. Common Elements Of The Alice Patent Claims	4
C. The '479 Patent Claims.....	7
D. The '510 Patent Claims.....	8
E. The '720 Patent Claims.....	11
F. The '375 Patent Claims.....	14
ARGUMENT: THE ALICE PATENTS DO NOT CLAIM PATENTABLE SUBJECT MATTER	18
I. MENTAL PROCESSES AND ABSTRACT IDEAS ARE NOT PATENTABLE.....	18
II. THE “MACHINE OR TRANSFORMATION” TEST REMAINS THE BEST INDICATOR OF WHETHER METHOD CLAIMS RECITE PATENTABLE SUBJECT MATTER	20
A. The Supreme Court Affirmed That the Machine or Transformation Test Is Still a Reliable Indicator of Patent Eligibility.....	21
B. The Supreme Court Rejected Other Previously-Used Tests for Patent Eligibility	23
III. ALICE’S METHOD PATENT CLAIMS ARE NOT DRAWN TO PATENTABLE SUBJECT MATTER.	24
A. Alice’s Method Claims Are Drawn To An Unpatentable Abstract Idea	24
B. Insignificant Post-Solution Activity Recited in Alice’s Claims Does Not Render Them Patentable	28
C. The Failure of Alice’s Method Claims To Satisfy The Machine Or Transformation Test Demonstrates Their Lack of Patentable Subject Matter	29

IV.	ALICE’S SYSTEM CLAIMS ARE NOT DRAWN TO PATENTABLE SUBJECT MATTER.	32
V.	ALICE’S NEW “COMPUTER PROGRAM PRODUCT” CLAIMS ARE NOT DRAWN TO PATENTABLE SUBJECT MATTER.....	35
VI.	THE DEPENDENT CLAIMS OF ALICE’S PATENTS ARE NOT DRAWN TO PATENTABLE SUBJECT MATTER.	36
	CONCLUSION.....	38
	UNREPORTED DECISION	
	APPENDICES	

TABLE OF AUTHORITIES

	<u>Page(s)</u>
CASES	
<i>AT & T Corp. v. Excel Commc'ns, Inc.</i> , 172 F.3d 1352 (Fed. Cir. 1999).....	34
* <i>Bilski v. Kappos</i> , ___ U.S. ___, 130 S. Ct. 3218 (2010).....	passim
<i>Cybersource Corp. v. Retail Decisions, Inc.</i> , 620 F. Supp. 2d 1068 (N.D. Cal. 2009)	35
* <i>Diamond v. Diehr</i> , 450 U.S. 175 (1981).....	passim
<i>Ex parte Cornea-Hasegan</i> , 89 U.S.P.Q.2d 1557 (B.P.A.I. 2009).....	35
<i>Fort Properties, Inc. v. American Master Lease, L.L.C.</i> , 609 F. Supp. 2d 1052 (C.D. Cal. 2009)	27
* <i>Gottschalk v. Benson</i> , 409 U.S. 63 (1972).....	passim
<i>In re Beauregard</i> , 53 F.3d 1583 (Fed. Cir. 1995).....	35
* <i>In re Bilski</i> , 543 F.3d 943 (Fed. Cir. 2008).....	passim
<i>In re Comiskey</i> , 554 F.3d 967 (Fed. Cir. 2009).....	20, 26
<i>In re Grams</i> , 888 F.2d 835 (Fed. Cir. 1989).....	26
<i>In re Meyer</i> , 688 F.2d 789 (C.C.P.A. 1982)	26
<i>In re Schrader</i> , 22 F.3d 290 (Fed. Cir. 1994).....	29, 32
<i>In re Warmerdam</i> , 33 F.3d 1354 (Fed. Cir. 1994).....	28
<i>King Pharmaceuticals, Inc. v. EON Labs, Inc.</i> , ___ F.3d ___, 2010 WL 3001333 (Fed. Cir. Aug. 2, 2010)	22

O'Reilly v. Morse,
56 U.S. 62 (1853).....31

* *Parker v. Flook*,
437 U.S. 584 (1978)..... passim

State Street v. Signature Fin. Group, Inc.
149 F.3d 1368 (Fed. Cir. 1998).....23

* *Ultramercial, LLC et al. v. Hulu, LLC, et al.*,
__ F. Supp. 2d ___, No. CV 09-06918 (C.D. Cal. Aug. 13, 2010).....22, 29, 31, 36

STATUTES

35 U.S.C. § 101..... passim

35 U.S.C. § 112.....36

37 C.F.R. § 1.11111, 14

OTHER AUTHORITIES

Black's Law Dictionary 624 (9th ed. 2009).....25

Plaintiff and Counterclaim Defendant CLS Bank International and Counterclaim Defendant CLS Services Ltd. (collectively, “CLS”) respectfully submit this memorandum in support of their renewed motion for summary judgment that the claims of the Alice patents at issue in this litigation are invalid, because they are not drawn to patentable subject matter within the scope of 35 U.S.C. § 101.

PRELIMINARY STATEMENT

Alice has four patents that are generally directed to methods and systems for “exchanging an obligation” between parties if “independent” accounts maintained for the parties have “adequate value.” As Alice explained in a memorandum to this Court dated May 19, 2008 (“Alice 5/19/08 Mem.”) (D.I. 27), its inventions purportedly reduce the risk associated with such an exchange by allowing only those transactions that have “adequate value,” and then mandating (by means of an “irrevocable” instruction) that the exchange “cannot be undone by either party.” (Alice 5/19/08 Mem. at 7.)

The U.S. Supreme Court recently reaffirmed that claims directed to abstract ideas, similar to those found in Alice’s patents, are not drawn to patentable subject matter. *Bilski v. Kappos*, ___ U.S. ___, 130 S. Ct. 3218 (2010).

Relying on its precedents in *Diamond v. Diehr*, 450 U.S. 175 (1981), *Parker v. Flook*, 437 U.S. 584 (1978), and *Gottschalk v. Benson*, 409 U.S. 63 (1972), the Supreme Court in *Bilski* affirmed the Federal Circuit’s holding that Bilski’s claimed method for hedging against the risk of price changes in commodities transactions involved “attempts to patent abstract ideas” and therefore was not patentable. 130 S. Ct. at 3230.

The Federal Circuit’s decision had relied on the “machine or transformation” test for patentable subject matter – which requires that to be patentable, a claimed method must be “tied to a particular machine or apparatus” or “transforms a particular article into a different state or

thing.” The Supreme Court endorsed the continuing utility of the machine or transformation test, but held that it is not the “sole” test for patentability, and left open the potential development of new tests in new technological fields. *Id.* at 3227. The opinions of the various Justices stated that the “machine or transformation” test was a “useful and important clue” (Justice Kennedy) or “a critical clue” (Justice Stevens) to patentability, and that “the Court intends neither to de-emphasize the test’s usefulness nor to suggest that many patentable processes lie beyond its reach” (Justice Breyer). *Id.* at 3227, 3232, 3259.

Alice’s claims are unpatentable because, like the claims in *Bilski*, they are directed to abstract ideas, and they do not satisfy the machine or transformation test. They are specifically directed to the unpatentable idea of “exchanging an obligation” after ensuring there is “adequate value” in the parties’ “independent” accounts. Alice’s claims thus have an “independent” entity (sometimes referenced to as a “supervisory institution”) apply an unpatentable algorithm (ensuring “adequate value”) to effectuate a legal obligation (by adjusting accounts and generating an “irrevocable instruction” to the parties’ banks).

Alice first obtained “method” claims (in Alice’s ’479 and ’510 patents) directed to the exchange of an obligation, and then redrafted the claims, to recast the same “invention” as a computer system configured to carry out the same method (the ’720 and ’375 patents). But Supreme Court precedent establishes that such redrafting, merely placing unpatentable subject matter on a general purpose computer, does not make it patentable.

Alice’s very recently issued ’375 patent also added some claims to a “computer readable storage medium “having program code” that performs functions with respect to the same method. But under Supreme Court and other directly applicable precedent, this latest drafting stratagem is as ineffective as the others, and does not make Alice’s unpatentable abstract idea patentable.

Finally, Alice's patents include various dependent claims having limitations as to the type of transactions, accounts, parties and institutions for which its purported inventions may be used. However, it is well-established that the addition of such "field of use" limitations to otherwise unpatentable claims does not bring them within the scope of patentable subject matter.

Since Alice's patents do not claim patentable subject matter, CLS' renewed motion for summary judgment dismissing Alice's claims based on those patents should be granted.

STATEMENT OF FACTS

A. Alice Has Four Patents Based on the Same Patent Specification

Alice now has four patents, each based on essentially the same patent specification and disclosure, which claim – in one form or another – rights concerning "exchanging an obligation" between parties if independent accounts maintained for the parties have "adequate value."

In 1999 Alice obtained U.S. Patent No. 5,970,479 (Exh. 1, the "'479 patent"),¹ and in 2005 Alice obtained U.S. Patent No. 6,912,510 (Exh. 2, the "'510 patent"), both with claims to "methods of exchanging obligation(s)." Then, in December 2006, Alice obtained U.S. Patent No. 7,149,720 (Exh. 3, the "'720 patent") – on the basis of a "continuation" of the application for the '510 method patent – asserting claims to a "system to enable the exchange of an obligation," which carried out the method of the '510 patent claims. In May 2010, Alice obtained yet another patent, U.S. Patent No. 7,725,375 (Exh. 4, the "'375 patent"), on the basis of a further "continuation" of the application for the '510 method patent. This latest patent has additional claims to a "system to enable the exchange of an obligation" that is similar to the "system" claims of the '720 patent. The '375 patent also adds claims to a "computer program product" comprising a "computer readable storage medium having computer readable program code" that

¹ "Exh. ___" is used herein to refer to the exhibits to the Declaration of Steven J. Glassman, submitted herewith.

performs functions with respect to the same method. Each of Alice's patents are based on the same underlying patent disclosure, and each of them expires on the same date, as reflected in a "terminal disclaimer" found on the front of the '510, '720 and '375 patents.

B. Common Elements Of The Alice Patent Claims

Claims 33 and 34 of the '479 patent, asserted in this litigation, and claims 1-75 of the '510 patent, claim only methods for exchanging an obligation between parties to a transaction.

Claims 1-84 of the '720 patent and 1-38 of the '375 patent, also asserted in this litigation, claim "data processing systems" for exchanging an obligation, where the claimed systems have a computer and data storage device (and for the '375 patent, an additional device from which the computer receives the transaction), and the computer is configured to perform the methods claimed in the '479 and '510 patents. (*Compare, e.g.*, claims 1, 28, 60, 64, 68, and 80 of Exh. 3, the '720 patent with claims 1, 27, 61, 65, and 68 of Exh. 2, the '510 patent; *compare* claims 1, 14 and 26 of Exh. 4, the '375 patent to claim 68 of Exh. 3, the '720 patent, and claim 68 of Exh. 2, the '510 patent.)

Claims 39-47 of the '375 patent also claim a computer program product with program code "for causing a computer" to send a transaction "relating to an exchange obligation" and "causing a computer" to allow viewing of the method claimed in the '510 patent. (*Compare, e.g.* claim 39 of Exh. 4, the '375 patent to claim 68 of Exh. 2, the '510 patent.)

Alice has itself summarized the inventions claimed in its patents as follows: An entity, sometimes called a "supervisory institution," "maintain[s] an account for each party . . . that is independent of the parties' own . . . accounts" with another institution, sometimes called an "exchange institution."² (Alice 5/19/08 Mem. at 6, 7; *see also, e.g.*, Exh. 1, '479 patent at claim

² In the claims of the Alice patents, the accounts maintained by the supervisory institution are sometimes called "shadow records" because of their relationship to accounts

33.) One example of an exchange institution is a bank, including a central bank such as the Federal Reserve. (Alice 5/19/08 Mem. at 6, 7; *see also, e.g.*, Exh. 2, '510 patent, claims 15, 58.) As Alice further explained, the supervisory institution receives data relating to a transaction or exchange obligation -- for example the "exchange [of] \$1,000,000 for an equivalent amount of Yen" (Alice 5/19/08 Mem. at 7.) Then, if the parties have "adequate value" in their respective accounts, the supervisory institution "adjusts these accounts to reflect the exchange." (*Id.*) "It [the supervisory institution] then instructs the exchange institutions" to adjust the parties' exchange institution accounts. (*Id.*) Finally, and "[m]ost importantly," as Alice explained, is the legal requirement that "the adjustment of [the parties'] accounts at the supervisory institution and the instruction from the supervisory institution to [the exchange institutions] are irrevocable." (*Id.*)

The specific language of the various Alice patent claims at issue recite key common elements, as shown in Table 1 below for exemplary claims from each patent:

- a method or system for "exchanging" an obligation between parties.
- "accounts" (or "shadow records") are maintained by an institution or system, independent of accounts or records maintained at another institution.
- information about a transaction or exchange is received by the institution or system that maintains the accounts/shadow records.
- the accounts/shadow records are mathematically tested in light of the transaction, and adjusted to effect the exchange obligation only when there is "adequate value" in the account/shadow records. (A transaction that would reduce the account/shadow record below a particular level is not allowed or processed.)
- an instruction that is an "irrevocable, time invariant obligation" – a legal mandate – is "placed" on an exchange institution, to adjust the accounts or records at that institution in accordance with the adjustment of the accounts/shadow records.

maintained by an exchange institution. (*See, e.g.*, Exh. 1, '479 patent at col. 25, lines 13-17.)

Table 1 -- Common Elements of the Claims of the Alice Patents

<i>Element</i>	<i>Ex. 1, '479 Patent Claim 33</i>	<i>Ex. 2, '510 Patent Claim 68</i>	<i>Ex. 3, '720 Patent Claim 68</i>	<i>Ex. 4, '375 Patent Claim 1</i>
A method or system for exchanging an obligation between parties	<i>A method of exchanging obligations as between parties, each party holding a credit record and a debit record with an exchange institution, the credit records and debit records for exchange of predetermined obligations, the method comprising the steps of:</i>	<i>A method of exchanging an obligation between parties, wherein an exchange obligation is administered by a supervisory institution, the method performed by the supervisory institution, comprising:</i>	<i>A data processing system to enable the exchange of an obligation between parties, the system comprising:</i>	<i>A data processing system to enable the exchange of an obligation between parties, the system comprising: a first party device;</i>
Accounts or records are maintained by an institution/system separate from accounts or records maintained by another institution.	<i>(a) creating a shadow credit record and a shadow debit record for each stakeholder party to be held independently by a supervisory institution from the exchange institutions;</i> <i>(b) obtaining from each exchange institution a start-of-day balance for each shadow credit record and shadow debit record;</i>	<i>maintaining a first account for a first party, independent from a second account maintained by a first exchange institution;</i> <i>maintaining a third account for a second party, independent from a fourth account maintained by a second exchange institution</i>	<i>a data storage unit having stored therein (a) information about a first account for a first party, independent from a second account maintained by a first exchange institution, (b) information about a third account for a second party, independent from a fourth account maintained by a second exchange institution; and</i>	<i>a data storage unit having stored therein (a) information about a first account for a first party, independent from a second account maintained by a first exchange institution, and (b) information about a third account for a second party, independent from a fourth account maintained by a second exchange institution</i>
Information about a transaction is received.	<i>(c) for every transaction resulting in an exchange obligation,</i>	<i>wherein an exchange obligation is administered by a supervisory institution [from claim preamble]</i>	<i>a computer, coupled to said data storage unit, that is configured to (a) receive a transaction;</i>	<i>a computer, coupled to said data storage unit, that is configured to (a) receive a transaction from said first party device;</i>

<i>Element</i>	<i>Ex. 1, '479 Patent Claim 33</i>	<i>Ex. 2, '510 Patent Claim 68</i>	<i>Ex. 3, '720 Patent Claim 68</i>	<i>Ex. 4, '375 Patent Claim 1</i>
Accounts or records are mathematically tested based on the transaction and adjusted to effect the exchange obligation only when there is adequate value in the accounts or records.	the supervisory institution <i>adjusting each respective party's shadow credit record or shadow debit record, allowing only these transactions that do not result in the value of the shadow debit record being less than the value of the shadow credit record</i> at any time, each said adjustment taking place in chronological order; and	<i>electronically adjusting said first account and said third account</i> in order to effect the exchange obligation between said first party and said second party <i>after ensuring that said first party and said second party have adequate value in said first account and said third account, respectively</i> ; and	(b) <i>electronically adjust said first account and said third account</i> in order to effect an exchange obligation arising from said transaction between said first party and said second party <i>after ensuring that said first party and/or said second party have adequate value in said first account and/or said third account, respectively</i> ; and	(b) <i>electronically adjust said first account and said third account</i> in order to effect an exchange obligation arising from said transaction between said first party and said second party <i>after ensuring that said first party and/or said second party have adequate value in said first account and/or said third account, respectively</i> ; and
An instruction that is an “irrevocable, time invariant obligation” to adjust accounts or records is “placed” on the exchange institution.	(d) at the end-of-day, <i>the supervisory institution instructing ones of the exchange institutions</i> to exchange credits or debits to the credit record and debit record of the respective parties in accordance with the adjustments of the said permitted transactions, <i>the credits and debits being irrevocable, time invariant obligations</i> placed on the exchange institutions.	<i>providing an instruction to said first exchange institution and said second exchange institution</i> to adjust said second account and said fourth account in accordance with the adjustment of said first account and said third account, <i>wherein said instruction being an irrevocable, time invariant obligation</i> placed on said first exchange institution and said second exchange institution.	(c) <i>generate an instruction to said first exchange institution and/or said second exchange institution</i> to adjust said second account and/or said fourth account in accordance with the adjustment of said first account and/or said third account, <i>wherein said instruction being an irrevocable, time invariant obligation</i> placed on said first exchange institution and/or said second exchange institution.	(c) <i>generate an instruction to said first exchange institution and/or said second exchange institution</i> to adjust said second account and/or said fourth account in accordance with the adjustment of said first account and/or said third account, <i>wherein said instruction being an irrevocable, time invariant obligation</i> placed on said first exchange institution and/or said second exchange institution.

