IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

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

**ALICE CORPORATION PTY. LTD.'S RENEWED CROSS-MOTION FOR
PARTIAL SUMMARY JUDGMENT AS TO SUBJECT MATTER ELIGIBILITY**

Defendant/Counterclaim-Plaintiff Alice Corporation Pty. Ltd. ("Alice") respectfully

submits the attached Memorandum in opposition to CLS Bank International's and CLS Services

Ltd.'s (collectively, "CLS's") Renewed Motion for Summary Judgment That the Claims of

Alice's Patents are Invalid for Lack of Patent-Eligible Subject Matter and cross-moves for partial

summary judgment declaring that claims 1–47 of U.S. Patent No. 7,725,375, claims 1–84 of U.S.

Patent No. 7,149,720, claims 1–75 of U.S. Patent No. 6,912,510, and claims 33 and 34 of U.S.

Patent No. 5,970,479 are directed to patent-eligible subject matter under 35 U.S.C. § 101. The

grounds for Alice's opposition and cross-motion are set forth in the accompanying memorandum

of law.

Alice respectfully requests oral argument.

Respectfully submitted,

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Alice Corporation Pty. Ltd.

Dated: September 22, 2010

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)
   Counterclaim-Defendant.   )
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**MEMORANDUM IN SUPPORT OF ALICE CORPORATION PTY. LTD.'S RENEWED
CROSS-MOTION FOR SUMMARY JUDGMENT AS TO PATENT ELIGIBILITY
AND IN OPPOSITION TO CLS's MOTION FOR SUMMARY JUDGMENT**

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INTRODUCTION

In claiming that *Bilski v. Kappos* mandates summary judgment that Alice's claims are not patent-eligible under 35 U.S.C. § 101, CLS attempts to insert a square peg into a round hole. CLS moves for summary judgment as to all of Alice's asserted claims, which are directed to three separate types of invention: (1) computer systems, (2) storage media (*e.g.*, a disk) containing computer code, and (3) methods—all for performing a particular, real-world financial transaction electronically. But *Bilski* only involved method claims—"processes," under § 101. *Bilski* had nothing to do with computer systems ("machines" under § 101) or storage media ("manufactures" under § 101). And as to methods, nothing in *Bilski* invalidates Alice's claims.

Bilski reaffirmed the long-standing principle that a ***process*** may not be patented if it is merely an "abstract idea." And it held that the test for patent-eligible ***processes*** established by the Federal Circuit, the "machine-or-transformation" test, is a helpful guide to whether a claimed process is really an abstract idea that cannot be patented. What *Bilski* did not do is effect any significant change in the law of patent eligibility—much less one that affected claims to machines, such as Alice's claims to computer systems. It did nothing to disturb a long line of precedent holding that machines—a concrete thing consisting of parts—such as the configured computer systems that two of Alice's four patents claim, are patent-eligible. And it reaffirmed the Supreme Court's longstanding holdings that the four categories of "statutory subject matter"—machines, manufactures, compositions of matter, and processes—should be broadly construed. As *Bilski* recognized, there are only "three specific exceptions" to the broad patent eligibility under § 101: "laws of nature, physical phenomena, and abstract ideas."

CLS's motion rests on a misinterpretation of the "abstract idea" exception. One cannot patent a purely abstract idea such as the law of gravity, the Pythagorean theorem, or the general

concept of hedging commodities. But one can patent the ***application*** of such abstract ideas to a particular problem—the waterwheel, a GPS receiver, or a computer system for processing commodity trades. Alice's claims are directed to such concrete, real world applications.

As to Alice's computer system claims—"machines," which *Bilski* did not address—CLS argues that the Court should ignore the "computer" and other hardware expressly required by the claims and fixate on the supposedly abstract transaction that the computer is programmed to accomplish. But that is an invitation to error, at odds with both the case law and the PTO's approach to evaluating patent eligibility. It is legal error to ignore that the claim is to a computer system. The Supreme Court and the Federal Circuit have long held that there is a difference between an "abstract idea" and a concrete machine like a computer system that implements it. Indeed, in the face of multiple binding precedents to the contrary, *i.e.*, affirming the patent eligibility of claims like Alice's to a computer system, CLS asks this Court to be the first court ***ever*** to invalidate a patent claim to a computer system under § 101. It bears noting that the PTO issued one of Alice's two patents claiming computer systems *after* the Federal Circuit's decision in *Bilski.* The PTO examined that patent under guidelines for evaluating § 101 that took the Federal Circuit's decision in *Bilski* into account and have not been relevantly modified since the Supreme Court's decision in that case. Alice's computer system claims do not present a close case. The Court, therefore, should hold they are patent-eligible.

Alice's computer program product claims—to computer storage media—are likewise tangible items rather than abstract ideas. Both the PTO and the courts have long considered such claims patent-eligible. They belong to a category—"manufactures"—that, like "machines," *Bilski* did not effect. The Court should likewise hold that they are patent-eligible.

It is Alice's method claims that should be analyzed under *Bilski*'s "machine-or-

transformation" test to determine whether they are patentable "processes" or "abstract ideas." The claims of the '510 patent are to "electronically" implemented methods that require the use of a computer. That makes their ties to a machine—and thus their patent eligibility under the "machine-or-transformation" test—explicit. In approving the '510 patent, the PTO considered and rejected the argument that CLS makes today that the claim was too abstract to be patent-eligible. As for the claims of the '479 patent, they speak of a transaction involving a "shadow credit record" and "shadow debit record." The proper construction of those terms mandates an *electronic* credit and debit record implemented using a computer and data storage unit; there is no way to interpret the specification to the contrary.

When interpreted in light of the 100-plus page specifications disclosing Alice's computer systems and the electronic methods implemented by those systems, *all* of Alice's methods require computers and are patent-eligible under the *Bilski* test. CLS dismisses the fact that Alice's claims require a computer implementation as somehow irrelevant. But just as it did for Alice's computer system claims, CLS improperly ignores what the claims actually require and focuses on what it perceives as the underlying "abstract" business idea. Because a proper construction of the claims shows they are tied to a machine and none of the narrow exceptions to the machine-or-transformation test apply, Alice's method claims are patent-eligible.

Perhaps most revealing about this whole exercise is the position that CLS has taken outside the courtroom. Inside the courtroom, CLS contends that Alice's computer system claims and methods are not patent-eligible under § 101; yet, in front of the PTO, CLS actively seeks to patent computer systems and methods that are for § 101 purposes indistinguishable from what Alice patented years earlier. Accordingly, Alice's motion for summary judgment of patent eligibility should be granted, and CLS's should be denied.

FACTS

A.   **Background**

In the early 1990s, Ian Shepherd, formerly head of the Melbourne, Australia office of

management consultant McKinsey & Co. and the founder of Alice, conceived of a computerized

system for the establishment, settlement, and administration of financial instruments, principally

of basic derivatives, that would solve problems inherent in the way such trading had been done

in the past. Mr. Shepherd immediately applied for a patent, which disclosed extensive technical

information on how to build such a system, including system architecture and program coding.

Mr. Shepherd formed a company (the predecessor to Alice) which spent roughly $15 million to

construct the system.

One aspect of Mr. Shepherd's trading system was an automated method and system for

eliminating counter-party risk when parties who were often unknown to each other and in

different time zones wanted to exchange payments. Mr. Shepherd conceived of an electronic

settlement mechanism that settled trades without the risk that one party would perform and the

other would not. *See generally* '479 patent, col. 24 l. 59–col. 28 l. 10. Removing this risk in

foreign exchange trading was a major innovation, and was the primary motivation for the

formation of CLS.

After considering many of the issues CLS raises in its summary judgment motion, the

U.S. Patent & Trademark Office (PTO) issued Mr. Shepherd the four patents-in-suit, which

largely share a lengthy, 100+ page specification related to his innovative trading platform. The

CLS System infringes each of these patents.

B.   **The Patents-in-Suit**

The patents disclose and claim in various ways a novel computerized trading platform for

exchanging obligations in which a trusted third party, running a computer system programmed in

a specific way, settles parties' obligations so as to eliminate what is variously referred to as

"Herstatt," "counterparty," or "settlement" risk—the risk that only one party's obligation will be

paid, leaving the other party without its principal. Ex. 1, Ginsberg Decl. ¶¶ 23-24. The trusted

third party—a "supervisory institution"—operates a data processing system that exchanges both

parties' obligations or neither. *Id.*

1.   The '375 Patent

(a)   Computer System Claims

Most of the claims of the '375 patent, as CLS acknowledges, *see* CLS Mem. at 14, are

directed to a "data processing system"—a machine, driven by a "computer," designed to execute

the transactions recited in the claims. Specifically, Alice claims a machine comprising a "data

storage unit" that stores information about several "accounts" or "records"; a "first party device"

or "communications controller"; and a "computer, coupled to said data storage unit," configured

to perform the steps necessary to effectuate the exchange of an obligation. Claim 14 is

representative:

> 14. A **data processing system** to enable the exchange of an obligation
> between parties, the system comprising:
> **a communications controller**,
> **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; and
> **a computer, coupled to said data storage unit and said
> communications controller**, that is configured to
> (a) receive a transaction from said first party via said communications
> controller;
> (b) electronically adjust said first account and said third account in order
> to effect an exchange obligation arising from said transaction between said first
> party and said second party after ensuring that said first party and/or said second
> party have adequate value in said first account and/or said third account,
> respectively; and
> (c) generate an instruction to said first exchange institution and/or said
> second exchange institution to adjust said second account and/or said fourth

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account in accordance with the adjustment of said first account and/or said third account, wherein said instruction being an irrevocable, time invariant obligation placed on said first exchange institution and/or said second exchange institution.

'375 patent, col. 66.

The "communications controller" is a specific hardware component that allows communications over a wide-area computer network. The "data storage unit" is a specific component, such as a disk drive or file server, capable of storing data. Ex. 1, Ginsberg Decl. ¶¶ 48, 54. The "computer," coupled to the data storage unit, is a computer that is configured, including by the use of software, to manipulate the data on the data storage unit in order to carry out the recited functions. *Id.* ¶¶ 47, 49.

Each independent computer system claim of the '375 system patent recites the "communications controller" (and/or a "first party device"), "computer," and a "data storage unit" required to run the system, and those terms are incorporated into each dependent claim. Even without a *Markman* hearing to construe the claim terms, it is beyond dispute that Alice's claims recite concrete computer system hardware configured to perform a specific function, *id.* ¶¶ 46-54, 56-58, which is sufficient to establish as a matter of law that the '375 patent does not claim an "abstract idea" and satisfies the requirements of § 101.

(b)   Computer Storage Medium Claims

In addition, three claims of the '375 patent are directed to "computer program products"—computer-readable, physical storage media (*e.g.*, a disk) that store program code to perform Alice's claimed methods, using Alice's claimed computer systems.