C. The '479 Patent Claims

Each of the common elements of Alice’s asserted patent claims is present in the first patent claims to issue here, claims 33 and 34 of the '479 patent.³ Independent claim 33 of the '479 patent is expressly directed to a “method of exchanging obligations as between parties” that

³ The application that led to the '479 patent was filed on May 28, 1993, and the patent issued on October 19, 1999.

is performed by a “supervisory institution.” (Exh. 1, ’479 patent at claim 33.) The supervisory institution maintains (“held”) a “shadow credit record” and a “shadow debit record” for each party. (*Id.*) For each “exchange obligation,” or transaction, received by the supervisory institution, it “adjust[s]” these shadow records to reflect the transaction, so long as doing so will not “result in the value of the shadow debit record being less than the value of the shadow credit record at any time.” (*Id.*) Thereafter, the supervisory institution “instruct[s]” certain “exchange institutions” to adjust their records in accordance with the “permitted transactions.” (*Id.*) According to the claim, such adjustments constitute “irrevocable, time invariant obligations placed on the exchange institutions.” (*Id.*)

D. The ’510 Patent Claims

Each of the common elements described above is also present in the claims of the ’510 patent. Indeed, each of the independent claims of the ’510 patent (claims 1, 27, 61, 65, and 68) recites only slight variations on the method of claim 33 of the ’479 patent.⁴

For example, as shown in Figure 1 below, claim 68, the broadest claim of the ’510 patent, is very similar to claim 33 of the ’479 patent except that claim 68 (a) replaces the term “shadow records” of claim 33 of the ’479 patent with “accounts”; (b) discards a limitation in claim 33 that requires “obtaining . . . a start-of-day balance” for the accounts; (c) revises the algorithm to permit only transactions that leave those accounts with “adequate value,” rather than using a test based on the relative value of the shadow debit and credit records; (d) provides that the “accounts” are adjusted “electronically”;⁵ and (e) while retaining the requirement for an

⁴ The application that led to the ’510 patent was filed on May 9, 2000, and the patent issued on June 28, 2005.

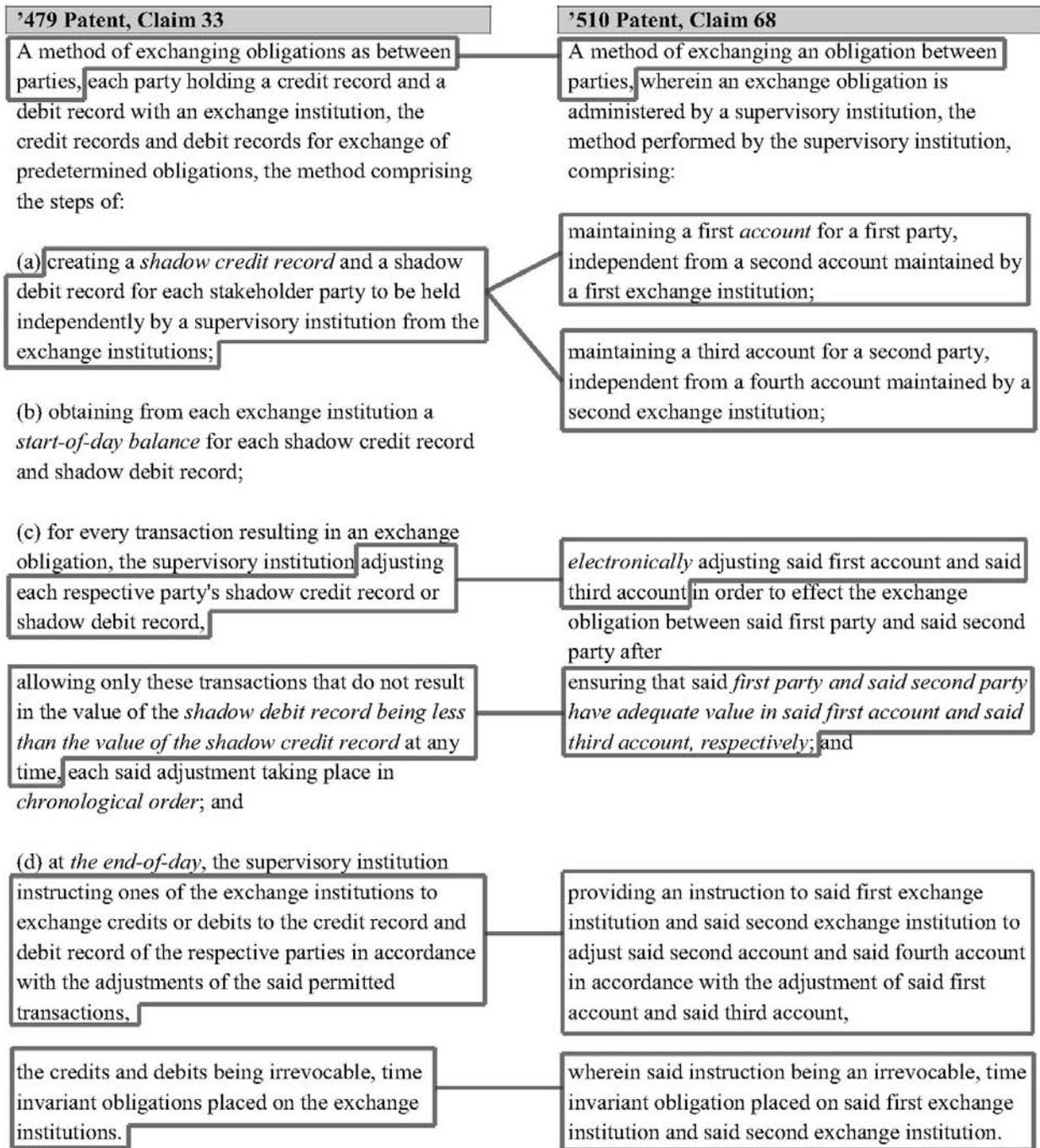
⁵ The limitation that accounts or shadow records be “electronically adjust[ed]” is found in each claim of the ’510 patent, but not in claims 33 or 34 of the ’479 patent.

“irrevocable, time invariant obligation,” removes a requirement that it be provided at the “end-of-day.” (See Exh. 2, ’510 patent at claim 68.)⁶

⁶ To take another example, claim 1 of the ’510 patent is materially identical to claim 33 of the ’479 patent, except that claim 1 (a) discards the limitation in claim 33 that requires “obtaining . . . a start-of-day balance for each shadow credit record and shadow debit record”; (b) provides the instruction “at the end of a period of time” instead of “at the end-of-day”; and (c) specifies that the shadow records are adjusted “electronically.” This additional comparison is diagrammed in Appendix A, *infra*.

Figure 1

'479 Patent, Claim 33 vs. '510 Patent, Claim 68



The U.S. Patent Office (“PTO”) found, and Alice implicitly admitted, that there is no patentable distinction between claim 33 of the ’479 patent and the independent claims of the ’510 patent. The PTO originally rejected all of the ’510 patent’s independent claims under the

“judicially created doctrine of double patenting” because, it found, the subject matter of these claims was “fully disclosed in the [’479] patent, so that the claims, “if allowed, would improperly extend the ‘right to exclude’ already granted in the [’479] patent.” (*See* Exh. 5, Office Action dated 9/3/03, at 6.) The examiner found that claim 33 of the ’479 patent and the claims in the application that led to the ’510 patent were “claiming common subject matter” -- the common elements of the Alice claims described above. (*See* Exh. 5, Office Action dated 9/3/03, at 6.) Alice did not object to the examiner’s double patenting rejection, and instead executed a “terminal disclaimer” agreeing that the claims of the ’510 patent would expire at the same time as those of the ’479 patent. (*See* Exh. 6, Amendment and Reply Under 37 C.F.R. § 1.111 dated 10/31/03, at 22; Exh. 7, Terminal Disclaimer To Obviate A Double Patenting Rejection Over A Prior Patent, dated 10/31/03.)

E. The ’720 Patent Claims

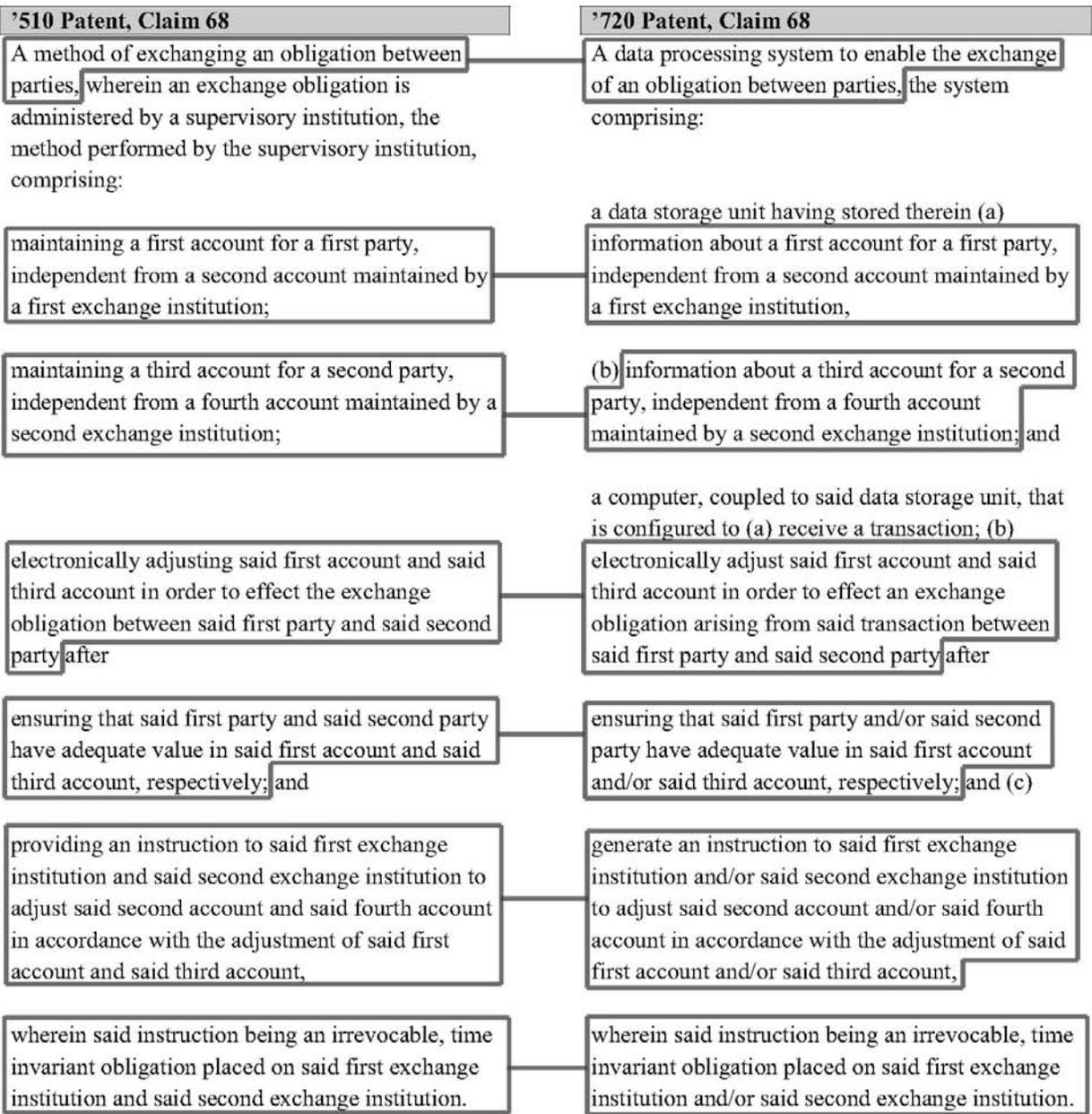
Each of the common elements described above is also present in the claims of the ’720 patent. (*See* Table 1, *supra* at 6-7.) However, the ’720 patent differs from the ’479 and ’510 patents in that each of its independent claims is directed to a “data processing system” comprised of “a data storage unit” and “a computer, coupled to said data storage unit.” (*See* Exh. 3, ’720 patent at claims 1, 28, 60, 64, 68, and 80.)⁷ In each claim, the “data processing system” plays the role of the supervisory institution of the ’479 and ’510 patents, in that it is configured to maintain and adjust account/shadow record information, run an algorithm to determine permitted transactions based on transaction information and the magnitude of the accounts/shadow records for each party, and generate an “instruction” that is an “irrevocable, time-invariant obligation” on another institution. (*Id.*)

⁷ The application that led to the ’720 patent was filed on December 31, 2002, as a “continuation” of the application that led to the ’510 patent and the ’720 patent issued on December 12, 2006.

For example, as shown in Figure 2 below, claim 68 of the '720 patent is directed to a “data processing system” configured to carry out the method of claim 68 of the '510 patent. In claim 68 of the '720 patent, the “data storage unit” stores “information about a first account for a first party, independent from a second account maintained by a first exchange institution.” (See Exh. 3, '720 patent at claim 68.) The “computer, coupled to said data storage unit” is then configured to “(a) receive a transaction”; “(b) electronically adjust” the parties’ accounts “to effect an exchange obligation” arising from the transaction “after ensuring that the “first party and/or [the] second party have adequate value” in their accounts; and “(c) generate an instruction” to other institutions to adjust their own accounts “in accordance with the adjustment” of the accounts maintained by the data processing system, where the instruction is “an irrevocable, time invariant obligation placed on” those other institutions. (*Id.*; see Figure 2 below, and Table 1, *supra* at 6-7 (comparing claim 68 of the '720 patent and claim 68 of the '510 patent).)⁸

⁸ Comparison of the other independent claims of the '720 and '510 patents shows the same similarity. For example, claim 1 of the '720 patent claims a data processing system configured to perform the method of claim 1 of the '510 patent. See Appendix B, *infra*. Claims 28 and 60 of the '720 patent recite data processing systems configured to perform the methods of claim 27 and 61 of the '510 patent, respectively (see Appendices C and D, *infra*), while claims 64 and 80 of the '720 patent recite data processing systems configured to perform the method of claim 65 of the '510 patent (see Appendix E, *infra*).

Figure 2 '510 Patent, Claim 68 vs. '720 Patent, Claim 68



The similarity between the system claims of the '720 patent and the method claims of the '510 patent was not lost on the PTO. The claims of the '720 patent were initially rejected for double patenting over each of the claims of the '510 patent. (*See* Exh. 8, Office Action dated 12/28/05, at 2.) As the examiner stated, "Although the conflicting claims are not identical, they are not patentably distinct from each other because [the claims of the '720 patent] are the same method for intended use as claims 1-75 of U.S. Patent No. 6,912,510." (*Id.*) The examiner

further stated that “[t]he additional limitation disclose[d] by [the application that led to the ’720 patent] is ‘a data processing system and a data storage unit’ while all the other limitations in [the application claims] are the same as claims 1-75 of [the ’510 patent].” (*Id.*) The claims were allowed only after Alice executed another terminal disclaimer so that the claims of the ’720 patent would expire at the same time as those in the ’510 patent. (*See* Exh. 6, Amendment and Reply Under 37 C.F.R. § 1.111 dated 1/27/06, at 50; Exh. 9, Terminal Disclaimer To Obviate A Double Patenting Rejection Over A Prior Patent, dated 1/27/06.)

F. The ’375 Patent Claims

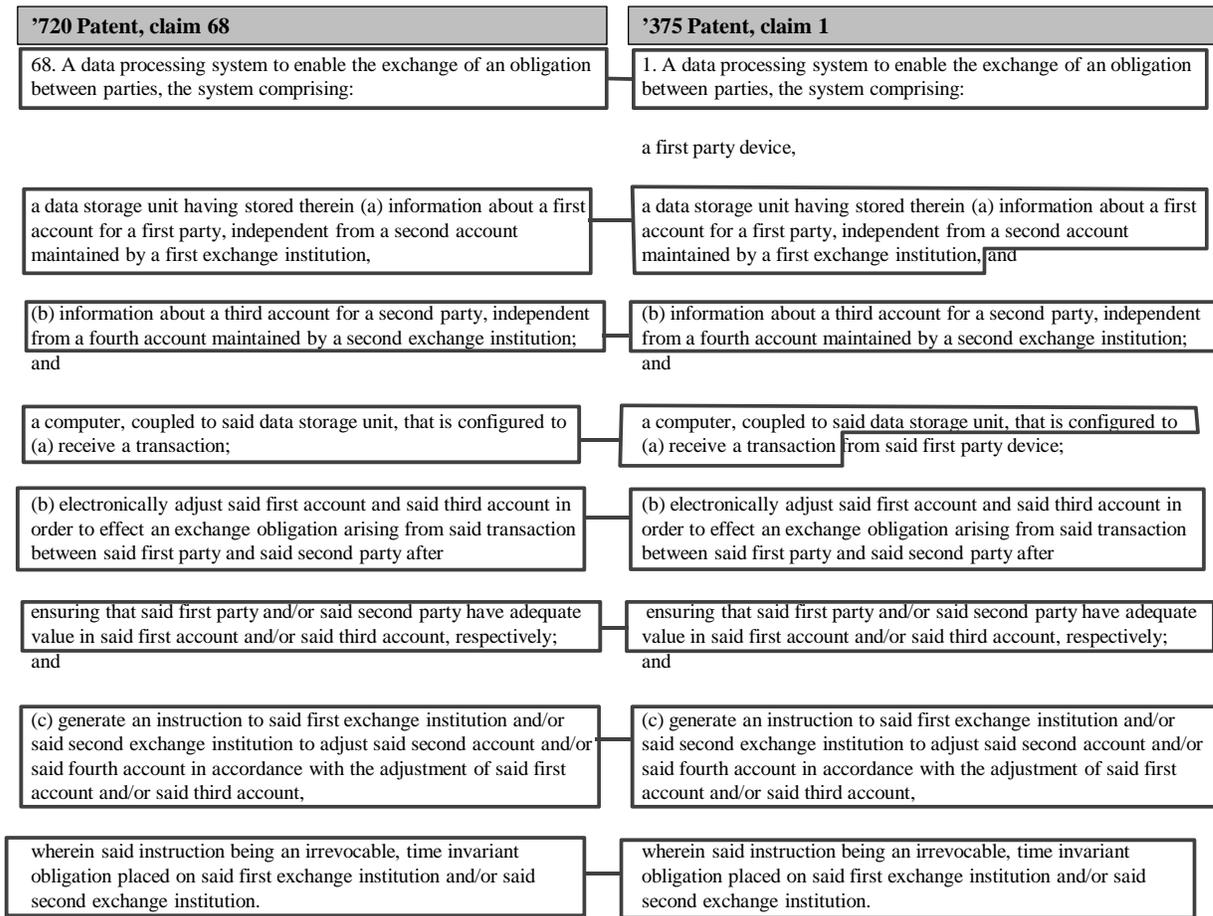
Each of the common elements described above is also present in the claims of the ’375 patent. (*See* Table 1, *supra* at 6-7.) Three of the four independent claims in the ’375 patent are essentially identical to those in the ’720 patent, except that the “data processing system” of the ’375 patent includes (in addition to a “computer” and a “data storage unit”) either a “first party device” (claim 1), and/or a “communications controller” (claims 14, 26), from which the transaction is “received”. (*See* Exh. 4, ’375 patent.) In every other way, these claims are identical to the corresponding independent claims of the ’720 patent. In each claim, as in the ’720 patent, the “data processing system” plays the role of the supervisory institution of the ’479 and ’510 patents, in that it is configured to maintain and adjust account/shadow record information, run an algorithm to determine permitted transactions based on transaction information and the magnitude of the accounts/shadow records for each party, and generate an “instruction” that is an “irrevocable, time-invariant obligation” on another or institution. (*Id.*)

For example, as shown in Figure 3 below, claim 1 of the ’375 patent is essentially identical to claim 68 of the ’720 patent. Both are directed to a “data processing system” configured to carry out the method of claim 68 of the ’510 patent. Like claim 68 of the ’720 patent, in claim 1 of the ’375 patent the “data storage unit” stores “information about a first

account for a first party, independent from a second account maintained by a first exchange institution.” As in claim 68 of the ’720 patent, the “computer,” of claim 1 of the “375 patent is “coupled to said data storage unit” and configured to “(a) receive a transaction”; “(b) electronically adjust” the parties’ accounts “to effect an exchange obligation” arising from the transaction “after ensuring that the “first party and/or [the] second party have adequate value” in their accounts; and “(c) generate an instruction” to other institutions to adjust their own accounts “in accordance with the adjustment” of the accounts maintained by the data processing system, wherein the instruction is “an irrevocable, time invariant obligation placed on” those other institutions.⁹

⁹ Comparison of independent claims 14 and 26 of the ’375 patent shows that they are likewise identical to claim 1 of that patent (and claim 68 of the “720 patent”) except, as noted above, for the substitution or addition of a “communications controller.” (*See* Exh. 4, ’375 patent, at claims 1, 14, 26.)

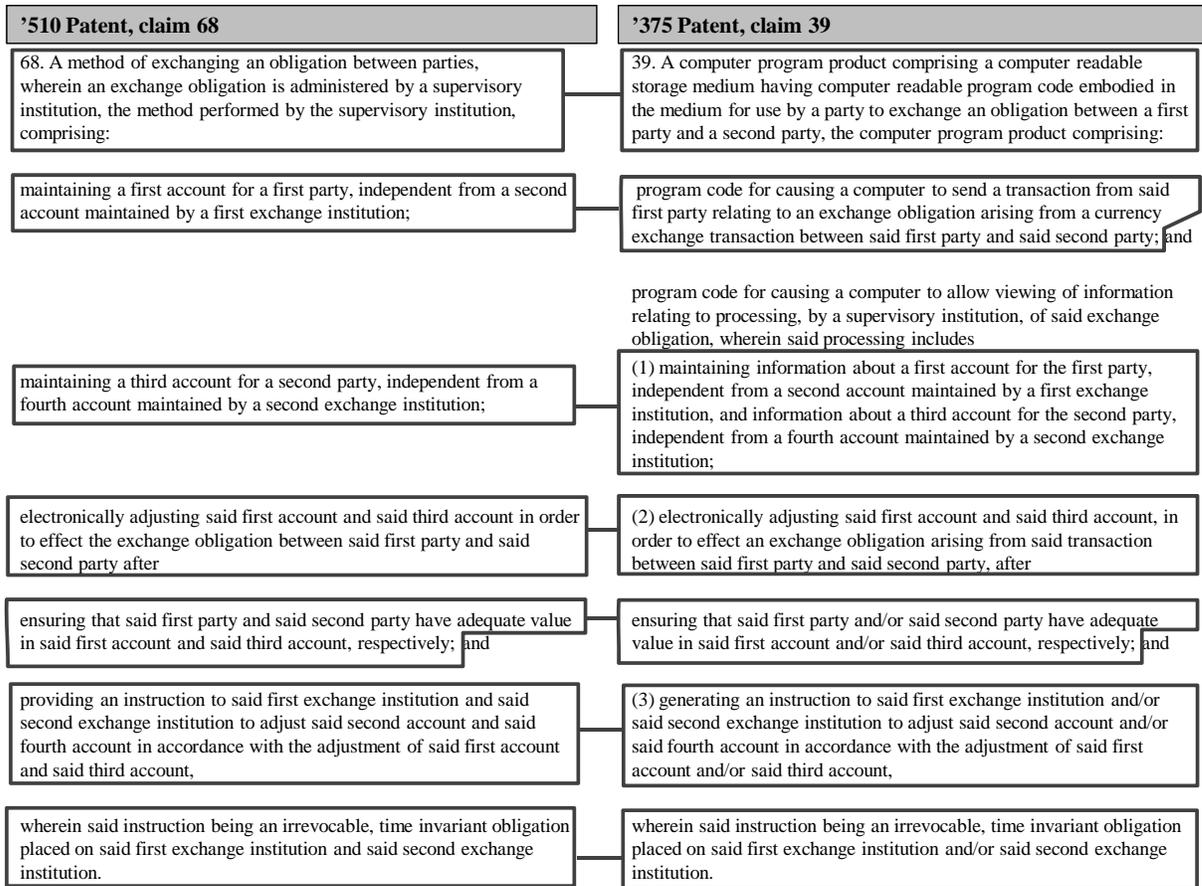
Fig. 3 '720 Patent, Claim 68 vs. '375 Patent, Claim 1



In claim 39 of the '375 patent, Alice asserts a claim to yet another version of its same invention, this time in the form of a “computer program product” having computer code “embodied” in a “computer readable storage medium” that performs functions concerning the method of the '510 patent claims. The software contained on the claimed computer-readable medium is “for use by a party to exchange an obligation,” for “causing a computer to send a transaction” and for “causing a computer to allow viewing of information relating to” the very same method claimed in the '510 patent: maintaining information about accounts, electronically adjusting the accounts to “effect an exchange obligation arising from said transaction” after ensuring that the parties have “adequate value” in their accounts, and generating an instruction that is an “irrevocable, time invariant obligation.” (See Exh. 4, '375 patent, at claim 39.)

As shown in Figure 4 below, each element of claim 39 of the '375 patent corresponds directly to an element of the method of claim 68 of the '510 patent, except that computer code causes a computer to send a transaction and allows viewing of information relating to the claimed method.

Fig. 4 '510 Patent, Claim 68 vs. '375 Patent, Claim 39



The similarity between the various claims of the '375 patent and the claims of the '510 (and '720) patent were evident even to Alice during prosecution of the '375 patent. Thus, since the claims of the '375 patent were not patentably distinct from those in the '510 and '720 patents, Alice promptly filed a terminal disclaimer over those patents before the PTO required it to do so. (See Exh. 10, Terminal Disclaimer to Obviate a Double Patent Rejection Over "Prior Patents," filed September 11, 2008.)

ARGUMENT

THE ALICE PATENTS DO NOT CLAIM PATENTABLE SUBJECT MATTER

I. MENTAL PROCESSES AND ABSTRACT IDEAS ARE NOT PATENTABLE

The U.S. Supreme Court, in *Bilski*, reiterated the long-standing proposition that abstract ideas are not patentable. In the lead opinion by Justice Kennedy, joined by four other Justices, the Court held that Bilski's broadest claims, which sought to patent "both the concept of hedging risk and the application of that concept to energy markets," are "not patentable processes because they are attempts to patent abstract ideas." 130 S. Ct. at 3229-3230. The Court noted that "all members of the Court agree that [Bilski's patent application] falls outside of Section 101 because it claims an abstract idea." *Id.* at 3230.¹⁰

The Supreme Court stated in *Bilski* that it was resolving the matter on the basis of its prior decisions in *Benson*, *Flook*, and *Diehr*, which long ago established that mental processes and abstract ideas are unpatentable. *Id.* The Supreme Court had held in *Benson* that "mental processes, and abstract intellectual concepts are not patentable." 409 U.S. at 67. In *Diehr*, the Supreme Court held that "laws of nature, natured phenomena, and abstract ideas" are "excluded" from patent protection. 450 U.S. at 185. The Supreme Court in *Bilski* also reaffirmed the teaching of *Flook* that "limiting an abstract idea to one field of use or adding token post-solution components d[oes] not make the concept patentable." 130 S. Ct. at 3231.

More particularly, in *Benson*, the Court held unpatentable a claim to a method for converting one type of number ("binary-coded decimal (BCD) numerals") to another ("pure binary numerals"). 409 U.S. at 64, 72-73. The claims covered the use of the method "in a general-purpose digital computer." *Id.* at 64. The Court held that the method was unpatentable,

¹⁰ 35 U.S.C. § 101 lists four categories of patentable subject matter, including "process[es], machine[s], manufacture[s]" and "compositions[s] of matter."

even if implemented on a computer, because such a patent would “wholly pre-empt the mathematical formula and in practical effect would be a patent on the algorithm itself.” *Id.* at 72.

In *Flook*, the Court addressed a claim to a process for adjusting an “alarm limit” used in connection with chemical processing; the claim included a “new and presumably better” method for computing the limit. *Id.* at 594-95. The Court held that the claim was unpatentable because it sought to claim an unpatentable algorithm. *Id.* Further, the Court held that the claim could not be saved by including the adjustment of the alarm limit as part of the method, because such “post-solution activity” could not transform an unpatentable abstract idea “into a patentable process.” *Id.* at 590.

Finally, in *Diehr*, the Court upheld as patentable a claim to a method for curing rubber in a mold which included, as one of its steps, the use a mathematical formula based on continuous measurement of the internal temperature of the mold to determine when the mold should be opened. The Court reaffirmed that “abstract ideas,” including mathematical algorithms, are unpatentable. 450 U.S. at 185, 191 (“Excluded from . . . patent protection [under Section 101] are laws of nature, natural phenomena, and abstract ideas.”). The Court also noted that the exclusion of abstract ideas from patent protection could not be circumvented “by attempting to limit the use of the formula to a particular technological environment” or by including “insignificant post solution activity” as part of the claimed method. *Id.* at 191-92. The claim in *Diehr* was patentable only because the court viewed it not as an attempt to patent an abstraction, but rather as “drawn to an industrial process for the molding of rubber products.” *Id.* at 192-93.

Manipulations of “public or private legal obligations or relationships” and “business risks” are specific examples of alleged inventions that the Federal Circuit has characterized as “abstractions,” and which thus fall outside the scope of patentable subject matter. *Bilski*,

545 F.3d 943, 963 (Fed. Cir. 2008). See also, e.g., *In re Comiskey*, 554 F.3d 967, 981 (Fed. Cir. 2009) (claims to process of resolving a legal dispute involved unpatentable subject matter).

A claim that is not drawn to patentable subject matter is invalid and must be rejected even if it meets all of the other legal requirements of patentability; moreover, the Supreme Court has stated that the question whether an invention involves patentable subject matter is a threshold matter which “must *precede*” the determination of other issues. *Flook*, 437 U.S. at 593.

Whether a claim is drawn to patent eligible subject matter is an issue of law. *In re Comiskey*, 554 F.3d at 975.

II. THE “MACHINE OR TRANSFORMATION” TEST REMAINS THE BEST INDICATOR OF WHETHER METHOD CLAIMS RECITE PATENTABLE SUBJECT MATTER

The “machine or transformation” test, while not the sole test for patentable subject matter, remains the best available indicator of patent eligibility. While the Supreme Court in *Bilski* left the door open to other indicia of patentability, it did not set forth any other test, and rejected alternative tests that had previously been used by the Federal Circuit.

Moreover, the Supreme Court in *Bilski* did not take issue with either the Federal Circuit’s formulation or explication of the machine or transformation test. As explained in the *en banc* Federal Circuit decision in *Bilski*, under the machine or transformation test, a claim based on an abstract idea is unpatentable subject matter under Section 101 *unless* it (1) “is tied to a *particular* machine or apparatus” or (2) “transforms a particular article into a different state or thing.” 545 F.3d at 954. (*citing Benson*, 409 U.S. at 70; emphasis added). Further, if a process is tied to a particular machine or apparatus, the machine or apparatus “must impose meaningful limits on the claim’s scope to impart patent-eligibility.” *Bilski*, 545 F.3d at 961.