Claim 39 is representative:

> 39. A **computer program product** comprising a **computer readable storage medium** having **computer readable program code embodied in the medium** for use by a party to exchange an obligation between a first party and a second party, the computer program product comprising:

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> **program code** for causing a **computer** to send a transaction from said first party relating to an exchange obligation arising from a currency exchange transaction between said first party and said second party; and
>
> **program code** for causing a **computer** to allow viewing of information relating to processing, by a supervisory institution, of said exchange obligation, wherein said processing includes (1) maintaining information about a first account for the first party, independent from a second account maintained by a first exchange institution, and information about a third account for the second party, independent from a fourth account maintained by a second exchange institution; (2) **electronically** adjusting said first account and said third account, in order to effect an exchange obligation arising from said transaction between said first party and said second party, after ensuring that said first party and/or said second party have adequate value in said first account and/or said third account, respectively; and (3) generating an instruction to said first exchange institution and/or said second exchange institution to adjust said second account and/or said fourth account in accordance with the adjustment of said first account and/or said third account, wherein said instruction being an irrevocable, time invariant obligation placed on said first exchange institution and/or said second exchange institution.

'375 patent, col. 68. These tangible component limitations are incorporated into each

dependent claim. Ex. 1, Ginsberg Decl. ¶ 55.

2.   The '720 Patent

Like the system claims of the '375 patent, all claims of the '720 patent are directed to a

"data processing system"—a machine comprising a "computer" and "a data storage unit."[1] For

example, claim 68 of the '720 system patent reads:

> 68. A **data processing system** to enable the exchange of an obligation between parties, the system comprising:
> **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
> **a computer, coupled to said data storage unit**, that is configured to
> (a) receive a transaction;
> (b) **electronically adjust** said first account and said third account in order to effect an exchange obligation arising from said transaction between said first

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[1] The '375 patent has additional computer system components in each claim.

party and said second party after ensuring that said first party and/or said second party have adequate value in said first account and/or said third account, respectively; and

      (c) generate an instruction to said first exchange institution and/or said second exchange institution to adjust said second account and/or said fourth account in accordance with the adjustment of said first account and/or said third account, wherein said instruction being an irrevocable, time invariant obligation placed on said first exchange institution and/or said second exchange institution.

'720 patent, col. 69. These same components are incorporated into each dependent claim.

Like the claims of the '375 patent, such claims to a "machine" are directed to concrete hardware rather than to "abstract ideas," and the claims are, as a matter of law, patent-eligible under § 101. Ex. 1, Ginsberg Decl. ¶¶ 46-54, 56-58.

3.   The '510 Patent

Unlike the '375 and '720 system patents, which expressly claim a machine (a "computer" and associated hardware) configured to perform the settlement transaction, the '510 method patent is directed to the process of "electronically" performing the settlement transaction itself. Ex. 1, Ginsberg Decl. ¶¶ 34-45. Claim 68 of the '510 method patent exemplifies the claims of the '510 patent for purposes relevant to this motion. It reads:

      68. 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:
      <u>maintaining a first account</u> for a first party, independent from a second account maintained by a first exchange institution;
      <u>maintaining a third account</u> for a second party, independent from a fourth account maintained by a second exchange institution;
      <u>electronically adjusting</u> said first account and said third account in order to effect the exchange obligation between said first party and said second party after ensuring that said first party and said second party have adequate value in said first account and said third account, respectively; and
      providing an instruction to said first exchange institution and said second exchange institution to adjust said second account and said fourth account in accordance with the adjustment of said first account and said third account, wherein said instruction being an irrevocable, time invariant obligation placed on said first exchange institution and said second exchange institution.

'510 patent, cols. 67–68.

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The settlement transaction is "effect[ed]" when the "first account" and "third account" are "electronically adjusted." Ex. 1, Ginsberg Decl. ¶ 36. This step, at a minimum, requires the use of an "electronic" device capable of adjusting two accounts that it "maintains"—*i.e.*, a computer. *Id.* ¶ 38. In addition, the electronic adjustment of account data maintained by the supervisory institution necessarily results in a physical, electronic change in the medium in which the data are stored, thus requiring an electronic data storage unit. *Id.* ¶ 37.

Each claim of the '510 patent contains the term "electronically." The prosecution history indicates that the term "electronically" was added to overcome a rejection under § 101. In other words, the patent examiner considered and rejected the argument CLS now makes—that the '510 patent is not directed to patent-eligible subject matter. In this regard, the examiner initially rejected the claims as "lack[ing] any specific technology such as a computer." *See* CLS Ex. 5, Office Action at 3 (Sep. 3, 2003). An initial rejection is common, and is part of the process of ensuring that patents which issue are valid.[2] Alice then added the term "electronically" to the claims of the '510 patent to overcome the examiner's rejection and expedite the prosecution of the patents. *See* CLS Ex. 6, Amend. and Reply Under 37 C.F.R. § 1.111, at 22 (Oct. 31, 2003). The addition of the term "electronically" to Alice's claims satisfied the examiner's concerns— *i.e.*, it required "specific technology such as a computer." *Id.* Indeed, the examiner agreed with Alice that its claims were directed to a "real world" exchange of obligations and were an improvement on the state of the art. *See* CLS Ex. 6, Amend. and Reply at 22.

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[2] The PTO's expertise and the consideration of questions of patentability by that office are the foundation of the strong presumption that a patent issued by the PTO is valid. *See* 35 U.S.C. § 282. As discussed *infra*, that an initial claim submitted by Alice was rejected is irrelevant to the question of whether the claims that did issue are valid.

4. The '479 Patent

Claims 33 and 34 of the '479 patent are method claims similar in nature to those in the '510 patent. Ex. 1, Ginsberg Decl. ¶¶ 29-33. While these claims do not expressly recite that the method must be implemented "electronically," these claims use the terms "shadow credit record" and "shadow debit record." A person of ordinary skill in the art would recognize these are electronic records requiring the implementation of these methods on a computer, using an electronic data storage unit. *Id.*; *see also* '479 patent, col. 24 l. 65–col. 25 l. 2 ("The process effects these payment/receipts in a two-stage process. First, by debiting/crediting, on a real-time basis, the relevant shadow records (in the data file PAYACC SHADOW) of the applicable stakeholder accounts."). "[D]ata file PAYACC SHADOW" is a reference to data files in a data storage unit. Ex. 1, Ginsberg Decl. ¶ 32. A person of ordinary skill in the art would not interpret these claims to be implementable without a computer specifically programmed to carry out the transaction. *Id.*

C. CLS's Patent Application

CLS has sought patent protection to cover systems and methods for a "processing and settling payment instructions relating to various financial instruments." Ex. 2, U.S. Patent App. No. 2008/0154771 (published Jun. 26, 2008); *see also* Ex. 3 (claims pending Mar. 29, 2010). CLS's proposed claims generically recite a "***system*** for facilitating the settlement of payments" comprising an "interface," a "first processor," and a "second processor" configured to perform various steps. *Id.* (emphasis added). CLS also proposes ***method claims*** for "facilitating the settlement of payments." Ex. 3 at 26 (claim 81).

ARGUMENT

Section 101 sets forth "four independent categories of inventions or discoveries that are eligible for [patent] protection: processes, machines, manufactures, and compositions of matter."

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Bilski v. Kappos, 130 S. Ct. 3218, 3225 (2010). As the Supreme Court recently reaffirmed, these

"expansive terms . . . modified by the comprehensive 'any'" reflect the "'wide scope'" of patent

eligibility. *Id.* (ellipsis in original) (quoting *Diamond v. Chakrabarty*, 447 U.S. 303, 308

(1980)). "Congress took this permissive approach to patent eligibility to ensure that 'ingenuity

should receive a liberal encouragement.'" *Id.* (quoting 5 The Writings of Thomas Jefferson 75–

76 (H. Washington ed. 1871)). The only exceptions to the broad scope of § 101 are for "laws of

nature, physical phenomena, and abstract ideas," which, "consistent with the notion that a

patentable process must be new and useful," are deemed to be ineligible for a patent monopoly.

Id. (quotation marks omitted).

Thus, there are two basic steps in the § 101 inquiry. First, a court must identify the

statutory category, if any, to which each claim is directed. If the claim falls within a statutory

category—as all of Alice's do—the court must inquire whether the claim is to an "abstract

idea[]," or instead is directed to some practical application of the idea.[3] *See Diamond v. Diehr*,

450 U.S. 175, 185, 187 (1981). How to analyze the second step depends on which of the four

categories of statutory subject matter the claim is directed to. *See Bilski*, 130 S. Ct. at 3225

(describing analysis only for "process" claims at issue); *see also Interim Examination*

Instructions for Evaluating Subject Matter Eligibility Under 35 U.S.C. § 101 (Aug. 24, 2009)

(attached as Ex. 4) (hereinafter 2009 PTO Guidelines) (illustrating how patent examiners—

including those who examined the '375 patent—should analyze § 101 in the wake of *Bilski I*);

Interim Examination Instructions for Evaluating Subject Matter Eligibility Under 35 U.S.C. §

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[3] The inquiry also includes whether the claim similarly covers a "law of nature" or "physical phenomen[on]" rather than an "abstract idea." But in this case, CLS does not contend—and there can be no serious argument—that Alice's claims have anything to do with either of those other exceptions to patent eligibility.

101, U.S. Patent and Trademark Office (Aug. 2009), at 7, 13 (providing flow charts for evaluating subject matter eligibility) (Ex. 8).

For machines and manufactures—such as the claims of the '375 and '720 patents—the analysis is straightforward. *See id.* Both the '375 and '720 computer system patents clearly meet the standards for patent eligibility, as they claim computer systems that are patent-eligible "machines." *See In re Nuijten*, 500 F.3d 1346, 1355 (Fed. Cir. 2007), *cert. denied*, 129 S. Ct. 70 (2008) (defining "machine"); *State St. Bank & Trust Co. v. Signature Fin. Group, Inc.*, 149 F.3d 1368, 1377 (Fed. Cir. 1998) (upholding similar claims). *Bilski* did not effect the analysis. The claims are limited to a computer system made up of computer hardware components programmed to be used in a particular way. Such a system is undisputedly a machine that, at most, makes use of certain ideas, but which applies them to a practical purpose. It is therefore clearly patent-eligible. Alice's computer storage medium claims are similarly patent-eligible as "manufactures."

For "process" claims, *Bilski* itself sets forth the analysis for patent eligibility. To distinguish patent-eligible "process" claims from ineligible "abstract ideas," the Supreme Court found the Federal Circuit's "machine-or-transformation" test to be a "useful and important clue." *Bilski*, 130 S. Ct. at 3227. Under this test, a claim that is "tied to a particular machine" will ordinarily be patent-eligible. *Id.* at 3225–26. The sole exceptions are those identified by the Federal Circuit in *Bilski I*: if the use of a machine fails to "impose meaningful limits on the claim's scope" or constitutes merely "insignificant extra-solution activity" or a "field-of-use limitation." *In re Bilski* ("*Bilski I*"), 545 F.3d 943, 957, 961–62 (Fed. Cir. 2008) (en banc), *aff'd*, 130 S. Ct. 3218 (2010); *see also* Ex. 5, *Interim Guidance for Determining Subject Matter Eligibility for Process Claims in View of Bilski v. Kappos*, 75 Fed. Reg. 43,922 (July 27, 2010).

While *Bilski* rejected the holding of *Bilski I* that **every** claim that is patent-eligible must meet this

test, six Justices agreed that claims that do meet the test—such as Alice's—are patent-eligible.