A. The Supreme Court Affirmed That the Machine or Transformation Test Is Still a Reliable Indicator of Patent Eligibility

A majority of the Supreme Court in *Bilski* (at least Justices Stevens, Ginsberg, Sotomayor, Breyer and Scalia) expressly held that the machine or transformation test is determinative of patentability in most cases. While the Supreme Court stated that the machine or transformation test “is not the *sole* test” for determining patentable subject matter, the varying opinions of all of the Justices nevertheless emphasized the importance of the machine or transformation test as a means of determining whether a claim is directed to patentable subject matter. Justice Kennedy’s opinion stated that the machine or transformation test “is a useful and important clue” to patentability. 130 S. Ct. at 3227. Justice Stevens, in a concurrence joined by Justices Ginsberg, Breyer and Sotomayor, stated that the “machine-or-transformation test” is a “*critical clue*” to patentability that is “*reliable* in most cases.” *Id.* at 3232 (emphasis added) (“the entire Court agrees, that . . . the machine or transformation test is reliable in most cases.”) Justice Breyer, in a further concurrence joined by Justice Scalia, stated that the machine or transformation test “is *the clue* to the patentability of a process.” *Id.* at 3258. This concurrence pointedly concluded that, while the machine or transformation test is “not necessarily the *sole* test of patentability, the Court intends neither to de-emphasize the test’s usefulness nor to suggest that many patentable processes lie beyond its reach.” *Id.* at 3259.

Justice Kennedy suggested that for some “previously unforeseen inventions . . . it may not make sense to require courts to confine themselves to asking the questions posed by the machine-or-transformation test” *Id.* at 3227-3228. But Justice Kennedy did not identify which “unforeseen inventions” might fit such a scenario, and Justice Scalia declined to join this part of Justice Kennedy’s opinion (*id.* at 3223, n.*) – instead joining Justice Breyer’s concurring statement that “the Court intends neither to de-emphasize the test’s usefulness nor to suggest that many patentable processes lie beyond its reach.” *Id.* at 3259.

The continuing vitality of the machine or transformation test in assessing patent eligibility, after the Supreme Court's decision in *Bilski*, has been confirmed by subsequent decisions. In *King Pharmaceuticals, Inc. v. EON Labs, Inc.*, ___ F.3d ___, 2010 WL 3001333 (Fed. Cir. Aug. 2, 2010), the Federal Circuit recently observed:

“While the Supreme Court in *Bilski* made clear that our machine-or-transformation test is not the exclusive test for patentability, *Bilski*, 130 S.Ct. 3226-27, it also made clear that the test “is a useful and important clue, an investigative tool, for determining whether some claimed inventions are processes under § 101,” *id.* at 3227. We therefore understand the Supreme Court to have rejected the exclusive nature of our test, but not necessarily the wisdom behind it.”

Id. at * 9.

In another decision issued after the Supreme Court's *Bilski* decision, *Ultramercial, LLC et al. v. Hulu, LLC, et al.*, ___ F. Supp. 2d ___, No. CV 09-06918 (C.D. Cal. Aug. 13, 2010),¹¹ the court dismissed claims as lacking patentable subject matter, based on their abstract nature and failure to satisfy the machine or transformation test. Importantly, the court found that “even after the Supreme Court's decision in *Bilski*, the machine or transformation test appears to have a major screening function – albeit not perfect – that separates unpatentable ideas from patentable ones.” *Id.* slip op. at 3. After reviewing the opinions of the various Justices in *Bilski*, the court concluded that “at least five (and maybe all) Justices seem to agree that the machine or transformation test should retain much of its utility after the Supreme Court's decision in *Bilski*.”

Id.

¹¹ A copy of this as-yet unreported decision is attached to this Memorandum.

B. The Supreme Court Rejected Other Previously-Used Tests for Patent Eligibility

In addition to emphasizing the continuing importance of the machine or transformation test, all of the Justices agreed, in *Bilski*, that other tests for patentability which had previously been used by the Federal Circuit were inadequate and should not be used.

The entire Supreme Court thus rejected the “useful, concrete and tangible result” test that had been used by the Federal Circuit pre-*Bilski* to uphold the patentability of claims directed to abstract methods implemented on a general purpose computer. 130 S. Ct. at 3231 (Stevens, J. concurring) (“nothing in [this] opinion should be read as endorsing interpretations of § 101 that the Court of Appeals for the Federal Circuit has used in the past. *See, e.g., State Street [v. Signature Fin. Group, Inc.]*, 149 F.3d 1368 (Fed. Cir. 1998)”); *Id.* at 3232 n.1 (“it would be a grave mistake to assume that anything with a ‘useful, concrete and tangible result,’ . . . may be patented.”) (citing *State Street* as an example); *Id.* at 3259 (Breyer, J. concurring) (nothing in the Court’s decision “indicates that anything which produces a ‘useful, concrete and tangible result,’ . . . is patentable”) (again citing *State Street* as an example).¹² In short, the Supreme Court made it abundantly clear that the Federal Circuit’s pre-*Bilski* cases, to the extent they relied on tests other than the machine or transformation test to find abstract method claims patentable (including methods implemented on a digital computer), are no longer good law.¹³

¹² The Federal Circuit’s decision in *State Street* upheld a claim to a business method implemented on a computer, based on application of the “uniform, concrete and tangible result” test.). As Justice Breyer noted in his concurrence, “the introduction of the ‘useful, concrete and tangible result test’, associated with the Federal Circuit’s *State Street* decision, preceded the granting of patents that ranged from the somewhat ridiculous to the truly absurd.” *Id.* at 3259.

¹³ The Supreme Court thus affirmed the Federal Circuit’s statements in its *en banc Bilski* decision (545 F.3d at 959-60) that previous Federal Circuit decisions upholding patentability of method claims could “no longer be relied on” because they had misinterpreted Supreme Court precedent in favor of other, “inadequate” formulations of the patentability standard such as the “useful, concrete and tangible result” test.

The Supreme Court in *Bilski* thus did not formulate or endorse any test for the determination of patentable subject matter other than the machine or transformation test. In effect, the Supreme Court's decision in *Bilski* leaves the machine or transformation test intact for most cases, while leaving the door open to new tests in unidentified emerging technological fields for which the Supreme Court did not wish to blindly foreclose the possibility of valid patents.¹⁴

III. ALICE'S METHOD PATENT CLAIMS ARE NOT DRAWN TO PATENTABLE SUBJECT MATTER.

A. Alice's Method Claims Are Drawn To An Unpatentable Abstract Idea

The methods claimed in Alice's '479 and '510 patents are directed to the abstract idea of "exchanging an obligation between parties" after ensuring that there is "adequate value" in independent accounts maintained for the parties. In its own explanation of the "invention" to this Court, Alice stated that its claims are directed to eliminating "risk" (*see* D.I. 27, Alice 5/19/08 Mem. at 6) with respect to transactions by ensuring that the parties have "adequate value" in their respective accounts with a "supervisory institution" before the supervisory institution issues an "irrevocable" instruction to have the parties' banks process the transaction. (*Id.* at 5-7.) Each claim requires a mathematical determination as to whether the exchange of the obligation will reduce the value of the parties' "accounts" or "shadow records" below a threshold value. (*See, e.g.,* Exh. 1, '479 patent, claim 33 ("for every transaction . . . allowing only these transactions that do not result in the value of the shadow debit record being less than the value of the shadow credit record at any time").) If the value in the accounts is inadequate, the exchange is not permitted. Only when the account of each party to the transaction has sufficient value is the exchange of obligations allowed to proceed. (*Id.*)

¹⁴ See Section II B2 of Justice Kennedy's opinion (not joined in by Justice Scalia), discussing possible new "Information Age" technologies. 130 S. Ct. at 3227.

In *Bilski*, the plaintiffs sought to patent, in effect, the concept of hedging; the claims more specifically recited the initiation of commodity transactions, the performance of requisite mathematical calculations, and the initiation of related transactions to balance the parties' risk positions.¹⁵ Here, Alice seeks to patent the equally unpatentable concept of permitting an exchange of obligations only if there is adequate value for the exchange in independent accounts maintained for the parties.

In effect, Alice's "invention" seeks to patent the concept of a two-sided "escrow" arrangement for financial transactions. Escrow is defined as "property delivered by a promisor to a third party to be held by the third party . . . until the occurrence of a condition, at which time the third party is to hand over the . . . property to the promisee." *Black's Law Dictionary* 624 (9th

¹⁵ The Supreme Court noted that the unpatentable claims in *Bilski* were directed to a method that allowed "buyers and sellers of commodities [to] protect, or hedge, against the risk of price changes." 130 S. Ct. at 3223. More particularly, the Federal Circuit in *Bilski* summarized the claimed method as "performing requisite mathematical calculations" in order to "identify[] those transactions that the calculations have revealed would hedge each other's risk[]," and "performing the post-solution step of consummating those transactions.") 545 F.3d at 965. *Bilski*'s independent claim 1 specifically provided:

A method for managing the consumption risk costs of a commodity sold by a commodity provider at a fixed price comprising the steps of:

- (a) initiating a series of transactions between said commodity provider and consumers of that commodity wherein said consumers purchase said commodity at a fixed rate based upon historical averages, said fixed rate corresponding to a risk position of said consumer;
- (b) identifying market participants for said commodity having a counter-risk position to said consumers; and
- (c) initiating a series of transactions between said commodity provider and said market participants at a second fixed rate such that said series of market participant transactions balances the risk position of said series of consumer transactions. *Id.* at 949.

The dependent claims either specified particular commodities, or specified particular mathematical methods to be used to determine the inputs to the method.

ed. 2009). In Alice’s “invention,” both the first and second parties to the transaction are “promisors” who enter into alternate sides of an exchange obligation, a supervisory institution is the “third party,” and the first and second parties are also promisees for the exchange obligation. The required “condition” occurs when each party’s independent account with the supervisory institution has sufficient value (the “property” of the definition).

Like hedging in *Bilski*, Alice’s two-sided escrow concept of permitting an exchange of obligations if there is adequate value for the exchange is “an unpatentable abstract idea.” *Bilski*, 130 S. Ct. at 3231. Furthermore, as in *Bilski*, “allowing [Alice] to patent [two-sided escrow] would pre-empt use of this approach in all fields, and would effectively grant a monopoly over an abstract idea.” *Id.*

Indeed, like the claims at issue in *Benson* and *Flook*, Alice’s method claims are effectively drawn to an algorithm, and are unpatentable for that reason as well. The Supreme Court, defining an “algorithm” as a “procedure for solving a given type of mathematical problem,” has held that an algorithm is “like a law of nature, which cannot be the subject of a patent.” *Diehr*, 450 U.S. at 186.¹⁶ As discussed above, the Alice patent claims recite “accounts” or “shadow records” – records of numbers – maintained by an independent, supervisory entity. The claimed method applies a mathematical test, based on the transaction data which is received and the magnitude of the parties’ accounts/shadow records, to determine whether the accounts should be adjusted to effectuate the transaction; account adjustments and

¹⁶ Numerous Federal Circuit decisions have also rejected as unpatentable method claims based on algorithms. *See, e.g., Comiskey*, 554 F.3d at 980-81 (claim to algorithm for arbitrating a dispute to decide its resolution held unpatentable); *In re Meyer*, 688 F.2d 789, 796 (C.C.P.A. 1982) (rejecting as an unpatentable “mathematical algorithm” a claim to a method for calculating a numeric factor for use in diagnosing problems in multicomponent systems); *In re Grams*, 888 F.2d 835, 840-41 (Fed. Cir. 1989) (rejecting claim to algorithm for diagnosing abnormal condition in person by identifying and assigning numeric value to results of clinical tests of different parts of body).

an instruction that is an irrevocable obligation on the parties' "exchange institutions" (banks) are made only if the mathematical test is passed.

Alice's recitation of legal obligations or relationships in its patent claims further demonstrates the abstract, unpatentable nature of its claims. In Alice's claims, the "exchange obligations" or "transactions" are simply contractual, legal obligations of the parties. Likewise, the final step of Alice's method, the generation of an instruction that is an "irrevocable, time invariant obligation" involves yet another legal obligation. Indeed, whether the instruction is truly an "irrevocable obligation" depends on the legal regime in which it is used. As Alice previously explained to the Court, the instruction creates an "irrevocable" *legal* obligation between the exchange institutions (banks) such that the instruction, once received, must be "honored" by both exchange institutions. This ensures that the obligation at issue "cannot be undone by either party." (Alice 5/19/08 Mem. at 7.)¹⁷

In its *en banc* decision, the Federal Circuit in *Bilski* specifically held that "public or private legal obligations or relationships" and "business risks" are "abstractions," and that methods involving the manipulation of such "abstractions" do not constitute patentable subject matter." 545 F.3d at 963-64. Nothing in the Supreme Court affirmance overturned or undercut this proposition. See also *Fort Properties, Inc. v. American Master Lease, L.L.C.*, 609 F. Supp. 2d 1052, 1056 (C.D. Cal. 2009) (method involving creation of a "deedshare" was unpatentable since it amounted to "an arrangement of conceptual legal rights.")

¹⁷ Because of the legal nature of the instruction, as Alice has explained, if one party were to go bankrupt after the adjustment to the shadow credit and debit records occurred, the other party "would still receive payment because the transaction is irrevocable." (*Id.*, Alice 5/19/08 Mem. at 7.)

Under *Bilski*, *Benson*, and *Flook*, Alice’s claimed method, for “exchanging an obligation” if independent accounts maintained for the parties have “adequate value,” seeks to patent an abstract idea and is therefore unpatentable.¹⁸

B. Insignificant Post-Solution Activity Recited in Alice’s Claims Does Not Render Them Patentable

Alice may contend that its method claims are not simply directed to an abstract idea because the claims require that the accounts/shadow records be “adjusted” after the algorithm that ensures “adequate value” is used. (*See, e.g.*, Ex. 1, ’479 patent at claim 33 (“for every transaction resulting in an exchange obligation, the supervisory institution adjusting each respective party’s shadow credit record or shadow debit record . . .”).) Alice may also contend that its claimed method is patentable because it includes “instructing” another institution (the “exchange institution”) to irrevocably adjust its own records.¹⁹ However, such contentions would be wrong, for two reasons. First, as discussed above, these adjustments and instructions to effectuate the parties’ exchange obligations are themselves merely abstract and unpatentable manipulations of legal obligations. Second, the Supreme Court in *Bilski* reiterated that, as a matter of law, such “insignificant post-solution activity” cannot convert an unpatentable abstraction into a patentable method.

Quoting with approval its prior decisions in *Flook* and *Diehr*, the Supreme Court in *Bilski* stated that “the prohibition against patenting abstract ideas ‘cannot be circumvented by

¹⁸ Of course, Alice’s claims are not rendered patentable because they may effectively combine a number of abstractions. Taking several abstract ideas and manipulating them together “adds nothing” to the patentability of the claims. *In re Warmerdam*, 33 F.3d 1354, 1360 (Fed. Cir. 1994).

¹⁹ *See, e.g.*, Ex. 1, ’479 patent at claim 33 (“(d) at the end-of-day, the supervisory institution instructing ones of the exchange institutions to exchange credits or debits to the credit record and debit record of the respective parties in accordance with the adjustments of the said permitted transactions, *the credits and debits being irrevocable, time invariant obligations placed on the exchange institutions*”) (emphasis added).

attempting to limit the use of the formula to a particular technological environment’ or adding ‘insignificant postsolution activity.’” 130 S. Ct. at 3230, *citing Diehr*, 450 U.S. at 191-192. In *Flook*, for example, the patentee asserted that “the adjustment of the alarm limit to the figure computed according to the formula” rendered the method transformative and thus patentable. 437 U.S. at 590. The Supreme Court explained that such “post-solution activity” cannot “transform an unpatentable principle into a patentable process”; to hold otherwise would “exalt[] form over substance.” *Id.* See also *In re Schrader*, 22 F.3d 290, 294 (Fed. Cir. 1994), in which the patent applicant asserted that its auction bid method was transformative because it required “the entering of bids in a ‘record.’” The Federal Circuit, noting that “the step of entering data into a ‘record’ is implicit in any application of a mathematical algorithm,” held that the adjustment of such records did not make the claimed methods patentable. *Id.*

In *Ultramercial*, decided after the Supreme Court’s *Bilski* decision, the patentee claimed a method for distributing copyrighted products over the Internet by allowing such material to be accessed in exchange for watching selected advertisements. The claimed method also included steps of recording the transaction and receiving sponsor payment for the ad. *Ultramercial*, slip. op. at 1-2. The court rejected plaintiff’s claims of patentability, since the invention’s “core principle, similar to the core principle of the *Bilski* patent, is an abstract idea.” *Id.* at 6.