See 130 S. Ct. at 3227–28 (plurality opinion in relevant part); 130 S. Ct. at 3259 (Breyer, J.,

concurring in the judgment). Because Alice's method claims require a machine, and because—

contrary to CLS's erroneous arguments—they do not fit within any of the exceptions to the

machine-or-transformation test, they are patent-eligible.

"[A] patent [is] presumed valid." 35 U.S.C. § 282. While § 101 ordinarily presents a

question of law, the "determination of this question may require findings of underlying facts."

Arrhythmia Research Tech., Inc. v. Corazonix Corp., 958 F.2d 1053, 1056 (Fed. Cir. 1992); *see*

also In re Comiskey, 554 F.3d 967, 975 (Fed. Cir. 2009) (*Comiskey II*).[4] On this record, there is

no question that the claims of the '375 patent and '720 patent qualify as machines or

manufactures and are thus patent-eligible. Accordingly, Alice is entitled to summary judgment

in its favor on these two patents, and CLS's motion should be denied. As to the '510 patent and

the '479 patent, Alice is entitled to summary judgment that they claim patent-eligible

"processes" because they are tied to particular computers programmed to carry out specific

transactions, are transformative, and are thus practical applications of an idea. To the extent that

there remains any question whether these process claims have practical, real world applications,

have meaningful limits, or are directed to abstract ideas, then as evidenced by the Declaration of

Mr. Paul Ginsberg, there is a question as to the construction of those claims and a genuine issue

of material fact that precludes summary judgment for either party. *Insured Deposits Conduit,*

LLC v. Index Powered Fin. Servs., LLC, No. 07-22735-CIV, 2008 WL 5691349, at *3–4 (S.D.

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[4] The "patent-eligibility inquiry is only a threshold test." *Bilski*, 130 S. Ct. at 3225. To be
patentable, an invention must also be "novel, *see* § 102, nonobvious, *see* § 103, and fully and
particularly described, *see* § 112." *Id*.

Fla. Mar. 14, 2008) (denying summary judgment on § 101 issue because of "one subsidiary factual issue which remains to be decided").

In its motion, CLS seeks to invalidate all of Alice's claims—to computer systems, to computer storage media containing software to run those systems, and to methods for using those systems. Yet at the same time, CLS seeks to obtain its own patents on similar systems and methods, maintaining that such systems and methods are eligible for patent protection. For example, CLS's pending claim 1 is to a "system for facilitating settlement of payments" comprising "an interface" and "processor[s]" "configured to" perform settlement operations— that is, to a data processing system comparable, for purposes of § 101, to those claimed in Alice's '375 and '720 patents. Ex. 3 (claims pending Mar. 29, 2010). Similarly, CLS's pending claim 81 is to a "method for facilitating settlement of payments" comprising "receiving" "instructions," "establishing" "associations", and "applying" "pre-settlement rules." *Id.* Like Alice's method claims, claim 81 requires the use of a computer—again, comparable, for § 101 purposes, to Alice's claimed methods. While CLS's claims are not at issue in this litigation or this motion, the fact that CLS is seeking patent protection for subject matter indistinguishable from Alice's claims under a §101 analysis undercuts CLS's arguments, and shows that computer systems, and methods for using them, are patent-eligible.

I. ALICE'S COMPUTER SYSTEM CLAIMS ARE PATENT-ELIGIBLE AS MACHINES.

All claims of the '720 patent, and all but claims 39–41 of the '375 patent, claim a "computer" and other system hardware—*i.e.*, "machines." The Federal Circuit has long held that computer systems like this programmed to perform specific functions are patent-eligible as "machines." Likewise, Justice Stevens's concurrence in the recent *Bilski* decision recognized that computer systems like this are patent-eligible as machines. *See Bilski*, 130 S. Ct. at 3257

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(Stevens, J., concurring in the judgment). And no court has ***ever*** held that a computer system—a

"'***concrete thing***, consisting of parts, or of certain devices and combination of devices'" and thus

a "machine," *Nuijten*, 500 F.3d at 1355 (emphasis added) (quoting *Burr v. Duryee*, 68 U.S. 531,

570 (1864))—is ineligible for patent protection under § 101. Moreover, the PTO issued the '375

patent, without ever rejecting the claims under § 101, ***after*** the Federal Circuit's decision in

Bilski.[5]

Rather than confront all of this precedent, CLS simply ignores the express limitations in

Alice's claims that recite computer hardware (*e.g.*, a "computer," "data storage unit," and a

"communications controller"). It argues that "[r]ewriting [Alice's] method claims" to

incorporate the computers that carry out the method "does not convert Alice's invention to

patentable subject matter." CLS Mem. at 33. But this is the wrong analysis. Courts must

evaluate patentability ***based on the limitations recited in the claims at issue***. *Diehr*, 450 U.S. at

188–89.

For this reason, it does not matter whether the method that Alice's claimed computer

systems are configured to perform might be "abstract" standing alone. *Id.* at 191–92. What

matters is whether the claims "as a whole" are directed to one of the judicially-created

exceptions to patent eligibility. *Id.* at 188–89; *see also* 2009 PTO Guidelines at 7 (Ex. 4);

Interim Examination Instructions for Evaluating Subject Matter Eligibility Under 35 U.S.C. §

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[5] Aside from the obvious implication that the PTO disagrees with CLS that Alice's claims raise
ineligibility issues under § 101, the fact that the PTO issued the '375 patent after *Bilski* entitles it
to a heightened presumption of validity. A heightened burden applies in situations, such as this
one, where the patent examiner is in possession of the information necessary to an invalidity
argument, but allows the claim to issue anyway. *Cf. Continuous Curve Contact Lenses, Inc. v.
Nat'l Patent Dev. Corp.*, 214 U.S.P.Q. (BNA) 86, 114 (C.D. Cal. 1982) (heightened presumption
of no double patenting where examiner is aware of multiple patents but does not issue double-
patenting rejection).

101, U.S. Patent and Trademark Office (Aug. 2009), at 7–10 (Ex. 8). CLS's only argument that

Alice's claims fall within one of those exceptions is based on mischaracterizing Alice's *machine*

claims as *method claims* with computer components added and then disregarding the computer

components as somehow "not enough" to confer patent eligibility. CLS Mem. at 33. But the

Federal Circuit has squarely rejected this approach. *In re Iwahashi*, 888 F.2d 1370, 1375 (Fed.

Cir. 1989).

In *Iwahashi*, the Solicitor of the Patent Office argued that Iwahashi's machine claims,

which included a mathematical algorithm, were abstract, even though they recited a "read only

memory" or "ROM," which is "specific piece of [computing] apparatus." *Id.* at 1372–73, 1375.

Like CLS, the Solicitor contended that the claims were abstract process claims because the

machine or manufacture parts recited in the claim, including the ROM, did not impose any kind

of meaningful limit on the claim. *Id.* The Federal Circuit rejected the argument and held the

claim to be patent-eligible, explaining that the Solicitor was improperly treating the

machine/manufacture claims "as though it were a method claim." *Id.* at 1375. CLS does not cite

this case, let alone attempt to explain why *Iwahashi* does not doom its argument.

Because Alice's computer system claims expressly require particular computer

components specifically configured—not the abstract "concept" of a business method—there is

no question that they are patent-eligible. *See*, *e.g.*, *Interim Examination Instructions for*

Evaluating Subject Matter Eligibility Under 35 U.S.C. § 101, U.S. Patent and Trademark Office

(Aug. 2009), at 9 (illustration that a "microprocessor" "programmed to evaluate search results"

using a "mathematical formula" is patent "eligible") (Ex. 8).

A.   Computer Systems Are Machines, Not Abstract Ideas.

"A machine is a *concrete thing*, consisting of parts, or of certain devices and combination

of devices." *Burr*, 68 U.S. at 570 (emphasis added); *see also Nuijten*, 500 F.3d at 1355

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(reaffirming *Burr* definition as meaning of "machine" under present-day 35 U.S.C. § 101). By

definition, a claim to a machine does not cover an "abstract idea." *Burr*, 68 U.S. at 570. As the

Supreme Court held nearly 150 years ago—while construing the same "abstract idea" exception

to the nearly identical patent eligibility statute of the era—"A machine is not a principle or an

idea." *Burr*, 68 U.S. at 570; *see also Bilski*, 130 S. Ct. at 3225 (observing that the "abstract idea"

exception to patent eligibility is "a matter of statutory *stare decisis* going back 150 years").

Computer systems like the ones Alice claims are machines and "clearly patentable

subject matter." *In re Warmerdam*, 33 F.3d 1354, 1360–61 (Fed. Cir. 1994); *accord State Street

Bank*, 149 F.3d at 1377; *In re Alappat*, 33 F.3d 1526, 1545 (Fed. Cir. 1994) (en banc); *see also

Iwahashi*, 888 F.2d at 1375; *Interim Examination Instructions for Evaluating Subject Matter

Eligibility Under 35 U.S.C. § 101*, U.S. Patent and Trademark Office (Aug. 2009), at 9 (Ex. 8).

State Street Bank is particularly illustrative. Like Alice's computer system claims, the

claim in *State Street* was directed to a computer system configured to perform a business

method, not to the business method itself. Also like Alice's computer system, the *State Street*

system comprised a "personal computer including a CPU" (analogous to Alice's "computer")

configured to perform the steps of a business method, as well as a "data disk" (analogous to

Alice's "data storage unit"). 149 F.3d at 1371–72. The accused infringer challenged the

patentability of this claim under § 101, but the Federal Circuit upheld its validity. In particular,

the court observed that the claim was to a "machine" and that none of the exceptions to patent

eligibility applied. *Id.* at 1372, 1373–77. Notwithstanding its use of mathematics, the court held

that the claim did not fall within the "mathematical algorithm" exception. *Id.* at 1373–75 & n.6

(quoting *Diehr*, 450 U.S. at 187) ("[A] claim drawn to subject matter otherwise statutory does

not become nonstatutory simply because it uses a mathematical formula, computer program, or

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digital computer"). Moreover, the court held there was no "business method" exception to patentability. *Id.* at 1375–76; *accord Bilski*, 130 S. Ct. at 3228–29.

Similarly, in *Alappat*, the *en banc* Federal Circuit embraced the patent eligibility of computer systems claimed as "machines." 33 F.3d at 1545. Rejecting the argument that a computer programmed to perform particular functions is not a sufficiently specific machine to be patent-eligible under § 101, the Federal Circuit recognized that a computer programmed by software to perform functions "becomes a special purpose computer." *Id.* Likewise, in *Warmerdam*, the Federal Circuit ruled that a "machine having a memory which contains data" is patent-eligible under § 101. 33 F.3d at 1358, 1360; *see also Iwahashi*, 888 F.2d at 1375.

Contrary to CLS's suggestion, there has been no "abrogation of *State Street* and other decisions." CLS Mem. at 34. Rather, *State Street*'s holding retains its vitality after *Bilski*. In the *Ferguson* decision that followed *Bilski* in the Federal Circuit, the Federal Circuit stated that the computer claimed in *State Street* was and is "patent-eligible" in the wake of *Bilski I. In re Ferguson*, 558 F.3d 1359, 1364 & n.3 (Fed. Cir. 2009), *cert. denied*, 130 S. Ct. 3531 (2010). And in *Comiskey*, 554 F.3d at 978–79 & n.14, the Federal Circuit favorably cited, post-*Bilski I*, many of the cases that Alice relies upon including *State Street* and *Alappat*.[6] Furthermore, in his concurrence in *Bilski*, 130 S. Ct. at 3248 n.40, Justice Stevens explained why *State Street* presented an issue not implicated by *Bilski*, as "*State Street* dealt with whether a piece of software could be patented and addressed only claims directed at machines, not processes."

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[6] Here, the Federal Circuit reinstated, with only minor revisions, a panel opinion regarding § 101 that it had issued before *Bilski I* and that the en banc court subsequently vacated. *See In re Comiskey*, 499 F.3d 1365 (Fed. Cir. 2007) (*Comiskey I*), *vacated*, 2009 WL 68845 (Fed. Cir. Jan. 13, 2009) (order) (en banc).

CLS does not point to a single case in which a court has invalidated a claim to a computer—or indeed any other machine—under § 101. CLS nonetheless argues that *Bilski* "rejected" the holding of the *State Street* line of cases that computers are patent-eligible as machines. CLS Mem. at 23–24, 34. But neither the Federal Circuit's nor the Supreme Court's decisions in *Bilski* addressed, much less changed, the law of patent eligibility of machines. As the Supreme Court repeatedly emphasized, at issue in *Bilski* was the "test to be used for determining the patentability of a 'process' under the Patent Act, 35 U.S.C. § 101." *Bilski*, 130 S. Ct. at 3223; *see also id.* at 3225 ("The present case involves an invention that is claimed to be a 'process' under § 101."), 3231 (holding that "petitioners' application is not a patentable 'process.'"). The claimed process at issue in *Bilski* did not even involve the use of a machine. *Bilski I*, 545 F.3d at 950, 966 ("Applicants had admitted their claims are not limited to operation on a computer . . . .").[7]

The U.S. Patent and Trademark Office, too, has recognized that *Bilski* had nothing to do with anything other than "process" claims; in the wake of the Supreme Court's decision, it released "Interim Guidance" for examining claims in patent applications under § 101. Ex. 5, *Interim Guidance*, 75 Fed. Reg. 43,922. As its title implies, this guidance for "Process Claims" addresses—because it only needs to address—changes to the law of "process" claims, not "machine" claims, recognizing that "process" claims are all that *Bilski* considered. *Id.* at 43,924; *see also Interim Examination Instructions for Evaluating Subject Matter Eligibility Under 35*

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[7] In its *en banc* decision (which certiorari was ultimately granted to review), the Federal Circuit adopted a "machine or transformation" test for the patent eligibility of processes, but noted that the "machine" prong was not at issue. *Bilski I*, 545 F.3d at 950, 966. Rather, the claim at issue recited a "method for managing the consumption [of] risk," comprising the steps of "initiating a series of [economic] transactions," "identifying market participants," and "initiating [another] series of transactions," and neither claimed nor required the use of a machine. *Id.* at 949–50.

U.S.C. § 101, U.S. Patent and Trademark Office (Aug. 2009), at 7, 13 (providing flow charts for evaluating subject matter eligibility, and applying "machine-or-transformation" test only to "process claims") (Ex. 8).

> **B.   CLS Cannot Ignore Alice's Concrete Component Limitations While Arguing that Its System Claims Are Abstract.**

Recognizing that claims to a computer system are patent-eligible as a "machine," CLS asks the Court to ignore the claim limitations reciting a "computer," "data storage unit," and other hardware that make those claims machine claims. According to CLS, Alice's method claims are ineligible, and Alice has merely "restat[ed] the same [method] claims as a system." CLS Mem. at 32. Thus, CLS argues, the system claims are ineligible too. But as demonstrated below in Part II, Alice claims *electronic* methods that are, in fact, patent-eligible. As a result, the entire premise of CLS's argument fails.

Leaving aside CLS's faulty premise—and the fact that all of CLS's arguments rely on case law concerning the patentability of "processes" rather than "machines"—CLS's argument is legally erroneous. Contrary to CLS's suggestion, a court may not ignore claim limitations when determining whether a claim is patent-eligible. As a result, claim construction "is an important first step in a § 101 analysis." *Bilski I*, 545 F.3d at 951; *see also Diehr*, 450 U.S. at 188 (in § 101 analysis, it is inappropriate to "dissect the claims" and ignore some limitations rather than considering claims "as a whole"); *Warmerdam*, 33 F.3d at 1359–60 ("machine" limitations are dispositive of patent eligibility); *Iwahashi*, 888 F.2d at 1375 (cannot ignore limitations and treat "machine" or "manufacture" claim "as though it were a method claim"); *cf. SmithKline Beecham Corp. v. Apotex Corp.*, 439 F.3d 1312, 1322 (Fed. Cir. 2006) (improper to ignore any limitations in construing claims).

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In particular, the Federal Circuit has found the recitation of computer (machine)

limitations to be dispositive of patent eligibility, upholding computer system claims even while

simultaneously rejecting claims to underlying methods that the computers are programmed to

implement. For example, both *Alappat* and *Warmerdam* involved claims that, without their

hardware limitations, would have been abstract mathematical algorithms that were not tied to a

machine or transformative in any way. *Alappat*, 33 F.3d at 1539–40; *Warmerdam*, 33 F.3d at

1355–60. In both cases, the addition of hardware resulted in a patent-eligible claim. *Alappat*, 33

F.3d at 1340; *Warmerdam*, 33 F.3d at 1360.

In *Alappat*, the PTO had interpreted a claim to be a pure method claim to an abstract idea

("a mathematical algorithm for computing pixel information" for use in a TV-like display). 33

F.3d at 1539–40, 1565 (quotation marks omitted). It thus found the claim to be unpatentable

under § 101. The Federal Circuit, however, reversed, because the PTO ignored limitations that

limited the claim to a technological implementation. *Id.* at 1539–40. The Federal Circuit also

faulted the PTO for making the same mistake CLS expressly asks this Court to make—treating a

machine claim as if it were a method. The court of appeals explained that "this court's

precedents do not support the Board's view that the particular apparatus claims at issue in this

case may be viewed as nothing more than process claims" for purposes of the § 101 analysis. *Id.*

at 1540. Construed as a machine, the Federal Circuit found the claim to be patentable. *Id.* at

1540–41.

Similarly, in *Warmerdam*, the Federal Circuit upheld the PTO's decision holding that

four claims to "methods of bubble generation and placement" (mathematical methods for

controlling the motion of objects and machines) were unpatentable. 33 F.3d at 1355–60. At the

same time, however, the Federal Circuit considered a claim to a "machine having a memory

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which contains data" representing the results from performing the same bubble generation

methods. *Id.* at 1358. This claim, the Federal Circuit held, "is for a machine, and is clearly

patentable subject matter." *Id.* at 1360.[8]

In this case, CLS's argument, and in particular its graphical illustrations purportedly

showing, *e.g.*, the "similarity between the system claims of the '720 patent and the method

claims of the '510 patent," ignore the claim limitations which mark the differences between

Alice's computer system claims and its method claims. CLS Mem. at 13. In the rectangular

boxes below, CLS attempts to draw parallels between Alice's method and computer system

claims. What it leaves out of its boxes—circled in red—speaks volumes:

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[8] The guidelines that the PTO issued in the wake of *Bilski* also support the proposition that
adding hardware components may render a formerly unpatentable claim patent-eligible. In
particular, the PTO's Interim Guidance notes that "[t]he 'abstractness'" in *Bilski* "is in the sense
that there are *no limitations*" in the *Bilski* claims "as to the mechanism for entering into the
transactions." *Interim Guidance*, 75 Fed. Reg. at 43,924 (emphasis added) (Ex. 5); *see also* 2009
PTO Guidelines at 4 (Ex. 4) (explaining that, for example, "a cup is the tangible application of
the abstract idea of containing a liquid and is one limited embodiment of that idea (which is no
longer abstract)"); *Interim Examination Instructions for Evaluating Subject Matter Eligibility
Under 35 U.S.C. § 101*, U.S. Patent and Trademark Office (Aug. 2009), at 7, 9 (providing a flow
chart for a subject matter eligibility test and applying that test to a "machine for evaluating
search results") (Ex. 8).

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

'510 Patent, Claim 68	'720 Patent, Claim 68
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:	A data processing system to enable the exchange of an obligation between parties, the system comprising:
	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,
maintaining a first account for a first party, independent from a second account maintained by a first exchange institution;	
maintaining a third account for a second party, independent from a fourth account maintained by a second exchange institution;	(b) information about a third account for a second party, independent from a fourth account maintained by a second exchange institution; and
	a computer, coupled to said data storage unit, that is configured to (a) receive a transaction; (b)
electronically adjusting said first account and said third account in order to effect the exchange obligation between said first party and said second party after	electronically adjust said first account and said third account in order to effect an exchange obligation arising from said transaction between said first party and said second party after
ensuring that said first party and said second party have adequate value in said first account and said third account, respectively; and	ensuring that said first party and/or said second party have adequate value in said first account and/or said third account, respectively; and (c)
providing an instruction to said first exchange institution and said second exchange institution to adjust said second account and said fourth account in accordance with the adjustment of said first account and said third account,	generate an instruction to said first exchange institution and/or said second exchange institution to adjust said second account and/or said fourth account in accordance with the adjustment of said first account and/or said third account,
wherein said instruction being an irrevocable, time invariant obligation placed on said first exchange institution and said second exchange institution.	wherein said instruction being an irrevocable, time invariant obligation placed on said first exchange institution and/or said second exchange institution.