Here, as in *Flook*, *Schrader*, and *Ultramercial*, the “post-solution activity” of adjusting or recording account data and issuing instructions reflecting the result of Alice’s claimed algorithm (ensuring “adequate value”) cannot make Alice’s claimed method patentable.

C. The Failure of Alice’s Method Claims To Satisfy The Machine Or Transformation Test Demonstrates Their Lack of Patentable Subject Matter

As discussed above (at p. 21), while the Supreme Court in *Bilski* did not endorse the “machine or transformation” test as the “sole” test for patentability, all of the Justices emphasized its importance and usefulness. Moreover, a majority of the Justices agreed that the

machine or transformation test is “reliable in most cases,” or that not many patentable processes “lie beyond its reach.” Furthermore, nothing in the Supreme Court’s opinion changed the formulation of the machine or transformation test set forth by the Federal Circuit.

Alice’s claims do not pass muster under either prong of the machine or transformation test. Alice’s failure to do so is, under *Bilski*, either a “useful and important clue” (Justice Kennedy) or a “critical clue” (Justice Stevens) that its method claims involve unpatentable subject matter.

Alice’s method claims certainly do not satisfy the “machine” prong of the test – that, to be patentable, a claimed method must be “tied to a particular machine or apparatus.” See *Bilski*, 545 F.3d at 954. The test further requires that if a method is tied to a particular machine or apparatus, the machine or apparatus “must impose meaningful limits on the claim’s scope to impart patent-eligibility.” *Id.* at 961.

The claims of the ’479 patent make no mention whatsoever of a machine or anything like a machine. They are obviously not tied to a “particular machine or apparatus.”

Alice has tried to suggest that the requirement in the claims of the ’510 patent that the adjustment of the supervisory institution accounts/shadow records be performed “electronically” brings those claims within the “machine” prong of the machine or transformation test.²⁰ But the addition of the word “electronically” does not render Alice’s claims patentable, because this language does not tie them to any machine, let alone to a *particular* machine or apparatus that imposes “meaningful limits” on the claim’s scope. See *Bilski*, 545 F.3d at 961.

²⁰ Compare, for example claim 1 of Exh. 2, ’510 patent (“for every transaction resulting in an exchange obligation, the supervisory institution *electronically* adjusting said shadow credit record and/or said shadow debit record . . .”) (emphasis added) with claim 33 of Exh. 1, ’479 patent (“for every transaction resulting in an exchange obligation, the supervisory institution adjusting each respective party’s shadow credit record or shadow debit record . . .”); see also Table 1, *supra* at 6-7.

Indeed, the Supreme Court long ago held that a passing mention to electronics or a computer in a method claim cannot render patentable an otherwise unpatentable algorithm or other unpatentable subject matter. In *O'Reilly v. Morse*, 56 U.S. 62, 112-121 (1853), for example, the Court rejected as unpatentable subject matter a claim to the use of “electromagnetism for printing intelligible signs, characters or letters at a distance.” *Flook*, 437 U.S. at 592 (discussing *Morse*).

In *Flook*, the claimed process that recited a mathematical formula did not specify an apparatus, but the “abstract of disclosure” made clear that the invention could utilize computers in its calculation of the formula. 437 U.S. at 586. Yet this conventional use of a computer was insufficient to render the claims patentable. Moreover, in *Benson*, even the inclusion of a computer component in the claim did not alter the determination that the claim was not directed to patentable subject matter. The Supreme Court concluded that granting a patent on the method “in practical effect would be a patent on the algorithm itself,” notwithstanding the fact that the process involved a machine. 409 U.S. at 72. See also *Ultramercial*, slip. op. at 4 (“the mere act of storing media on computer memory does not tie the [claimed] invention to a machine in any meaningful way.”) Certainly here, Alice’s reference to “electronic adjustment” in the method claims of its ’510 patent does not tie the method to a “particular machine or apparatus,” and thus does not convert the claims into patentable subject matter.

Nor do Alice’s method claims satisfy the “transformation” prong of the machine or transformation test – that it “transforms a particular article into a different state or thing.” *Bilski*, 543 F.3d at 962.

Alice’s claims are expressly directed to methods for “exchanging an obligation” between parties. The methods only use information about an obligation to manipulate “accounts” or “shadow records,” and hardly “transform a particular article into a different state or thing.” As in

Bilski, Alice’s claimed inventions involve unpatentable “transformations or manipulations simply of public or private legal obligations . . . and business risks” 545 F.3d at 963.

The unpatentability of Alice’s claims is also shown by the Federal Circuit’s decision in *Schrader*. The court there held that a claim to an auction bidding method was unpatentable because it did “not reflect any transformation or conversion of subject matter representative of or constituting *physical activity or objects*.” 22 F.3d at 294 (emphasis in original). The claim in *Schrader* involved a method for auctioning multiple items either individually or as a group, using an algorithm to determine the most advantageous bid for the seller. *Id.* at 291. Like Alice’s claims here, it involved receiving transactions (“receiving bids from bidders”), adjusting records (“entering bids in [a] record”), and using an algorithm to identify permitted transactions (“identifying a bid for all of said items at a prevailing total price”). The court in *Schrader* affirmed the PTO Board’s ruling that the claim was directed to unpatentable subject matter because it involved “only information exchange and data processing and [did] not involve a process of transforming or reducing an article to a different state or thing.” *Id.* at 292.

Alice’s method claims do not satisfy either prong of the machine or transformation test, thus providing an important or critical and reliable “clue” that they do not recite patentable subject matter. There is no other viable test to rebut this conclusion.

IV. ALICE’S SYSTEM CLAIMS ARE NOT DRAWN TO PATENTABLE SUBJECT MATTER.

Alice cannot overcome the lack of patentable subject matter in the claims of its method patents by restating the same claims as a system. In its ’720 and ’375 system patent claims, which are based on the very same patent specification and invention description in its ’479 and ’510 method patents, Alice did little more than add the words “computer” and “data storage unit” to the otherwise unaltered language of the corresponding ’510 patent method claim, yielding

claims to a “data processing system” configured to perform the method. *See* Figure 2, *supra* at 13, and Appendices B-E, *infra* (comparing independent claims of ’510, ’720 and ’375 patents).²¹

Rewriting its method claims to incorporate otherwise unspecified “computers” that carry out the method does not convert Alice’s invention to patentable subject matter under Section 101. The Supreme Court in *Bilski* did not address this specific issue, but it relied upon and resolved the case before it on the basis of its prior decisions in *Benson*, *Flook*, and *Diehr*. 130 S. Ct. at 3229-30. Those cases make clear that a mere redrafting of method claims in this fashion cannot make unpatentable subject matter patentable.

In *Benson*, the Supreme Court thus rejected a claim drawn to an algorithm used on a computer, stating that “the same principle” regarding non-patentability of mental processes and abstract intellectual concepts “applies” to both “product” and “process” claims. *See Benson*, 409 U.S. at 67-68. Moreover, it is not enough simply to link an unpatentable idea to the conventional use of a computer where, as here, the idea “has no substantial practical application except in connection with a digital computer.” *Benson*, 409 U.S. at 71-72.²²

Similarly in *Flook*, the Supreme Court rejected the assumption that “if a process application implements a principle in some specific fashion,” it becomes “patentable subject matter.” 437 U.S. at 593. As the Court further stated, this “would make the determination of patentable subject matter depend simply on the draftsman’s art and would ill serve the principles underlying the prohibition against patents for ‘ideas’ or phenomena of nature.” *Id.* See also,

²¹ Independent claims 1, 14 and 26 of the ’375 patent merely add an unspecified “first party device” or “communications controller” to the same system. Moreover, Alice uses the terms “first party device” and “second party device” in the ’375 patent to refer to an otherwise unspecified “computer.” *See* Exh. 4, ’375 Patent, claim 13.

²² Moreover, where the idea is embodied in a mathematical formula or algorithm which has no other substantial practical application, the claims “would wholly pre-empt the mathematical formula and in practical effect would be a patent on the algorithm itself.” *Benson*, 409 U.S. at 72.

AT&T Corp. v. Excel Commc'ns, Inc., 172 F.3d 1352, 1357 (Fed. Cir. 1999) (“Whether stated implicitly or explicitly, we consider the scope of § 101 to be the same regardless of the form – machine or process – in which a particular claim is drafted.”)

Furthermore, it is significant that both the Supreme Court and Federal Circuit *Bilski* decisions rejected the Federal Circuit’s prior precedents that had upheld the validity of otherwise unpatentable methods implemented on a general purpose computer. *See supra* at 23 (discussing the Courts’ abrogation of *State Street* and other decisions relying on the “useful, concrete and tangible result” test).

Accordingly, Alice’s system claims, which merely recast its unpatentable method as a system configured to implement the method, do not make Alice’s invention patentable. Alice’s system claims do not tie Alice’s method to any particular machine or specific apparatus, and the “data processing system” set out in the claims does not impose any meaningful limit on the unpatentable method. In its ’720 patent and ’375 patent system claims, Alice simply replaced the “supervisory institution” that maintained accounts and managed the algorithm in the ’510 patent method claims with otherwise unspecified computers that do exactly the same thing.²³ See Figure 2, *supra* at 13, and Appendices B-E, *infra*.

In short, these claims merely use the “draftsman’s art” to implement Alice’s unpatentable idea on a general purpose computer. Holding that such claims constitute patentable subject matter would exalt form over substance, and seriously undermine the principle that mental processes and abstract ideas are unpatentable. As with the hedging process in *Bilski*, Alice’s

²³ By filing “terminal disclaimers” for the ’510, ’720, and ’375 patents, as originally required by the patent examiner during prosecution of the ’510 and ’720 patents, Alice also effectively conceded that its various claims were “not patentably distinct.” See discussion at pp. 10-11, 13-14, 17 *supra*.

claims – regardless of the form in which they are drafted – are unacceptable “attempts to patent abstract ideas.” 130 S. Ct. at 3230.

V. ALICE’S NEW “COMPUTER PROGRAM PRODUCT” CLAIMS ARE NOT DRAWN TO PATENTABLE SUBJECT MATTER

Independent claim 39 and dependent claims 40 and 41 of Alice’s newly-issued ’375 patent assert yet another version of its same invention, this time in the form of a “computer program product” having “computer readable program code” embodied in a “computer readable storage medium” that allows viewing of the ’510 patent method. As shown in Figure 4, *infra* at 17, each element of ’375 patent independent claim 39 corresponds directly to an element of ’510 method patent claim 68, except that computer code causes a computer to send a transaction and allows viewing of information relating to the claimed method.

This type of claim, directed to software embodied in a “computer readable storage medium, has been colloquially referred to as a “Beauregard” claim. The name comes from the case of *In re Beauregard*, 53 F.3d 1583 (Fed. Cir. 1995), in which the Federal Circuit dismissed a dispute regarding a claim to software on a “computer readable medium” for lack of case or controversy, but did not address the substantive patentability of such a claim.

While the Federal Circuit has never addressed the patentability of such a claim, it was held in *Cybersource Corp. v. Retail Decisions, Inc.*, 620 F. Supp. 2d 1068, 1078-80 (N.D. Cal. 2009) that such claims do not cover patentable subject matter. Where, as here, a patent “teaches nothing more than the *idea* of using a programmed computer to implement [an otherwise unpatentable] process in some way,” drafting the claim in this form does not render it patentable. *Id.* at 1080. Citing to *Ex parte Cornea-Hasegan*, 89 U.S.P.Q.2d 1557, 1561 (B.P.A.I. 2009), the Court also stated that “[f]ollowing *Bilski*, the Board [of Patent Appeals] has rightly held that simply appending ‘[a] computer readable medium including program instructions . . .’ to an otherwise non-statutory process claim is insufficient to make it statutory.” *Cybersource*, 620 F.

Supp. 2d at 1080.²⁴ See also *Ultramercial*, slip. op. at 4 (“mere act of storing media on computer memory does not tie the [claimed] invention to a machine in any meaningful way.”)

Just as with Alice’s system claims, these claims merely use the “draftsman’s art” to implement Alice’s unpatentable abstract idea with a “computer readable medium.” Under the principles set forth by the U.S. Supreme Court in *Benson* and *Flook* (see p. 33, *infra*), a determination that such claims recite patentable subject matter would exalt form over substance, and undermine the principle that abstract ideas are not patentable. “[T]he same principle” regarding non-patentability of mental processes and abstract intellectual concepts “applies” to both “product” and “process” claims. See *Benson*, 409 U.S. at 67-68. Regardless of the precise form of the claims, they are unacceptable “attempts to patent abstract ideas.” *Bilski*, 130 S. Ct. at 3230. Alice’s attempt to redraft its method claims to recite a computer readable medium with programmed instructions does not render them patentable.

VI. THE DEPENDENT CLAIMS OF ALICE’S PATENTS ARE NOT DRAWN TO PATENTABLE SUBJECT MATTER.

Finally, the multiplicity of dependent claims in the Alice patents do not add anything which renders their subject matter patentable.²⁵

The dependent claims of the Alice patents generally add limitations on the “field of use” of the claimed invention. As shown in Appendix F, these include limitations on the type of

²⁴ Prior to the *Bilski* Federal Circuit decision, a few district courts had upheld such claims by relying, at least in part, on the now-discredited decision in *Alappat*, a decision whose rationale – the “useful, concrete and tangible” test – was expressly abrogated by both the Supreme Court and Federal Circuit *Bilski* decisions.

²⁵ The four Alice patents, in addition to their 16 independent claims, also have 192 dependent claims. In patent parlance, an “independent” claim is one that can stand on its own. In contrast, under PTO regulations, a dependent claim “must contain a reference” to an independent claim in the same patent, “incorporate by reference all the limitations of [the independent] claim to which [it] refers,” and “specify a further limitation of the subject matter” of the independent claim. 35 U.S.C. § 112.

obligation or transaction for which the invention may be used (*e.g.*, shares, wagers, currency, goods, etc.), limitations on the nature of the exchange institution (*e.g.*, credit or debit card company, bank or central bank, etc.), limitations on the nature of the parties (*e.g.*, seller or buyer) and limitations on the type of data recorded in the account or shadow record (*e.g.*, wagers, goods, services).

It is well established that such field of use limitations do not make unpatentable subject matter patentable. As the Supreme Court stated in *Bilski*, “the prohibition against patenting abstract ideas ‘cannot be circumvented by attempting to limit the use of the formula to a particular technological environment’ . . .” 130 S. Ct. at 3230 (quoting *Flook*). Moreover, as the Supreme Court further noted in *Flook*, “the Pythagorean theorem would not have been patentable . . . because a patent application contained a final step indicating that the formula, when solved, could be usefully applied to existing surveying techniques.” 437 U.S. at 590; *see also Diehr*, 450 U.S. at 191-92 (field-of-use limitations are insufficient to impart patent-eligibility to otherwise unpatentable claims drawn to fundamental principles).²⁶ Alice’s claims are simply not rendered patentable by adding such limitations here.

²⁶ In *Bilski*, the Federal Circuit also rejected the argument that the applicant’s process claims could be made patentable simply by adding limitations confining the method to certain applications (such as “consumable commodities”). 545 F.3d at 965-66.

CONCLUSION

For the foregoing reasons, CLS should be granted summary judgment that all of the claims of the Alice Patents are invalid under 35 U.S.C. § 101, for lack of patentable subject matter.

Dated: August 27, 2010

Respectfully submitted,

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UNREPORTED DECISION

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No. CV 09-06918 RGK (PLAx) Date August 13, 2010

Title *ULTRAMERCIAL, LLC et al. v. HULU, LLC, et al.*

Present: The Honorable R. GARY KLAUSNER, U.S. DISTRICT JUDGE

Sharon L. Williams

Not Reported

Deputy Clerk

Court Reporter / Recorder

Attorneys Present for Plaintiffs:

Attorneys Present for Defendants:

Not Present

Not Present

Proceedings: (IN CHAMBERS) Order re: Defendants' Motion to Dismiss (DE 26 and 29)

I. INTRODUCTION

This is a patent infringement suit brought by Plaintiff Ultramercial, LLC ("Plaintiff") against Defendants Hulu, LLC and Wildtangent, Inc. (collectively, "Defendants") for alleged infringement of U.S. Patent No. 7,346,545 (the '545 patent).¹ Because the Court finds that the '545 patent does not cover patentable subject matter, it **GRANTS** Wildtangent, Inc.'s Motion to Dismiss (DE 29). Hulu, LLC's Motion to Dismiss (DE 26) is **DENIED as moot**.