Fig. 2, CLS Mem. at 13 (ovals added).
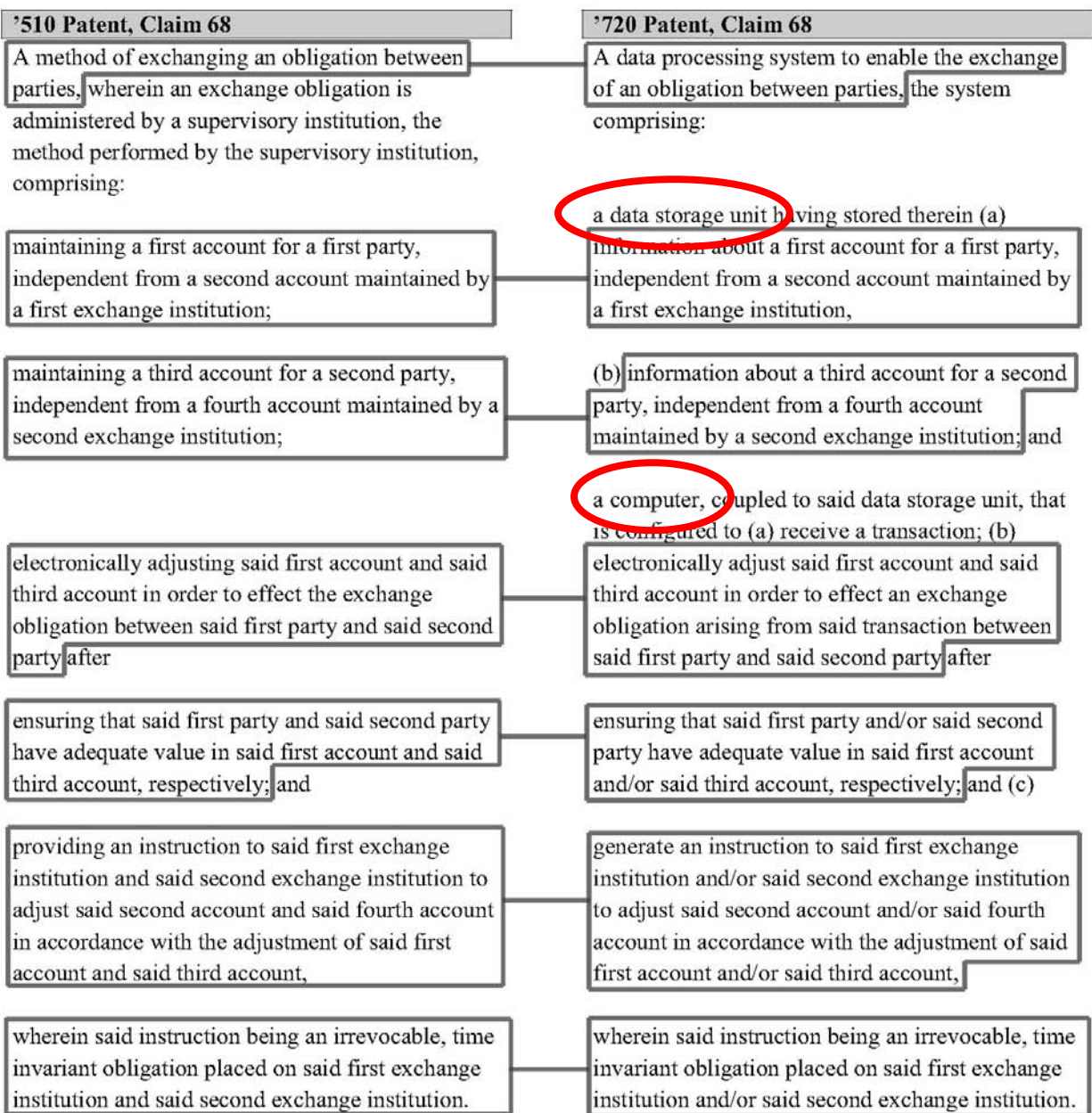
CLS leaves *out* of its comparison boxes claim limitations that recite a computer and associated hardware. These are express recitations of the "certain devices and combination of devices" that constitute Alice's claimed machine and make it clear that what Alice is claiming is a computer, *i.e.*, a "concrete thing." *See Burr*, 68 U.S. at 570. Just as it was improper in *Diehr*,

Alappat, *Warmerdam*, and *Iwahashi* to ignore claim limitations in performing the § 101 analysis, it is an improper way to analyze the patent eligibility of Alice's computer system claims.[9]

Nonetheless, CLS argues that the computer component limitations it ignores are "not enough" to confer patentability by invoking language from *Gottschalk v. Benson* that a claim to an unpatentable idea, even if "link[ed] . . . to the conventional use of a computer," "'has no substantial practical application except in connection with a digital computer.'" CLS Mem. at 33 (quoting *Gottschalk v. Benson*, 409 U.S. 63, 71–72 (1972)). But as the Supreme Court observed, *Benson*'s claims were not limited to the use of a computer, and *Benson* was about claims to a "process," not to a "machine." *Benson*, 409 U.S. at 68 (observing that the claimed method "may . . . be performed through any existing machinery or future-devised machinery ***or without any apparatus***" (emphasis added)). In other words, the patentee in *Benson* did not limit the claim to,

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[9] For this reason, CLS's repeated references to the "terminal disclaimers" Alice filed during patent prosecution are also irrelevant as well as legally incorrect. A "terminal disclaimer" is a limitation on the term of a patent, voluntarily imposed by the patentee, that is intended to cure potential invalidity for "double patenting." Double patenting arises when an inventor receives a second patent for an obvious variant of an invention he has already claimed in an earlier patent; if the second patent has a later expiration date, the inventor has impermissibly extended his monopoly on his single invention. Disclaiming any benefit (in terms of a later expiration date) that he might obtain from the second patent solves the problem.

CLS reasons that if the earliest-issued method claims (of the '479 patent) are held to be ineligible under § 101, the claims of Alice's later patents are similarly ineligible because they are obvious variants of the earlier claims. But whether a limitation renders an invention nonobvious has nothing to do with whether the limitation makes it less abstract. For example, in *Warmerdam*, 33 F.3d at 1358, the system claim (to a "machine having a memory" that stored the results of an algorithm) would have been obvious over the process (the unpatentable algorithm). But the machine that was the subject of the system claim was "clearly patentable subject matter" even though the algorithm was not patent-eligible. *Warmerdam*, 33 F.3d at 1360. Moreover, a terminal disclaimer is not an admission of obviousness. *Quad Env. Techs. Corp. v. Union Sanitary Dist.*, 946 F.2d 870, 874 (Fed. Cir. 1991) ("[T]he filing of a terminal disclaimer simply serves the statutory function of removing the rejection of double patenting, and raises neither presumption nor estoppel on the merits of the rejection. It is improper to convert this simple expedient of 'obviation' into an admission or acquiescence or estoppel on the merits.").

much less expressly claim, a machine. *Id.*   Thus, the quoted language does not stand for the

proposition that a claim limitation to a computer component is somehow not "enough" to make

an abstract idea into a concrete machine, particularly in the context of a claim that is drawn to

that very machine.

In short, because Alice's claimed computer systems are limited expressly to concrete

hardware components, including a "computer" and "data storage unit" and in some cases

additional hardware, the fact that they implement a method that is similar to the one Alice

claimed in its earlier patents has no bearing on whether they are patent-eligible machines.

Because they are limited to computer systems, they are claims "for a machine, and [are] clearly

patentable subject matter," *Warmerdam*, 33 F.3d at 1360; *accord Iwahashi*, 888 F.2d at 1375,

regardless of the patent eligibility of any underlying methods. Therefore, Alice is entitled to

summary judgment that these claims are patent-eligible, and CLS's motion should be denied.

II.   ALICE'S COMPUTER PROGRAM PRODUCT CLAIMS ARE PATENT-ELIGIBLE.

Claims 39–41 of Alice's '375 patent represent a second type of claim: "computer

program products" having "computer readable program code" embodied in a "computer readable

storage medium." As CLS concedes, this code "causes a computer to send a transaction and

allows viewing of information relating to the claimed method" on a computer. CLS Mem. at 35.

Computer readable storage media—items such as computer "disc[s]," *see* '375 patent, col. 8 ll.

13–22—are "manufactures": "man-made" "articles" produced "for use from raw or prepared

materials by giving to these materials new forms, qualities, properties, or combinations."

Nuijten, 500 F.3d at 1356 (quotation marks omitted).[10]

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[10] "Computer program products" also meet the definition of "machine": they are "concrete
thing[s], consisting of parts." *Nuijten*, 500 F.3d at 1355. If analyzed under that statutory

For this reason, so-called "Beauregard" claims—claims like Alice's to "computer

programs embodied in a tangible medium"—do not raise issues of patent eligibility under 35

U.S.C. § 101. *In re Beauregard*, 53 F.3d 1583, 1584 (Fed. Cir. 1995). CLS observes that "the

Federal Circuit dismissed" *Beauregard* without "address[ing] the substantive patentability of

such a claim," CLS Mem. at 35, but does not reveal why the Federal Circuit did so: **the PTO**

conceded that computer program products "such as floppy diskettes, **are patentable subject**

matter under 35 U.S.C. § 101." *Beauregard*, 53 F.3d at 1584 (emphasis added). After *Bilski*,

the PTO still treats them as patentable subject matter. *See* 2009 PTO Guidelines at 4 (Ex. 4)

(upholding example "claim to a non-transitory, tangible computer readable storage medium").

And the Federal Circuit has upheld analogous claims to computer memory containing particular

data structures. *In re Lowry*, 32 F.3d 1579, 1583–84 (Fed. Cir. 1994).

CLS's argument relies primarily on one recent district court decision, *Cybersource Corp.*

v. Retail Decisions, Inc., 620 F. Supp. 2d 1068 (N.D. Cal. 2009). CLS Mem. at 35.[11]

Cybersource does not control the outcome of this case, for three reasons. First, the patentee in

Cybersource did not argue that its claims were to "manufactures" or "machines"; here, Alice's

claims are. *Cybersource*, 620 F. Supp. 2d at 1078. Second, *Cybersource* relied exclusively on

two appellate decisions for its conclusion that computer storage media are not patent-eligible,

even though neither of these decisions had anything to do with § 101, much less with the patent

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category, the § 101 analysis is the same. Either way, because "computer program products" are
not "processes" under 35 U.S.C. § 101, neither *Bilski* nor the "machine-or-transformation" test
applies. *See supra* Part I.

[11] CLS also cites dicta from *Ultramercial, LLC et al. v. Hulu, LLC, et al.*, No. CV 09-06918,
2010 WL 3360098 (C.D. Cal. Aug. 13, 2010), discussed below in footnote 20. But *Ultramercial*
did not consider, much less hold unpatentable, computer storage medium claims such as those at
issue here.

eligibility of computer storage media. *Id.* (citing *In re Chatfield*, 545 F.2d 152 (C.C.P.A. 1976);

U.S. Credit Sys. Co. v. Am. Credit Indem. Co., 59 F. 139 (2d Cir. 1893)). *Chatfield* was about a

"*method* of operating a computing system," not a "manufacture" at all, and the court upheld the

claim anyway. 545 F.2d at 154 (emphasis added). *U.S. Credit System* was about lack of

"patentable novelty"—akin to anticipation or obviousness under today's 35 U.S.C. §§ 102 and

103—in a paper-based accounting system. 59 F. at 143.[12] Finally, *Cybersource* based its

decision on a belief that "the *Bilski* majority struck down [the] underpinnings" of *State Street*

Bank and that business methods were *per se* unpatentable. *Cybersource*, 620 F. Supp. 2d at

1079–80, but that proposition was rejected by the Supreme Court. *Bilski*, 130 S. Ct. at 3228–29

(holding that there is no "business method" exception to patent eligibility, and observing that 35

U.S.C. § 273 contemplates patent-eligible business methods).

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[12] The *Cybersource* court mistakenly interpreted *Chatfield* and *U.S. Credit System* to hold that so-called "printed matter"—novel information printed on a "manufacture," to which data on a computer disk has been analogized—is unpatentable under § 101. But neither case holds this, and such a holding would contradict numerous binding precedents. *E.g.*, *Lowry*, 32 F.3d at 1583–84; *In re Miller*, 418 F.2d 1392 (C.C.P.A. 1969). The "printed matter" doctrine pertains to 35 U.S.C. § 103, which governs obviousness, not § 101. For example, one cannot patent a book even though it is eligible subject matter (a "manufacture") under § 101 and seemingly novel and nonobvious (because it is newly written) under §§ 102 and 103. Under the "printed matter" doctrine, the text of the book is treated as prior art in the analysis of obviousness, so unless there is something inventive about the physical book itself, a claim to the book is "obvious." *See Miller*, 418 F.2d at 1393–96. But computer code, such as that on Alice's claimed storage media, which is intended to be "read" by a machine rather than a person, is deemed "functional" and does not give rise to a "printed matter" problem—the Federal Circuit held that it was *per se* patentable in *Lowry*. 32 F.3d at 1583–84. The sole case cited by *Cybersource* that even suggested that "printed matter" cases have anything to do with § 101 was a dissent by one Federal Circuit judge—not adopted by his colleagues—stating that they "seem potentially more apposite" under § 101, not that they have actually been treated that way by any court. *Nuijten*, 500 F.3d at 1365–66 (Linn, J., dissenting in relevant part) (cited by *Cybersource*, 620 F. Supp. 2d at 1078-79).

In dicta—a string cite—*Chatfield* stated that "printed matter" "do[es] not constitute patentable subject matter," *Chatfield*, 545 F.2d at 157, but *Chatfield* cited only *Miller*—a case that applied the traditional § 103 analysis. *Miller*, 418 F.2d at 1393–96.

The correct § 101 analysis of Alice's "computer program product" claims depends on the limitations of those claims. *See supra* Part I. CLS's argument that this Court should invalidate Alice's claims ignores the express "computer readable storage medium" and "computer" limitations of the claims and improperly treats a claim to a "manufacture" as a claim to a "process." Under governing precedent, Alice's claims to computer storage media are patent-eligible.

III.   ALICE'S METHOD CLAIMS ARE TIED TO A MACHINE IMPLEMENTATION AND ARE NOT ABSTRACT.

The methods of the '510 and '479 patents are "process" claims under 35 U.S.C. § 101. Thus, for these claims, unlike for Alice's "machine" and "manufacture" claims, *Bilski*'s "machine-or-transformation" test is a "useful and important clue" for determining patent eligibility. *Bilski*, 130 S. Ct. at 3227 (holding that "machine-or-transformation" test is a "useful and important clue" for determining the patent eligibility of process claims). Under this test, Alice's methods are "tied to a particular machine or apparatus," or, alternatively, "transforms a particular article into a different state or thing" and are therefore patent-eligible under § 101. *Id.* at 3224–26.[13]

A.   Under a Proper Claim Construction, Alice's Claimed Methods Are Tied to a Particular Machine.

Determining whether claims 33 and 34 of the '479 patent and claims 1 to 75 of the '510 patent are tied to a machine requires a construction of the claims. *See Nuijten*, 500 F.3d at 1352

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[13] Even if this Court agrees with CLS that Alice's claims do not meet either prong of the "machine-or-transformation" test, *Bilski*—unlike *Bilski I*—holds that they may still be patent-eligible if they do not claim an "abstract idea." 130 S. Ct. at 3226–28. Because Alice's claims require a particular, electronic implementation—and are directed at a specific, real-world implementation—they clearly do not claim abstract ideas and are patent-eligible regardless of the machine-or-transformation test. *See Diehr*, 450 U.S. at 186 & n.9 (describing abstract ideas as concepts such as mathematical algorithms that are "like a law of nature").

("As in any other context in which the scope and meaning of the claims bears on the ultimate determination at hand, [the § 101 analysis] must start by considering the issue of claim construction.").[14]

Both the '479 and '510 patents disclose, in considerable detail, computer systems for performing the claimed methods, including specific software and hardware. *See, e.g.*, '479 patent, col. 1 ll. 6–8 ("This invention relates to methods and apparatus, including **electrical computers and data processing systems applied to** financial matters and risk management."), col. 4 ll. 8–9 ("The present invention also provides **an automated infrastructure** . . . ."), col. 7 ll. 32–36 ("The core of the **system hardware** is a collection of data processing units. In the embodiment described, **the processing unit 20 comprises three interlinked data processors** 93,97,104, **such as the Sun 670 MP** manufactured by Sun Microsystems, Inc."), col. 7 ll. 51–52 ("one or more **mass data storage units** . . . to store all data received from stakeholders"), col. 7 ll. 57–59 ("A number of communications controllers . . . are coupled with the processing unit."), col. 42 ll. 8–12 ("In their manifestation as **telecommunications/computer software residing on telecommunications/computer hardware**, individual CONTRACT APPS consist of a cluster of processes, utilizing a number of data files, **residing on one or more processing units**."), cols. 56–60 (describing "variables and data files"), fig. 2 (depicting a configuration of computer hardware linked via telecommunications networks to other computer hardware) (all emphases added). Construed in light of the patent specifications, as patent claims must be, *see Phillips v.*

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[14] CLS has agreed to assume, for purposes of this motion, a construction favorable to Alice rather than defer consideration of § 101 until after the Court decides issues of claim construction. Ex. 6, 8/6/10 Status Conference Tr. 12:22–25. To the extent this Court concludes that the patent eligibility of Alice's claims depends on a disputed issue of claim construction, then at a minimum, CLS's motion for summary judgment should be denied.

AWH Corp., 415 F.3d 1303, 1315–16 (Fed. Cir. 2005) (en banc), Alice's method claims require

the use of such computer systems. *See* Ex. 1, Ginsberg Decl. ¶¶ 29-45.

In contrast, the patentees in *Bilski* conceded that their claims did ***not*** require the use of

computer hardware, *Bilski I*, 545 F.3d at 962, and the Supreme Court emphasized that

"[p]etitioners seek to patent both the concept of hedging risk and the application of that concept

to energy markets." *Bilski*, 130 S. Ct. at 3229. CLS analogizes the *Bilski* inventor's avowedly

sweeping claims to Alice's, and argues that Alice "seeks to patent the concept of a two-sided

'escrow' arrangement for financial transactions." CLS Mem. at 25. But this both

mischaracterizes the particular transaction that Alice's system is configured to perform—the

words "two-sided 'escrow' arrangement" appear nowhere in Alice's method patents and do not

accurately describe the claimed methods, *see* Ex. 1, Ginsberg Decl. ¶ 59—and expressly ignores

that Alice's method is tied to a particular computer system, whereas Bilski's method admittedly

was not. *Bilski I*, 545 F.3d at 962 ("Applicants themselves admit that the language of [the claim

at issue] does not limit any process step to any specific machine or apparatus. . . . [I]ssues

specific to the machine implementation part of the test are not before us today.").

CLS appears to concede that Alice's method claims require the use of a "machine." CLS

Mem. at 30–31. Nor does CLS contend that an electronic adjustment is an operation that can

occur solely in a person's mind. *See* Ex. 1, Ginsberg Decl. ¶ 21 (stating that it cannot). Instead,

CLS cites *Bilski* and argues that the methods of electronic settlement recited in the '510 patent

are invalid because they are not tied to "a ***particular*** machine or apparatus." CLS Mem. at 30

(emphasis added). But CLS cites no authority for the proposition that a method that is limited to

being performed on a machine may nonetheless be invalid because the machine is not

"particular" enough. No such authority exists.

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The word "particular" was part of the "machine-or-transformation" test for process claims long before *Bilski*. *See Benson*, 409 U.S. at 70 ("process" claim needs to be transformative or tied to a "particular" machine). CLS has not even attempted to explain how *Bilski*'s endorsement of an existing test—occurring in a case that did not apply that prong of the test—caused a dramatic narrowing in how the test should be applied. Nor does CLS propose any new, narrower conception of how "particular" is particular enough. *See* CLS Mem. at 30–31. Simply put, there is no such "particularity" requirement.

Even a cursory examination of the 100-plus page specification of Alice's patents—which CLS never cites—reveals that the claimed settlement methods are implemented on a computer system configured to perform the electronic adjustment. Ex. 1, Ginsberg Decl. ¶¶ 29-45; *see also* '510 patent, fig. 2a; '479 patent, fig. 2. This computer system includes, at a minimum, a processor and memory. Ex. 1, Ginsberg Decl. ¶¶ 41-42, 45. Such a machine is no less "particular" than the "switches and computer" in *AT&T Corp. v. Excel Commc'ns, Inc.*, 172 F.3d 1352, 1354–55 (Fed. Cir. 1999), or the "electronic equipment programmed to perform mathematical computation" in *Arrhythmia*, 958 F.2d at 1058; *see also* Ex. 1, Ginsberg Decl. ¶ 44. Neither the Federal Circuit nor Supreme Court opinions in *Bilski*—which did not even address the "machine" prong of the "machine-or-transformation" test—did anything to change this long-standing doctrine. As discussed above, those cases remain good law. *See Comiskey II*, 554 F.3d at 979 & n.14.

The PTO considered and rejected the argument that Alice's claims were insufficiently "particular." During prosecution of the '510 patent, the patent examiner initially considered claims without the "electronically" limitation. Because the patent examiner must give claims their broadest reasonable construction (which is different from the test applied by courts, which

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must construe claims in view of the specification), the examiner rejected the claims without an

"electronically" limitation under § 101 on the basis that they "are directed to an abstract idea"

and asserted that they "lack[ed] any specific technology such as a computer." *See* CLS Ex. 5,

Office Action at 3.[15] In response to this rejection, Alice added the term "electronically" to every

claim of the '510 patent. In the examiner's view, this addition fixed the problem. *See* CLS Ex.

6, Amend. and Reply at 22 ("The Examiner has indicated . . . that this amendment [adding

"electronically"] would overcome the pending rejection."). With this change, the PTO allowed

the patent to issue. Ex. 7, Notice of Allowance (Oct. 5, 2004). This allowance predated *Bilski*,

but the factual requirement the PTO demanded, and was eventually satisfied that Alice had

provided, was exactly what CLS now claims Alice's claims lack: a tie to "specific technology."

After *Bilski*, "tied to a particular machine" means what it has meant all along: it requires

that a machine be used in performing the steps of the method. *See Comiskey II*, 554 F.3d at 978

(a process claim is patentable if it "is embodied in, operates on, transforms, or otherwise involves

another class of statutory subject matter," such as a machine). Accordingly, the methods of

electronic settlement claimed in Alice's method patents are "tied to a particular machine."

Because Alice's claims require the use of a computer system, such as the one disclosed at length

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[15] Under proper claim construction principles that must be applied by this Court, claims 33 and 34 of the '479 patent are properly limited to implementations of the claim methods using a computer, just as the '510 patent requires. *See Phillips*, 415 F.3d at 1316*; Nystrom v. Trex Co., Inc.*, 424 F.3d 1136, 1143 (Fed. Cir. 2005). While a "shadow credit record" and "shadow debit record"—considered apart from the specification of the '479 patent (as the examiner does) could be interpreted broadly enough to cover a paper "credit record" and "debit record," when interpreted in view of the patent specification (as the Court must), it is clear these terms mean electronic credit record and electronic debit record. *See Nystrom*, 424 F.3d at 1143 (while the term "board" might be construed broadly when interpreted apart from patent, patent made clear that "board" was one cut from a log).

in each of their specifications, they meet the "machine-or-transformation" test and are patent-

eligible.

B.   Alice's Claimed Methods Are Also Transformative.

Alice's electronic settlement methods also satisfy the "transformation" prong of the

"machine or transformation" test. This is the only issue that *Bilski* actually addressed, and it is

an independent ground for finding Alice's method claims to be patent-eligible as a matter of law.