II. BACKGROUND

The '545 patent claims an invention for distributing copyrighted products over the Internet (or other networks). In particular, the '545 patent discloses a method for allowing Internet users to view copyrighted material free of charge in exchange for watching certain advertisements. A computer or a server acts as a gateway between the Internet user and the copyrighted material. An advertisement sponsor may purchase advertising space for a particular copyrighted material (a television show episode for example). Upon attempting to stream a "free" television show episode, for example, the Internet user will be presented with advertisement. The user cannot view the copyrighted material until the ad is fully displayed. The result is that the viewer gets to watch what he wants for free, and the sponsor gets to deliver its advertisement to the intended audience.

The two independent claims of the '545 patent are claims 1 and 8. Claim 1, in its entirety, discloses a number of steps that comprise the process of displaying advertisement in exchange for access to copyrighted media. The steps are 1) receiving media from content provider, 2) selecting an ad after consulting an activity log to determine how many times the ad has been played and how many

¹The Complaint originally named Youtube, LLC, as the third defendant. The parties, however, have already stipulated to Youtube, LLC's dismissal.

more times it need be played, 3) offering media products on the Internet, 4) restricting general public access to the media, 5) offering various media to customers for free in exchange for their watching the selected ad, 6) receiving a request to view the media from the Internet user, 7) facilitating the display of the ad, 8) allowing the Internet user access to the media, 9) same as 8 but for interactive media, 10) recording the transaction in the activity log, and 11) receiving payment from sponsor for the ad.

The second independent claim (claim 8) is almost identical to claim 1. The differences between the two independent claims are not material for the purpose of this Order. The remaining (dependent) claims add more “steps” to those in the independent claims. For example, claim 2 discloses “the step of paying royalties to the content provider.” Claim 3 discloses “the step of entering into a licensing agreement with the owner of the intellectual property.” Claim 4 discloses “the step of barring the content provider from pretending to be a customer” [to make sure the content provider cannot artificially inflate the view count]. Claim 5 discloses “the step of tendering payment to the content provider.” Claim 6 discloses “the step of issuing [] a password” to the Internet user.” Claim 7 discloses “the step of verifying a submitted password.” And so on.

III. JUDICIAL STANDARD

A party may move to dismiss for failure to state a claim upon which relief can be granted under Federal Rule of Civil Procedure 12(b)(6). Fed. R. Civ. P. 12(b)(6). In deciding a Rule 12(b)(6) motion, the Court must assume that the plaintiff’s allegations are true and construe the complaint in the light most favorable to the non-moving party. *Cahill v. Liberty Mut. Ins. Co.*, 80 F.3d 336, 337-38 (9th Cir. 1996). Dismissal is appropriate only where the complaint lacks a cognizable legal theory or sufficient facts to support a cognizable legal theory. *Mendiondo v. Centinela Hosp. Med. Ctr.*, 521 F.3d 1097, 1104 (9th Cir. 2008). “While a complaint attacked by a Rule 12(b)(6) motion to dismiss does not need detailed factual allegations, a plaintiff’s obligation to provide the ‘grounds’ of his ‘entitlement to relief’ requires more than labels and conclusions, and a formulaic recitation of the elements of a cause of action will not do.” *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544, 555 (2007) (quoting *Papasan v. Allain*, 478 U.S. 265, 286 (1986)). The court need not accept as true unreasonable inferences, unwarranted deductions of fact, or conclusory legal allegations cast in the form of factual allegations. *W. Mining Council v. Watt*, 643 F.2d 618, 624 (9th Cir. 1981).

IV. DISCUSSION

Under the Patent Act of 1952, subject matter patentability is a threshold requirement. 35 U.S.C § 101. “Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.” *Id.* Recently in *Bilski v. Kappos*, __ U.S. __, 130 S.Ct. 3218, 3225 (2010), the Supreme Court emphasized again that excluded from the patentable subject matter are “laws of nature, natural phenomena, and abstract ideas.”

Here, Defendants argue that Plaintiff’s ‘545 patent does not disclose patentable subject matter. Originally, this Motion was filed before the Supreme Court handed down the decision in *Bilski*, 130 S.Ct. at 3218. In order to benefit from the Supreme Court’s guidance on the law regarding patentable subject matter and because of similarities between the case at hand and *Bilski*, this Court stayed the case until the Supreme Court issued its opinion. Thereafter the parties filed supplemental briefings, in which they each provide their account of how the Supreme Court’s decision helps their case. After having reviewed the filings and the relevant case law in full, this Court finds that the ‘545 patent does not disclose patentable subject matter. Not only does the patent fail the machine or transformation test, it claims an abstract idea. Therefore, Plaintiff’s Complaint should be dismissed.

A. The ‘545 Patent Does Not Satisfy the Machine or Transformation Test

In *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008), the Federal Circuit held that a process is not patentable unless it is “tied to a particular machine,” or “transforms an article.” The en banc decision produced various concurring and dissenting opinions, all of which need not be discussed here. It suffices to mention that the so called “machine or transformation test,” according to the majority, was the sole test for patentability of processes, including business method and software patents. *Id.* And since the invention at issue in *Bilski*—a method for hedging investments—did not meet the test, it was held to be invalid. *Id.*

On Supreme Court review, all Justice agreed that the *Bilski* patent was not covered by patentable subject matter. 130 S.t at 3218. How one gets to that conclusion, however, the Justices did not agree. The majority opinion thought it too broad to categorically invalidate all patents that do not meet the machine or transformation test. *Id.* at 3226. The machine or transformation test, according to the Supreme Court, provided a “useful and important clue,” but it was not determinative in all situations. *Id.* at 3227. Instead, the inquiry should be whether the claimed invention is a “law of nature, physical phenomena,” or an “abstract idea[.]” *Id.* at 3226. Yet the Supreme Court did not offer an example of an invention that would not be tied to a machine or transform an article and still pass the subject matter test. The Court stopped at holding that the *Bilski* patent disclosed an abstract idea—the idea of hedging investments—and therefore, regardless of the machine or transformation test, it was invalid. *Id.* at 3230-31.

It is important to note, however, that even after the Supreme Court’s decision in *Bilski*, the machine or transformation test appears to have a major screening function—albeit not perfect—that separates unpatentable ideas from patentable ones. Indeed, four of the Justices, listed on Justice Stevens’s concurring opinion, would have taken the machine or transformation test to its logical limit to hold that business methods are categorically unpatentable. *Id.* at 3257 (Stevens, J., concurring). Joining a concurring opinion, Justice Scalia, who signed on to parts of the plurality opinion as well, would not hold all business methods unpatentable, but would agree with Justice Breyer that “not [] many patentable processes lie beyond [the] reach [of the machine or transformation test].” *Id.* at 3258 (Breyer, J., concurring). In sum, at least five (and maybe all) Justices seem to agree that the machine or transformation test should retain much of its utility after the Supreme Court’s decision in *Bilski*. Therefore, even though the machine or transformation is no longer the litmus test for patentability, the Court will use it here as a key indicator of patentability.

Turning to the mechanics of the test itself, the Court notes that not every patent that recites a machine or transformation of an article passes the machine or transformation test. *Bilski*, 545 F.3d at 961. A mere recitation of a machine or transformation in the claim will not suffice because “[i]nsignificant postsolution activity will not transform an unpatentable principle into a patentable process.” *Id.* The machine or transformation “must impose meaningful limits on the claim’s scope to impart patent-eligibility.” *Id.* (citation omitted). Below, the Court finds that the ‘545 patent does not satisfy the machine or transformation test.

1. The ‘545 Patent Is Not Tied to a Machine

A machine is a “concrete thing, consisting of parts or of certain devices and combination of devices.” *In re Ferguson*, 558 F.3d 1359, 1364 (Fed. Cir. 2009).² Yet, physical steps are not needed to allow a process claim to be patentable. *In re Bilski*, 545 F.3d at 961. As long as the invention is tied to a machine or transforms an article, it may be patentable notwithstanding its lack of physical steps. *Id.*

² It was undisputed in *Bilski* that the machine part of the machine or transformation test was not satisfied. 545 F.3d at 962. Therefore, *Bilski* does not provide much guidance on how to apply the machine prong of the test.

The two independent claims of the '545 patent recite the steps of exchanging media for advertisement viewing. There are only three points in the '545 patent that the parties have identified as a possible reference to a machine. The first two ("facilitator" and "Internet") appear in the independent claims (1 and 8): "A method for distribution of products over the Internet via a facilitator." The third appears in dependent claim 16: "The method . . . wherein media product accessed by the consumer is downloaded to a memory of a personal computer of the consumer." The Court finds that none of the three satisfy the machine prong of the test.

Despite Plaintiff's argument, the "facilitator" recitation does not meet the machine requirement. First, there is no reason to read "facilitator" as a machine such as a computer. Indeed, the patent specification suggests the contrary: the schematics in the patent specification depict the facilitator as a person. Moreover, the '545 patent explains that the facilitator may "communicate through . . . telephony, facsimile, courier, mail or even person-to-person meeting." The specification makes it clear, therefore, that the '545 patent is not aimed at a computer-specific application; it is a broad claim to the concept of exchanging media for advertisement viewing.

Neither does the "Internet" recitation save the patent. First, this Court agrees with the District Court in the Northern District of California that held the Internet is not a machine. *CyberSource Corp. v. Retail Decisions, Inc.*, 620 F. Supp. 2d 1068 (N.D. Cal. 2009) ("[T]he Internet is an abstraction." "One can touch a computer or a network cable, but one cannot touch 'the internet.'"). In *CyberSource*, the court held that methods for "detecting fraud in credit card transaction between consumer and merchant over the Internet were not tied to a specific machine." *Id.* at 1077-78 (emphasis added). This Court agrees in full with the court's reasoning in *CyberSource* to the effect that the "over the Internet" recitation does not make an otherwise unpatentable idea patentable. *Id.*

Finally, the mere act of storing media on computer memory does not tie the '545 invention to a machine in any meaningful way. Since Plaintiff does not argue this point, the Court will not address it in detail. It suffices to say, however, that the argument would have been too farfetched and hence futile.

Plaintiff makes two counter arguments that need be addressed. First, Plaintiff points to many steps in the '545 patent that, according to Plaintiff, address computer-specific functions (such as issuing and verifying passwords, transmitting an ad until it is timed out, making content physically available to the consumer, etc.). (Pl. Opp., at 16.) Second, Plaintiff argues that the segments of the patent specification quoted here only says that "some communication [may] take place without a programmed machine (e.g., communication between a IP rights holder and interposed sponsor)," but "all communication between the consumer and facilitator take place utilizing a specifically-programmed computer."³ (Pl. Opp., at 17:25-18:15.) In sum, Plaintiff argues that the '545 patent is computer-specific and not a broad invention that may be performed by a person. As a result, Plaintiff suggests that the '545 patent meets the machine prong of the test.

Plaintiff's argument is unavailing. There is nothing inherently computer-specific about receiving

³ The preferred embodiment specification states in pertinent part,

In accordance with the preferred embodiment, four principals are preferably present: a facilitator, a consumer, an intellectual property (IP) rights holder, and an interposed sponsor. All of the principals preferably communicate over a telecommunications network such as the Internet, using their respective computers: facilitator's computer, consumer's computer, IP rights holder's computer 30A and interposed sponsor's computer. Three of the principals (facilitator, IP rights holder and interposed sponsor) may also communicate through a twoway communications path, which may include telephony, facsimile, courier, mail or even person-to-person meetings.

media from a content provider, choosing a sponsor for the media, selecting an ad for the sponsor, verifying the viewer's activity, assigning passwords, charging the sponsor for the advertisement, or any of the remaining steps.

Yet Plaintiff is perhaps still correct to point out that the only useful application of Plaintiff's invention is with relation to the Internet, where the facilitator is a specifically "programmed computer."⁴ That does not mean, however, that the patent claims are limited to use on a computer, or, more importantly, that they are *tied* to one. That the disclosed invention is only used on computers or computer networks cannot alone satisfy the machine test without rendering the test completely toothless.⁵ As already stated above, the machine must limit the invention in a meaningful way. One cannot circumvent the patentability test by merely limiting the use of the invention to a computer. The binary representation, one of the most fundamental concepts that has enabled digital computation as we know it today was not patentable, even though its utility was linked to "general-purpose digital computers." *Gottschalk v. Benson*, 409 U.S. 63, 64 (1972). Similarly in the case of the '545 patent, the concept of advertisement-media-exchange does not become patentable simply because the patentee claims to have limited its application to the Internet or computers. Therefore, the '545 patent fails the machine test.

2. The '545 Patent Does Not Transform an Article

There can be little dispute that the '545 patent does not transform an article. "Transformation and reduction of an article 'to a different state or thing' is the clue to the patentability of a process claim that does not include particular machines." *Id.* at 70. None of the patent claims disclose a transformation. Plaintiff points to claim 16, which recites, "The method . . . wherein media product accessed by the consumer is downloaded to a memory of a personal computer of the consumer." Yet the mere transfer of data from one memory disk on one computer to another memory space in a second computer is not "transformation of article" under § 101. And the parties have not pointed out a case that held otherwise. That is not surprising: the nature of the computer memory does not vary based on what is stored in it. And even if storing content on a computer memory constituted transforming an article, Plaintiff's argument would still fail because such "transformation" is merely incidental to the '545 patent claims. What Plaintiff claims is the process of trading viewing of the advertisements for free access to media. That the media may be transferred from one computer (or server) to another is merely incidental. *Cf. Diamond v. Diehr*, 450 U.S. 175 (1981) (holding that the method of using temperature readings from a rubber press and inputting the reading in a well-known mathematical formula to determine accurately the cure-time was patentable because the process was meaningfully limited to transformation of an article). Unlike in *Diehr*, the '545 patent does not disclose a method for transforming an article, or the transformation disclosed is not a meaningful limitation to the claimed invention. Therefore, the transformation prong of the test is also not satisfied.

B. The '545 Patent Discloses an Abstract Idea

In *Bilski*, the Supreme Court held that a method for hedging investments was an abstract idea and hence unpatentable. 130 S.Ct. at 3218. Claim 1 of the *Bilski* patent simply disclosed a number of steps in

⁴ The "programmed computer" argument has its origin in *In re Alappat*, 33 F.3d 1526 (Fed. Cir. 1994). That decision articulated the "useful, concrete, and tangible result" test for patentable subject matter, which was subsequently abrogated by the Federal Circuit in *Bilski* 545 F.3d at 959-60.

⁵The Court is aware that software patents or other method patents that involve programmed computers have never been categorically rejected under the patentable subject matter test. *Gottschalk v. Benson*, 409 U.S. 63, 71 (1972) (declining to hold that all patents for any "program servicing a computer" are invalid under § 101).

a particular hedging method: 1) trading commodity with a buyer at a price based on historical averages and the buyer's risk position, 2) finding buyers that have another type of risk position that counters the first buyer in step one, and 3) transacting with the second consumer in a way to balance (hedge) the risk of the transaction. *Id.* at 3223-24. The patent then went on to disclose the application of this method in trading energy commodities. *Id.* at 3224.

In rejecting the patent, the Supreme Court first noted that "hedging is a fundamental economic practice." *Id.* at 3231. Therefore, the core of the patent was not patentable because "allowing petitioners to patent risk hedging would pre-empt use of this approach in all fields." *Id.* Moreover, the remaining recitations did not rescue the patent because they were only "broad examples of how hedging can be used in commodities and energy markets." *Id.* Since the core of the patent was an abstract idea, and the additional limitations did not meaningfully contain the claimed invention, the *Bilski* invention was not patentable.

The case at hand is very similar. At the core of the '545 patent is the basic idea that one can use advertisement as an exchange or currency. An Internet user can pay for copyrighted media by sitting through a sponsored message instead of paying money to download the media. This core principle, similar to the core of the *Bilski* patent, is an abstract idea. Indeed, public television channels have used the same basic idea for years to provide free (or offset the cost of) media to their viewers.⁶ At its heart, therefore, the patent does no more than disclose an abstract idea.