A process that converts "one physical, electrical signal into another" involves "physical

process steps" that are patentable. *Arrhythmia*, 958 F.2d at 1059. The transformation of data

representing a physical object renders a claim patentable, even if the physical object itself is

untouched. *In re Abele*, 684 F.2d 902, 908–09 (C.C.P.A. 1982) (upholding claim to process for

transforming X-ray attenuation data), *cited in Bilski*, 545 F.3d at 962–63 ("electronic

transformation of the data itself" sufficient to satisfy transformation prong). Alice's claims

effect an electronic transformation of data by "electronically adjusting" an "account" or

"record." Ex. 1, Ginsberg Decl. ¶ 37. Unlike the claims in *Bilski*, this case does not involve the

transformation of an abstract legal obligation. Rather, Alice's account transformation occurs

through an electronic device changing its state—on a disk, or in a memory, the "electronic

adjustment" resulting in a physical transformation, such as magnetizing or demagnetizing part of

a hard disk drive platter corresponding to a bit of data. *Id*. As a result, Alice's method claims

are patentable under the transformation prong. *See Arrhythmia*, 958 F.2d at 1059.

C.   None of the Exceptions to Patent Eligibility Apply to Alice's Claimed
        Methods.

If a claim passes the "machine-or-transformation" test, it is patent-eligible so long as it

does not fall into any of the narrow exceptions that the Federal Circuit identified in *Bilski I* under

which a claim may appear to involve a particular machine yet still fail the machine-or-

transformation test. *Bilski II*, 130 S. Ct. at 3225–27, 3230; *Bilski I*, 545 F.3d at 957, 961–62.

The exceptions are claims in which the use of a machine (1) fails to "impose meaningful limits

on the claim's scope"; (2) constitutes mere "insignificant extra-solution activity"; or (3)

constitutes a "field-of-use limitation." *Bilski I*, 545 F.3d at 957, 961–62; *see also* 2009 PTO

Guidelines (Ex. 4). All of Alice's method claims are tied to a particular computer system

programmed to perform a particular transaction. The accounts are electronic. Instructions are

received and generated electronically. And the account adjustment is performed electronically.

Ex. 1, Ginsberg Decl. ¶¶ 37-42.

Furthermore, the claimed methods, which require use of a computer and data storage unit

programmed to perform a particular financial transaction, implement a concept in a tangible way

with tangible, real world results—money is exchanged in the absence of counterparty risk. This

method is applied using tangible equipment—computing equipment that was built in factories

from raw materials. A computer system programmed in the way recited is used by banks like

CLS Bank to settle foreign currency exchanges transactions. And the claimed method is more

than a mere statement of concept. It is a particular solution to a real world problem in need of

solving—eliminating counterparty risk with a complicated computer system programmed to

perform the settlement. The performance of the method can be observed and verified;

settlements are completed electronically, with accounts being electronically debited and credited.

Ex. 1, Ginsberg Decl. ¶¶ 44-45.

Because they require the use of an electronic computer configured and programmed to

carry out the particular method recited in the claim, claims 33 and 34 of '479 patent and all of the

claims of the '510 patent do not implicate any of the three exceptions to patent eligibility.[16]

1.   "Electronically" Is a "Meaningful Limitation."

CLS argues that "electronically" fails to "impose 'meaningful limits'" on the scope of the

'510 patent's method claims. CLS Mem. at 30 (quoting *Bilski I*, 545 F.3d at 961). For this

proposition, CLS cites to cases in which the claims recited mathematical algorithms. CLS Mem.

at 31 (citing, *e.g.*, *Benson*, 409 U.S. at 72; *Flook*, 437 U.S. at 586). The "meaningful limit"

doctrine developed out of these cases as a check on patents that claimed mathematical

algorithms. Because Alice's claimed methods ***do not recite mathematical algorithms***, but rather

computerized business methods, the "meaningful limit" doctrine is wholly inapposite to the

eligibility of Alice's claims. Alice does not debate that the preemption of mathematical

algorithms is to be avoided. However, the Supreme Court, Federal Circuit, and Congress have

made it clear that business methods are patentable subject matter. CLS is again trying to fit a

square peg (business methods) into a round hole (mathematical algorithms).

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[16] CLS does not raise the "field-of-use" doctrine—the last of the three exceptions—except in the context of Alice's dependent claims. CLS Mem. at 36–37. As its name implies, a "field-of-use" limitation is a claim limitation that restricts an *otherwise unpatentable* process to a particular field of use—for example, the statement in the claims considered in *Parker v. Flook* that the process was to be used "in a process comprising the catalytic chemical conversion of hydrocarbons." 437 U.S. 584, 596 (1978).

The patent eligibility of Alice's independent claims does not depend on the presence of a "field-of-use" limitation—and CLS does not contend that it does. Accordingly, whether the additional limitations in Alice's dependent claims are "field-of-use" limitations is irrelevant. All of Alice's claims are patent-eligible because the independent claims are patent-eligible, and additional limitations do not make the claims more "abstract" nor cause them somehow to fail the "machine-or-transformation" test.

But even if the Court were to apply this "meaningful limit" test outside the context of

mathematical algorithms to evaluate Alice's claims, the Court should conclude that

"electronically" provides a meaningful limitation. The Federal Circuit has explained the

"meaningful limit" requirement as follows: "In order for the addition of a machine to impose a

meaningful limit on the scope of a claim to an algorithm, it must play a significant part in

permitting the claimed method to be performed, rather than function solely as an obvious

mechanism for permitting a solution to be achieved more quickly . . . ." *SiRF Tech., Inc. v. Int'l*

Trade Comm'n, 601 F.3d 1319, 1333 (Fed. Cir. 2010) (explaining *Bilski I*). Like the methods at

issue in *SiRF*, the use of electronics in performing Alice's claimed method is central to the

method. "Electronic[] adjust[ment]" is not performed merely in order to speed up a calculation

that could otherwise be performed off line. CLS Mem. at 31. That electronic adjustment step,

along with the maintenance of electronic accounts, and the generation of electronic instructions,

are carried out because the computer implementing the claimed method acts as an electronic

third party between two counterparties in an effort to minimize the risk that one counterparty will

default. Ex. 1, Ginsberg Decl. ¶¶ 40-45.

 SiRF concerned a § 101 challenge (after *Bilski I*) to a mathematical "method for

calculating an absolute position of a GPS receiver and an absolute time of reception of satellite

signals." *SiRF*, 601 F.3d at 1331. The method comprised five steps: four "providing" steps

setting forth the data that would be used as inputs, and a "computing" step in which those data

were combined by a GPS receiver.[17] None of the steps—even the computing step—made it

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[17] In full, the first claim at issue in *SiRF* read as follows:

A method for calculating an absolute position of a GPS receiver and an absolute time of
reception of satellite signals comprising: providing pseudoranges that estimate the range
of the GPS receiver to a plurality of GPS satellites; providing an estimate of an absolute

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explicit who or what was doing the "providing" or "computing." Despite the mathematical

character of the claim, the Federal Circuit held that the process was "tied to a particular

machine" and thus patent-eligible. *Id.* at 1332. The role of the GPS receiver in the claim was

not merely to perform a calculation more quickly than it could be done by hand; rather, what was

being calculated was the position of the GPS receiver itself, which thus "play[ed] a significant

part in [allowing] the claimed method to be performed." *Id.* at 1333.

    Benson, the Supreme Court case from which the Federal Circuit in *Bilski I* drew the

"meaningful limit" doctrine, provides an illustrative comparison. *See* 545 F.3d at 961 (citing

Benson, 409 U.S. at 71–72, in connection with "meaningful limit" requirement). In *Benson*, the

claims were to a mathematical algorithm for converting binary-coded decimal numbers into

binary numbers—a basic mathematical principle of computer science. 409 U.S. at 71–72. The

Supreme Court held that the claims "were not limited to any particular art or technology, to any

particular apparatus or machinery, or to any particular end use." *Id.* at 64. As the Court of

Customs and Patent Appeals had recognized below, this same method could "in theory" be

performed using "any kind of writing implement and any kind of recording medium—'pencil

and paper'—or even, we suppose, red and blue poker chips." *In re Benson*, 441 F.2d 682, 688

(C.C.P.A. 1971), *rev'd*, *Gottschalk v. Benson*, 409 U.S. 63 (1972). The C.C.P.A. held that the

method was sufficiently tied to a machine because "in actual practice it seems improbable

anyone would ever do that, speed measured in milli- or even micro-seconds being essential in the

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time of reception of a plurality of satellite signals; providing an estimate of a position of
the GPS receiver; providing satellite ephemeris data; computing absolute position and
absolute time using said pseudoranges by updating said estimate of an absolute time and
the estimate of position of the GPS receiver.

SiRF, 601 F.3d at 1331.

practical utilization of such a process." *Id.* In other words, the method was primarily useful

when implemented on digital computers. Reversing the C.C.P.A., the Supreme Court held that

merely recognizing that the algorithm would, in practice, only be performed on a digital

computer, did not make the algorithm itself patent-eligible. *See* 409 U.S. at 71–72. The role of

the computer had to be something more than just performing the calculation in "milli- or even

micro-seconds."[18]

Like the use of a GPS receiver in *SiRF*, the computer in Alice's invention—whether by

electronically maintaining accounts, receiving electronic instructions, electronic adjusting

accounts, and generating an electronic instruction to complete the transaction—is central to it.

Alice's invention is an electronic system that functions as a neutral third party between two

counterparties to a transaction. Ex. 1, Ginsberg Decl. ¶ 24. That third party "maintain[s]" and

"adjust[s]" "account[s]" for the two parties "independent from" their accounts at an "exchange

institution." *E.g.*, '510 patent, claim 68; '479 patent, claims 33–34. The stated purpose of the

asserted method claims is "exchanging an obligation between parties." *E.g.*, *id.* Claim 68 of the

'510 patent specifically states that "electronically adjusting" is done "in order to effect the

exchange obligation" between the parties—*i.e.*, to accomplish the stated purpose. '510 patent,

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[18] *Benson* also included a method claim requiring a "shift register," a term that the Supreme
Court opinion never defines or mentions except when quoting the claims in an appendix. 409
U.S. at 73. It is perhaps on the basis of this claim limitation that CLS asserts that the claims in
Benson "inclu[ded] . . . a computer component," CLS Mem. at 31, even though the Supreme
Court stated that the method claims at issue did not require any "apparatus or machinery." 409
U.S. at 64. While the C.C.P.A. defined "shift register" as "hardware," 441 F.2d at 687, nothing
suggests that the hardware was in any way limited to a particular kind of machine—for instance,
the Supreme Court observed that such digital storage may be on "paper cards." 409 U.S. at 65.
Regardless of how *Benson*'s claims should have been construed, the key distinction made in
SiRF is that any hardware implicit in *Benson*'s claims was present only to perform the same
calculations faster—"[to] function solely as an obvious mechanism for permitting a solution to
be achieved more quickly." *SiRF*, 601 F.3d at 1333.

claim 68. No part of the method is performed "electronically" in order to "permit[] a solution to be achieved more quickly." *SiRF*, 601 F.3d at 1333.[19]

Unlike the use of a computer to perform the mathematical algorithm more quickly in *Benson*, the computer in Alice's methods does not perform any mathematical algorithm, let alone perform one more quickly. *See Benson*, 409 U.S. at 72. Rather, Alice's methods and their use of a computer is entirely different in nature—performing Alice's methods electronically minimizes the risk that one counterparty will default because a computer acts as an electronic third party between the two counterparties. Ex. 1, Ginsberg Decl. ¶¶ 44–45.