Also similar to the patent in *Bilski*, the added features, examples, or limitations of the '545 patent do not make it patentable. That the exchange (advertisement for media) is carried over the Internet, through a facilitator, using passwords and activity logs, does not limit the patent in a meaningful way. The patent still discloses an abstract idea garnished with accessories. If the claimed invention here were patentable, it would "preempt use of this [method] in all fields." *Id.*

Two points need be made clear at the end. One is that the Court rejects Plaintiff's argument that this Motion should not be decided before claim construction. While the Court (and the parties) consulted the claims and the specification, there is no need to formally construe any of the claims. The patent terms are clear, and Plaintiff has not brought to the Court's attention any reasonable construction that would bring the patent within patentable subject matter. Moreover, given the lack of clarity in this area of patent law, it is perhaps even more appropriate for this Court to render its decision at the earliest stage so that the parties may benefit from the Federal Circuit's guidance on the issue sooner rather than later, if they so desire.

Second, the Court acknowledges that this case calls for the difficult task of deciphering whether the '545 invention falls under the *Bilski* or *Diehr* categories. In both, the claimed invention discloses a real-world application of a mathematical formula. In both, a well-known or basic principle is linked to its practical use. Yet in one (*Diehr*), the invention is patentable; in the other (*Bilski*), not. In deciding which one of the two categories the '545 patent fits, the Court consulted the machine or transformation test. The Court also noted that the similarities between the '545 patent and the *Bilski* patent point toward invalidity. Finally, the Court noted that the additional limitations beyond the abstract idea at the core of the '545 patent do not limit the claimed invention in a meaningful way. Therefore, the Court holds that the '545 patent does not cover patentable subject matter.

⁶ The Court is cognizant of the difference between patentable subject matter and obviousness requirements. The point made here is that the core of the disclosed invention is an abstract principle similar to the hedging principle in *Bilski*; lack of novelty is not the (intended) message. Although the invention here may be obvious, that determination is not before the Court.

V. CONCLUSION

The Court **GRANTS** Wildtangent, Inc.'s Motion to Dismiss (DE 29). Hulu, LLC's Motion to Dismiss (DE 26) is **DENIED as moot**.

IT IS SO ORDERED.

Initials of Preparer _____ : _____
slw _____

APPENDICES

Appendix A

'479 Patent, Claim 33 vs. '510 Patent, Claim 1

'479 Patent, Claim 33

A method of exchanging obligations as between parties, each party

holding a credit record and a debit record with an exchange institution, the credit records and debit records for exchange of predetermined obligations, the method comprising the steps of:

(a) creating a shadow credit record and a shadow debit record for each stakeholder party to be held independently by a supervisory institution from the exchange institutions;

(b) obtaining from each exchange institution a start-of-day balance for each shadow credit record and shadow debit record;

(c) for every transaction resulting in an exchange obligation, the supervisory institution adjusting each respective party's shadow credit record or shadow debit record, allowing only these transactions that do not result in the value of the shadow debit record being less than the value of the shadow credit record at any time, each said adjustment taking place in chronological order; and

(d) at the end-of-day, the supervisory institution instructing ones of the exchange institutions to exchange credits or debits to the credit record and debit record of the respective parties in accordance with the adjustments of the said permitted transactions,

the credits and debits being irrevocable, time invariant obligations placed on the exchange institutions.

'510 Patent, Claim 1

A method of exchanging an obligation between parties, wherein an exchange obligation is administered by a supervisory institution, and wherein at least one credit record and one debit record is maintained with an exchange institution, the method comprising:

(a) maintaining a shadow credit record and a shadow debit record for a party to be held independently by the supervisory institution from the exchange institution;

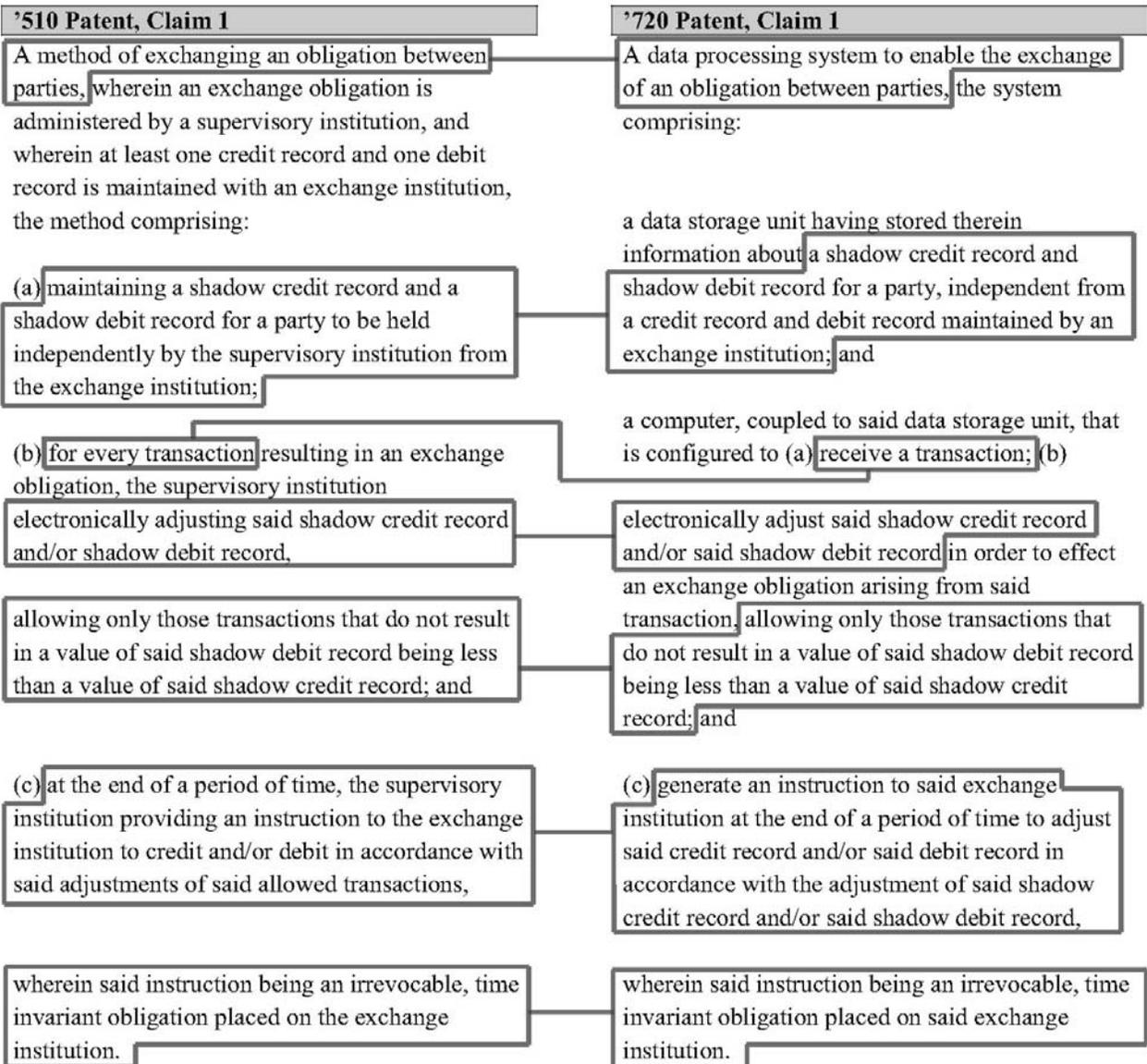
(b) for every transaction resulting in an exchange obligation, the supervisory institution electronically adjusting said shadow credit record and/or shadow debit record, allowing only those transactions that do not result in a value of said shadow debit record being less than a value of said shadow credit record; and

(c) at the end of a period of time, the supervisory institution providing an instruction to the exchange institution to credit and/or debit in accordance with said adjustments of said allowed transactions,

wherein said instruction being an irrevocable, time invariant obligation placed on the exchange institution.

Appendix B

'510 Patent, Claim 1 vs. '720 Patent, Claim 1



Appendix C

'510 Patent, Claim 27 vs. '720 Patent, Claim 28

'510 Patent, Claim 27

A method of exchanging an obligation between parties, wherein an exchange obligation is administered by a supervisory institution, and wherein an account is maintained with an exchange institution, the method comprising:

(a) maintaining a shadow record for a first party to be held independently by the supervisory institution from the exchange institution;

(b) for every transaction resulting in an exchange obligation, the supervisory institution

electronically adjusting said shadow record, allowing only those transactions that do not result in a value of said shadow record being less than zero; and

(c) exchanging at least one transaction between the supervisory institution and the exchange institution at the end of a period of time in accordance with said adjustments made in step (b),

wherein said transaction being an irrevocable, time invariant obligation placed on the exchange institution.

'720 Patent, Claim 28

A data processing system to enable the exchange of an obligation between parties, the system comprising:

a data storage unit having stored therein information about a shadow record for a first party, independent from an account maintained by an exchange institution; and

a computer, coupled to said data storage unit, that is configured to (a) receive a transaction; (b)

electronically adjust said shadow record in order to effect an exchange obligation arising from said transaction, allowing only those transactions that do not result in a value of said shadow record being less than a zero; and

(c) generate an instruction to said exchange institution at the end of a period of time to adjust said account in accordance with the adjustment of said shadow record,

wherein said instruction being an irrevocable, time invariant obligation placed on said exchange institution.

Appendix D

'510 Patent, Claim 61 vs. '720 Patent, Claim 60

'510 Patent, Claim 61

A method of exchanging a payment obligation of a currency exchange transaction between banks, wherein an exchange obligation is administered by a supervisory institution, and wherein at least one bank maintains a credit record and a debit record with a central bank, the method comprising:

(a) maintaining a shadow credit record and a shadow debit record for a bank to be held independently by the supervisory institution from the central bank;

(b) for every currency exchange transaction resulting in a payment obligation, the supervisory institution electronically adjusting said shadow credit record and/or shadow debit record,

allowing only those currency exchange transactions that result in a net positive shadow record balance; and

(c) periodically providing an instruction to the central bank to credit and/or debit in accordance with said adjustment of said allowed currency exchange transaction,

wherein said instruction being an irrevocable, time invariant obligation placed on the central bank.

'720 Patent, Claim 60

A data processing system to enable the exchange of a payment obligation of a currency exchange transaction between banks, the system comprising:

a data storage unit having stored therein information about a shadow credit record and shadow debit record for a bank, independent from a credit record and debit record maintained by a central bank; and

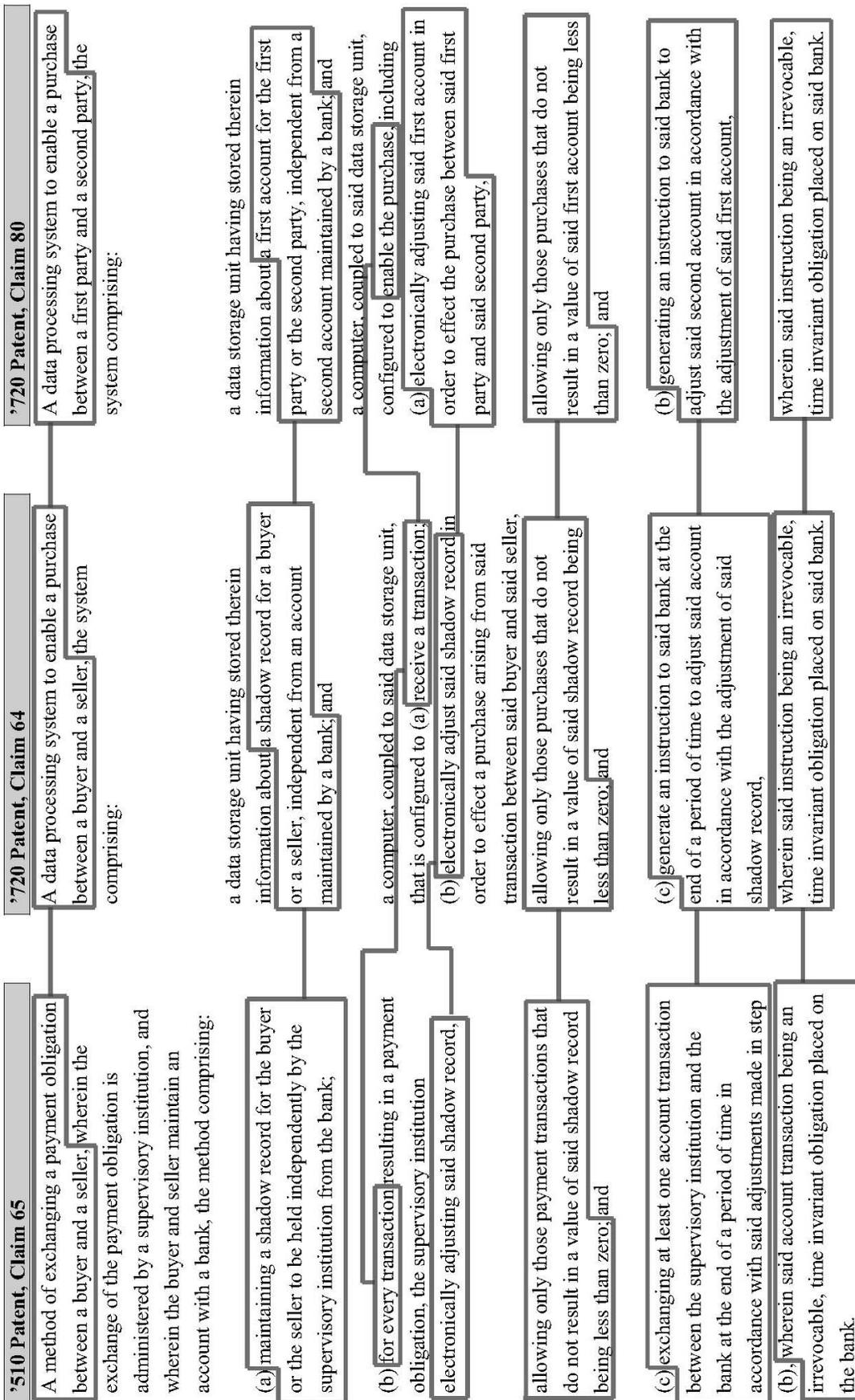
a computer, coupled to said data storage unit, that is configured to (a) receive a currency exchange transaction;

(b) electronically adjust said shadow credit record and/or said shadow debit record in order to effect an exchange obligation arising from said currency exchange transaction, allowing only those currency exchange transactions that result in a net positive shadow record balance; and

(c) generate an instruction periodically to said central bank to adjust said credit record and/or said debit record in accordance with the adjustment of said shadow credit record and/or said shadow debit record,

wherein said instruction being an irrevocable, time invariant obligation placed on said central bank.

Appendix E '510 Patent, Claim 65 vs. '720 Patent Claim 64 vs. '720 Patent, Claim 80



**Appendix F – Field of Use-Type Limitations Added by Dependent Claims
of the '479, '510, '720 and '375 Patents**

	Dependent Claims			
	'479 Patent	'510 Patent	'720 Patent	'375 Patent
Limitations on type of exchange “obligation” or “transaction”				
“arises out of” a “share price”		2	2	
“arises out of” or “involves” a “weather event”		3, 41	3, 42	
“arises out of” or “involves” a “market event”		4, 42	4, 43	
“involves” the “transfer of shares in financial or physical assets”		5	5	
“involves” a “wager”		6, 43	6, 44	
“involves” the “transfer of a commodity”		7	7	
“arises out of” or “involves” “money for goods, services, promises, credits or warrants		8, 44	8, 45	
“arises out of” or “involves” “currency”		18, 54, 72	18, 54, 70, 74	3, 7, 16, 20, 28, 32, 40
“arises out of” a “collateralization payment”		21, 40	21, 41	
relates to “acquir[ing] an item from” another party”			27, 59, 67, 79, 84	11, 24, 36
Limitations on “irrevocable, time invariant” instruction				
“period of time” for which instruction is provided is a “part of a day”		9, 53, 67	9, 53, 66, 77	
based on “netted” transactions	34	11, 52, 75	11, 55, 78	10, 23, 35
provided at “an end of a processing cycle”		64	63	
“generated at the end of a day”			82	
Limitations on algorithm or test for adjusting accounts or shadow records				
applied to transaction in “chronological order”		10, 62	10, 61	
includes “debiting and/or crediting . . . shadow record based on . . . transaction”		39	40	
includes obtaining a balance for		22, 48, 63,	22, 49, 62,	

	Dependent Claims			
	'479 Patent	'510 Patent	'720 Patent	'375 Patent
shadow records from exchange institution		66	65, 81	
“adequate value” requires that the first and third accounts have “a positive balance”		74	76	9, 22, 34
Limitations on the “exchange institution”				
“credit card company”		12, 45	12, 46	
“debit card company”		13, 46	13, 47	
“bank”		14, 55	14, 56	
“central bank”		15, 56, 69	15, 57, 69	2, 15, 27
“guarantor”		16	16	
“party offering credit”		17, 47	17, 48	
exchange institutions operate in “different time zone[s]”		19, 25, 50, 59	19, 24, 51, 71	4, 17, 29
exchange institutions have “different account processing cycle[s]”		20, 26, 51, 57, 60	20, 25, 52, 58	
“non-bank clearing house or depository”		23, 73	26, 75	8, 21, 33
supervisory institution and exchange institution “legally and/or geographically domiciled in different countries”		37	38	
exchange institutions are different		24, 49, 58	23, 50	
“first exchange institution and . . . second exchange institution are the same”		70	72	5, 18, 30
Limitations on the exchange institution “account” or “record”				
pertains to “shares in financial or physical assets”		28	29	
pertains to “participation rights in wagers”		29	30	
pertains to “goods”		30	31	
pertains to “services”		31	32	
pertains to “central bank exchange settlement account deposits”		32	33	
pertains to “financial instrument deposits”		33	34	
pertains to “credit extended to/from a party or to/from a guarantor”		34	35	

	Dependent Claims			
	'479 Patent	'510 Patent	'720 Patent	'375 Patent
includes an “overdraft or line-of-credit” with an exchange institution		35	36	
“second account and . . . fourth account are the same account”		71	73	6, 19, 31
“second and fourth accounts are different”				42, 44, 46
“first account holds funds for . . . first party and . . . second party”			83	
information about “first account” and “third account” includes “a credit and debit account balance”				43, 45, 47
Limitations on the “parties”				
“first party holds one or more accounts with more than one exchange institution”		36	37	
one “party is a buyer” and the other “party is a seller”		38	39	
Limitations on the device from which a “transaction” is “received”				
from a “second party device” and/or vial a “communications controller”				12, 25, 37
“first party device” and “second party device” “include a computer”				13, 38
Limitation on the “computer code product”				
only allows “access” to “preauthorized information relating to said processing”				41

**IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA**

CLS BANK INTERNATIONAL,)	
)	
Plaintiff,)	
)	Case No. 07-CV-00974-RMC
v.)	
ALICE CORPORATION PTY. LTD.,)	
)	
Defendant.)	
)	
ALICE CORPORATION PTY. LTD.,)	
)	
Counterclaim-Plaintiff,)	
)	
v.)	
CLS BANK INTERNATIONAL,)	
)	
Counterclaim-Defendant,)	
)	
and)	
)	
CLS SERVICES LTD.,)	
)	
Counterclaim-Defendant.)	
)	

**LCvR 7(h) STATEMENT OF MATERIAL FACTS AS TO WHICH THERE IS NO
GENUINE ISSUE IN SUPPORT OF CLS’ RENEWED MOTION FOR SUMMARY
JUDGMENT THAT THE CLAIMS OF ALICE’S PATENTS ARE INVALID
FOR LACK OF PATENTABLE SUBJECT MATTER**

1. Alice Corporation Pty. Ltd.’s (“Alice”) claims of patent infringement in this litigation are based on four U.S. patents (*See* Docket No. 90, Amended Answer and Countercl., Countercl. Counts 1-8.).

2. Patent No. 5,970,479 (“the ’479 patent”) is entitled “Methods and Apparatus Relating to the Formulation and Trading of Risk Management Contracts.” (Exh. 1, ’479 patent; *see* Amended Answer and Countercl., Countercl. ¶¶ 23, 51.)¹

3. The application that led to the ’479 patent was filed on May 28, 1993, and the patent issued on October 19, 1999. (*See* Exh. 1, ’479 patent, p. 1.)

4. In this litigation, Alice is only asserting claims 33 and 34 of the ’479 patent, and those claims are directed to the exchange of an obligation. (D.I. 27, Alice 5/19/08 Mem. at 4-5; Exh. 1, ’479 patent, claims 33-34.)

5. Patent No. 6,912,510 (“the ’510 patent”) is entitled “Methods of Exchanging an Obligation.” (Exh. 2, ’510 patent; *see* Amended Answer and Countercl., Countercl. ¶¶ 30, 58.)

6. The application that led to the ’510 patent was filed on May 9, 2000, and the patent issued on June 28, 2005. (*See* Exh. 2, ’510 patent, p. 1.)

7. Patent No. 7,149,720 (“the ’720 patent”) is entitled “Systems for Exchanging an Obligation.” (Exh. 3, ’720 patent; *see* Amended Answer and Countercl., Countercl. ¶¶ 37, 65.)

8. The application that led to the ’720 patent was filed on December 31, 2002 as a “continuation” of the application for the ’510 patent, and the ’720 patent issued on December 12, 2006. (*See* Exh. 3, ’720 patent., p. 1.)

9. Patent No. 7,725,375 (“the ’375 patent”) is entitled “Systems and Computer Products for Exchanging an Obligation.” (Exh. 4, ’375 patent; *see* Amended Answer and Countercl., Countercl. ¶¶ 44, 72.)

¹ “Exh. ___” is used herein to refer to the exhibits to the Declaration of Steven J. Glassman, submitted herewith.

10. The application that led to the '375 patent was filed on June 27, 2005 as another "continuation" of the application for the '510 patent, and the '375 patent issued on May 25, 2010. (*See* Exh. 4, '375 patent, p. 1.)

11. The patent specifications of the '510, '720 and '375 patents, including their drawings, disclosure of the invention, and detailed description of a best mode for carrying out the invention, are identical. (Exh. 2, '510 patent; Exh. 3, '720 patent; Exh. 4, '375 patent.)

12. Claims 33 and 34 of the '479 patent, and claims 1-75 of the '510 patent, claim a method of exchanging an obligation. (*See* Exh. 1, '479 patent, claims 33, 34; Exh. 2, '510 patent, claims 1-75.)

13. Claims 1-84 of the '720 patent, and claims 1-38 of the '375 patent, claim a "data processing" system to enable, *inter alia*, the exchange of an obligation. (*See* Exh. 3, '720 patent, claims 1-84; Exh. 4, '375 patent, claims 1-38.)

14. Claims 39-47 of the '375 patent claim a computer program product having computer code embodied in a computer readable storage medium for use by a party to an exchange obligation. (*See* Exh. 4, '375 patent, claims 39-47.)

15. Claims 33 and 34 of the '479 patent do not recite either a computer or any other machine. (*See* Exh. 1, '479 patent, claims 33-34.)

16. The claims of the '510 patent do not recite either a computer or any other machine. (*See* Exh. 2, '510 patent.)

17. The claims of the '720 patent recite, *inter alia*, a computer configured to perform steps of a method that is similar, if not identical, to the methods of the '479 and '510 patent claims. (*See* Exh. 1, '479 patent; Exh. 2, '510 patent; Exh. 3, '720 patent.)

18. Claims 1-38 of the '375 patent recite, *inter alia*, a computer configured to perform steps of a method that is similar, if not identical, to the methods of the '479 and '510 patent claims. (*See* Exh. 1, '479 patent; Exh. 2, '510 patent; Exh. 3, '720 patent; Exh. 4, '375 patent.)

19. Claims 39-47 of the '375 patent recite, *inter alia*, program code for causing a computer to allow viewing of information relating to a method that is similar, if not identical, to the methods of the '479 and '510 patent claims. (*See* Exh. 1, '479 patent; Exh. 2, '510 patent; Exh. 4, '375 patent.)

20. In a memorandum to the Court dated May 19, 2008, ("Alice 5/19/08 Mem."), Alice summarized the inventions claimed in its patents as follows:

Mr. Shepherd conceived an electronic settlement mechanism capable of allowing parties to exchange obligations in a risk-free manner because both sides of a trade would be settled simultaneously and irrevocably—removing the risk that one party would perform and the other abscond.

(D.I. 27, Alice 5/19/08 Mem., at 4-5.)

21. In the Alice 5/19/08 Mem., Alice stated the following with respect to the invention claimed in its patents:

In the Shepherd invention, the key to eliminating the risk is creating a supervisory institution to execute the payments between the parties, by maintaining an account for each party (*i.e.*, bank) that is independent of the parties' own central bank accounts.

(D.I. 27, Alice 5/19/08 Mem., at 6.)

22. In the Alice 5/19/08 Mem., Alice summarized the inventions claimed in its patents using the following example:

[S]uppose CitiBank ("Citi") maintains an account with the FRBNY and Mizuho Corporate Bank ("Mizuho") maintains an account with the Bank of Japan. Both central banks are referred to in Alice's patent claims as "exchange institutions." Citi and Mizuho also have multi-currency accounts with the supervisory institution ("SI accounts").

The supervisory institution waits for a transaction to be received (*i.e.*, Citi wants to exchange \$1,000,000 for an equivalent amount of Yen from Mizuho). After ensuring that the parties have adequate value in their respective SI accounts, the supervisory institution adjusts these accounts to reflect the exchange. It then instructs the exchange institutions (*i.e.*, the central banks) to adjust Citi's and Mizuho's central bank accounts, respectively, in accordance with the adjustment made to the SI accounts it maintains. Most importantly, the adjustment of Citi's and Mizuho's accounts at the supervisory institution and the instruction from the supervisory institution to the FRBNY and the Bank of Japan are irrevocable and the instruction, once received, must be honored by both central banks. In this manner, the exchange occurs simultaneously and cannot be undone by either party. As a result, if Citi were to go bankrupt after the SI accounts were adjusted, Mizuho would still receive payment because the transaction is irrevocable.

(D.I. 27, Alice 5/19/08 Memo., at 7.)

23. During prosecution of the application that led to the '510 patent, the U.S. Patent Office ("PTO") rejected the independent claims over claim 33 of the '479 patent, under the doctrine of double patenting. (*See* Exh. 5, Office Action dated Sept. 3, 2003 at 5-6.)

24. Alice filed a "terminal disclaimer" agreeing that the claims of the '510 patent would expire at the same time as those of the '479 patent. (Exh. 6, Amendment and Reply Under 37 C.F.R. § 1.111, dated October 31, 2003; Exh. 7, Terminal Disclaimer to Obviate a Double Patenting Rejection Over a Prior Patent, dated October 31, 2003.)

25. The word "electronically" was added to modify "adjusting" in each independent claim of the '510 patent during prosecution of the application that led to the patent, after the examiner rejected the original claims and stated that they were "directed to non-statutory subject matter" under Section 101 because they "lack any specific technology." (Exh. 5, Office Action dated September 3, 2003, at 3).

26. The examiner stated that Alice's proposed claims were "directed to an abstract idea" and were therefore unpatentable. In its response, Alice argued, *inter alia*, that "the Examiner should be guided by the Federal Circuit's decisions in *State Street* and *AT&T Corp. v.*

Excel Communications, Inc., 172 F.3d 1352 (Fed. Cir. 1999).” (Exh. 6, Amendment and Reply Under 37 C.F.R. § 1.111, dated October 31, 2003 at 22, 22n.)

27. During prosecution of the application that led to the ’720 patent, the claims were initially rejected over claims 1-75 of the ’510 patent, under the doctrine of double patenting . (Exh. 8, Office Action dated Dec. 28, 2005 at 2.)

28. The examiner stated, “Although the conflicting claims are not identical, they are not patentably distinct from each other because [the claims of the ’720 patent] are the same method for intended use as claims 1-75 of U.S. Patent No. 6,912,510.” (Exh. 8, Office Action dated Dec. 28, 2005 at 2.)

29. The examiner further stated: “The additional limitation disclose[d] by [the application that led to the ’720 patent] is ‘a data processing system and a data storage unit’ while all the other limitations in [the application claims] are the same as claims 1-75 of U.S. Patent No. 6,912,510.” (Exh. 8, Office Action dated Dec. 28, 2005 at 2.)

30. Alice executed a terminal disclaimer agreeing that the claims of the ’720 patent would expire at the same time as those in the ’510 patent. (*See* Exh. 9, Terminal Disclaimer To Obviate A Double Patenting Rejection Over A Prior Patent, dated Jan. 27, 2006.)

31. Alice executed a terminal disclaimer agreement that the claims of the ’375 patent would expire at the same time as those in the ’510 and ’720 patents. (*See* Exh. 10, Terminal Disclaimer To Obviate a Double Patenting Rejection Over “Prior” Patents, dated September 11, 2008.)

32. The four Alice patents, in addition to their independent claims, also include multiple dependent claims. The dependent claims include the following limitations on the type of obligation or transaction for which the invention may be used, the nature of the exchange

institution, the nature of the parties, the “irrevocable, time-invariant” instruction, and the type of data recorded in the account or shadow record:

	Dependent Claims			
	'479 Patent	'510 Patent	'720 Patent	'375 Patent
Limitations on type of exchange “obligation” or “transaction”				
“arises out of” a “share price”		2	2	
“arises out of” or “involves” a “weather event”		3, 41	3, 42	
“arises out of” or “involves” a “market event”		4, 42	4, 43	
“involves” the “transfer of shares in financial or physical assets”		5	5	
“involves” a “wager”		6, 43	6, 44	
“involves” the “transfer of a commodity”		7	7	
“arises out of” or “involves” “money for goods, services, promises, credits or warrants”		8, 44	8, 45	
“arises out of” or “involves” “currency”		18, 54, 72	18, 54, 70, 74	3, 7, 16, 20, 28, 32, 40
“arises out of” a “collateralization payment”		21, 40	21, 41	
relates to “acquir[ing] an item from” another party”			27, 59, 67, 79, 84	11, 24, 36
Limitations on “irrevocable, time invariant” instruction				
“period of time” for which instruction is provided is a “part of a day”		9, 53, 67	9, 53, 66, 77	
based on “netted” transactions	34	11, 52, 75	11, 55, 78	10, 23, 35
provided at “an end of a processing cycle”		64	63	
“generated at the end of a day”			82	
Limitations on algorithm or test for adjusting accounts or shadow records				
applied to transaction in “chronological order”		10, 62	10, 61	
includes “debiting and/or crediting . . . shadow record based on . . . transaction”		39	40	

includes obtaining a balance for shadow records from exchange institution		22, 48, 63, 66	22, 49, 62, 65, 81	
“adequate value” requires that the first and third accounts have “a positive balance”		74	76	9, 22, 34
Limitations on the “exchange institution”				
“credit card company”		12, 45	12, 46	
“debit card company”		13, 46	13, 47	
“bank”		14, 55	14, 56	
“central bank”		15, 56, 69	15, 57, 69	2, 15, 27
“guarantor”		16	16	
“party offering credit”		17, 47	17, 48	
exchange institutions operate in “different time zone[s]”		19, 25, 50, 59	19, 24, 51, 71	4, 17, 29
exchange institutions have “different account processing cycle[s]”		20, 26, 51, 57, 60	20, 25, 52, 58	
“non-bank clearing house or depository”		23, 73	26, 75	8, 21, 33
supervisory institution and exchange institution “legally and/or geographically domiciled in different countries”		37	38	
exchange institutions are different		24, 49, 58	23, 50	
“first exchange institution and . . . second exchange institution are the same”		70	72	5, 18, 30
Limitations on the exchange institution “account” or “record”				
pertains to “shares in financial or physical assets”		28	29	
pertains to “participation rights in wagers”		29	30	
pertains to “goods”		30	31	
pertains to “services”		31	32	
pertains to “central bank exchange settlement account deposits”		32	33	
pertains to “financial instrument deposits”		33	34	
pertains to “credit extended to/from a party or to/from a guarantor”		34	35	
includes an “overdraft or		35	36	

line-of-credit” with an exchange institution				
“second account and . . . fourth account are the same account”		71	73	6, 19, 31
“second and fourth accounts are different”				42, 44, 46
“first account holds funds for . . . first party and . . . second party”			83	
information about “first account” and “third account” includes “a credit and debit account balance”				43, 45, 47
Limitations on the “parties”				
“first party holds one or more accounts with more than one exchange institution”		36	37	
one “party is a buyer” and the other “party is a seller”		38	39	
Limitations on the device from which a “transaction” is “received”				
from a “second party device” and/or vial a “communications controller”				12, 25, 37
“first party device” and “second party device” “include a computer”				13, 38
Limitation on the “computer code product”				
only allows “access” to “preauthorized information relating to said processing”				41

(See Exh. 1, '479 patent at claim 34; Exh. 2, '510 patent at claims 2-26, 28-60, 62-64, 66-67, 69-75; Exh. 3, '720 patent at claims 2-27, 29-59, 61-63, 65-67, 69-79, 81-84; Exh. 4, '375 patent at claims 2-13, 15-25, 27-38, 40-47.)

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