Thus, under the *SiRF* standard, the use of electronics in Alice's method claims "play[s] a significant part in permitting the claimed method to be performed" and is a "meaningful limit." 601 F.3d at 1333.[20] Alice's claims are nothing like those in *Benson*.

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[19] The entire method recited in claims 33 and 34 of the '479 patent is performed electronically, as Alice construes the claim. Ex. 1, Ginsberg Declaration ¶¶ 29-33; *supra* note 15. The same analysis set forth for the '510 patent thus applies to the '479 patent.

[20] CLS never mentions the *SiRF* standard, but instead cites three other cases (besides *Benson*) in support of its "meaningful limit" argument: *O'Reilly v. Morse*, *Parker v. Flook*, and *Ultramercial v. Hulu*. None of these cases illustrates the "meaningful limit" requirement or is helpful to CLS. *O'Reilly* and *Flook* involved claims to a law of nature and an abstract idea, respectively, that were not saved by a so-called "field-of-use" limitation—a statement that the abstractions could be used for a particular purpose, without showing or claiming *how*. Neither case involved a question of whether a claimed use of a machine was a "meaningful limit"—there was no such claimed use.

In *Ultramercial v. Hulu*, the U.S. District Court for the Central District of California stated that "the mere act of storing media on computer memory does not tie the '545 invention to a machine in any meaningful way." *Ultramercial*, 2010 WL 3360098, at *4. But the claimed methods did not have any limitation requiring the use of storage media, or indeed a machine at all, and there was no discussion of whether use of a machine imposed a "meaningful limit."

2. "Electronically Adjusting" Is Not "Insignificant Post-Solution Activity."

CLS also argues that the electronic adjustment of accounts constitutes "insignificant post-solution activity" that cannot make an unpatentable claim patent-eligible. CLS Mem. at 28. For similar reasons to why "electronically" is a meaningful limit, CLS's contention is meritless.

The "insignificant post-solution activity" doctrine, which is closely associated with the "meaningful limit" requirement, describes a narrow circumstance in which adding a machine limitation to an unpatentable mathematical algorithm will fail to make the claim patentable. *Bilski I*, 545 F.3d at 957. If the claim "as a whole" is to an algorithm, even with the addition of an extra step at the end that involves a machine—for example, if the machine simply records the result of a fully-solved algorithm—the claim will remain ineligible for patent protection. *In re Schrader*, 22 F.3d 290, 291 (Fed. Cir. 1994) (recordation step performed after mathematical algorithm insufficient to make algorithm patent-eligible). This doctrine is inapplicable to Alice's claims, for three reasons.

First, Alice's methods do not claim a mathematical algorithm at all. They do not disclose, much less are they limited to, a method for performing a calculation. As CLS recognizes, Alice's claims make use of a mathematical algorithm in, at most, one step that requires a comparison between two values: the electronic adjustment takes place "after ensuring that [the] first party and [the] second party have adequate value" in their respective accounts. *E.g.*, '510 patent, claim 68. But Alice does not claim any particular algorithm for making the comparison, nor do its claims recite any formula or calculation.[21]

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[21] The mere fact that Alice's claim may implicitly require the use of a calculation does nothing to aid CLS. "[A] process is not unpatentable simply because it *contains* a . . . mathematical algorithm." *Flook*, 437 U.S. at 590 (emphasis added); *see also Diehr*, 450 U.S. at 187 (a claim does not become nonstatutory "simply because it uses a mathematical formula, computer

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Second, CLS is simply mistaken when it asserts that "electronically adjusting" is a "post-solution" step. CLS Mem. at 28–29. As discussed above, "electronically adjusting" helps achieve the stated purpose of the method—"exchanging an obligation between parties." *E.g.*, '510 patent, claim 68. "Electronically adjusting" is part of the "solution" itself. The purpose of the "adjust[ment]" step is not to store the result of any calculation, but instead to effectuate the exchange in a risk-free manner. Thus, CLS's effort to analogize the adjustment to the recordation step in *Schrader*—which merely "enter[ed] data" that had been generated by the claimed "mathematical algorithm," 22 F.3d at 294—ignores both the stated purpose of the method and the steps taken to perform it.

Third, CLS errs in focusing on "electronically adjusting" without considering the effects of the "electronically" limitation on the method as a whole. The method of the '510 patent as a whole is performed electronically. The same accounts or records that are electronically adjusted are also "maintain[ed]." *E.g.*, '510 patent, claim 68 ("maintaining a first account . . . ; electronically adjusting *said* first account"). An account or record that is amenable to electronic adjustment will necessarily be stored electronically. The transaction begins when an electronic instruction is "receiv[ed]" and the transaction ends when an electronic instruction is "generat[ed]" to the exchange institution. Ex. 1, Ginsberg Decl. ¶¶ 37-38. Thus, the entirety of Alice's method—including the "adjusting" step that effectuates the claimed exchange of obligations—must be performed electronically using a computer and memory. *Id.* The same is true for claims 33 and 34 of the '479 patent, when properly construed. *Id.* ¶¶ 29-33.

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program, or digital computer"); *Bilski I*, 545 F.3d at 958 ("[I]t is irrelevant that any individual step or limitation . . . by itself would be unpatentable under § 101.").

As a result, far from "post-solution" activity, the "electronically" limitation lies at the

heart of the claimed method as a whole. Alice claims an electronic method for performing the

settlement, and the "maintaining," "receiving," "adjusting," and "generating" steps are central to

that process. Unlike a data-gathering step performed prior to a mathematical algorithm, *see In re*

Grams, 888 F.2d 835, 840 (Fed. Cir. 1989), or a recordation step performed after it, *see*

Schrader, 22 F.3d at 291, the use of electronics is an integral part of, and a limitation on, how

Alice's method is to be performed. Ex. 1, Ginsberg Decl. ¶¶ 40-45. As such, Alice's methods

are clearly patentable under the "machine" prong of the *Bilski* test.

> **D.** **Binding Federal Circuit Precedent—the Holdings of Which Were Not Upset by Federal Circuit's or The Supreme Court's *Bilski* Decisions—Shows that Alice's Method Claims Are Patent-Eligible.**

Long before the Federal Circuit's decision in *Bilski I* (and of course before the Supreme

Court's recent decision), the Federal Circuit held that claims to methods implemented

electronically—just like Alice's method claims here—were patent-eligible under § 101. *See*

AT&T, 172 F.3d at 1361; *Arrhythmia*, 958 F.2d at 1058–59.

For example, in *AT&T*, the claim was to a "method for use in a telecommunications

system" in which telephone calls were "routed over the facilities" of an "interexchange

carrier[]." 172 F.3d at 1354. The method involved two steps: "generating a message record" for

a telephone call and "including, in said message record," a particular type of data. *Id.* The

Federal Circuit explained that implementation of the claimed method required the use of

"switches and computers," *id.* at 1355, and thus the claims "f[e]ll comfortably within the broad

scope of patentable subject matter under § 101." *Id.* at 1361. Similarly, in *Arrhythmia*, the

Federal Circuit upheld a claim to a "method for analyzing electrocardiograph signals" that

required the use of a mathematical algorithm. 958 F.2d at 1055. This claim was patent-eligible

because it used "electronic equipment programmed to perform mathematical computation" and was thus tied to a machine. *Id.* at 1058.[22]

As discussed above, *see supra* Part I, *Bilski I* itself did not limit the patent eligibility of processes involving the use of machines. It did not involve the "machine" prong of the "machine-or-transformation" test because the appellants conceded that their claims did not involve a machine. 545 F.3d at 962. Thus, *Bilski I* left undisturbed the well-established case law holding that claims involving the use of electronics are not directed to abstract mental processes and are patent-eligible. And after *Bilski I*, the Federal Circuit in *Comiskey*, 554 F.3d 967 (Fed. Cir. 2009), reaffirmed that the claims at issue in *AT&T* and *Arrhythmia* remain directed to statutory subject matter under § 101. 554 F.3d at 979 & n.14. Nothing in the Supreme Court's opinion in *Bilski* upset the holding of *Comiskey*. The Supreme Court rejected the "machine-or-transformation" test as the "sole test" for patent eligibility, but it held that the test was still a "useful and important clue." *Bilski*, 130 S. Ct. at 3225–27. It provided no guidance as to what methods met this test under the "machine" prong, which as discussed above was not at issue given the conceded lack of a machine limitation in the claims at issue. And it certainly did not suggest that any of the Federal Circuit's case law in the wake of *Bilski I* had been abrogated except insofar as it may have stated that the "machine-or-transformation" test was the sole test. That case law refutes CLS's contention that an "electronic" implementation is insufficient to make a method claim patent-eligible.

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[22] The only physical component described in these steps—the "high pass filter means"—was construed to mean a "minicomputer configured as described in the specification," *i.e.*, a general-purpose computer configured to perform specific functions. 958 F.2d at 1060.

CONCLUSION

For the reasons discussed above, this Court should grant Alice's motion for summary

judgment, deny CLS's motion for summary judgment, and hold that all asserted claims are

eligible under 35 U.S.C. § 101 for patent protection.

Respectfully submitted,

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Alice Corporation Pty. Ltd.

Dated: September 22, 2010

CERTIFICATE OF SERVICE

I hereby certify that on this 22nd day of September 2010, a copy of MEMORANDUM IN

SUPPORT OF ALICE CORPORATION PTY. LTD.'S RENEWED CROSS-MOTION FOR

SUMMARY JUDGMENT AS TO PATENT ELIGIBILITY AND IN OPPOSITION TO CLS's

MOTION FOR SUMMARY JUDGMENT, the motion document, and all supporting materials

were served upon the following by electronic means through ECF:

Steven J. Glassman
Stephen J. Elliott
KAYE SCHOLER LLP
425 Park Avenue
New York, NY 10022

                                           /s/ Stanley E. Fisher
                                              Stanley E. Fisher

THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

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

ALICE'S RESPONSE TO CLS's STATEMENT OF MATERIAL FACTS AS TO WHICH THERE IS NO GENUINE ISSUE, AND COUNTER-STATEMENT OF <u>MATERIAL FACTS AS TO SUBJECT MATTER ELIGIBILITY</u>

Pursuant to Local Civil Rule 7(h), Alice Corporation Pty. Ltd. ("Alice") respectfully

responds to CLS's Statement of Material Facts ("SMF") in support of its renewed motion for

summary judgment that the claims of Alice's patents are invalid for lack of patentable subject

matter, and submits the following Counter-Statement of Material Facts ("C-SMF") regarding

Alice's renewed cross-motion for Partial Summary Judgment As To Subject Matter Eligibility.

ALICE'S RESPONSE TO CLS'S STATEMENT OF MATERIAL FACTS

1.   Alice Corporation Pty. Ltd. (Alice) claims [sic] 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).

Alice's Response:

Not disputed.

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]

Alice's Response:

Not disputed.

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.)

Alice's Response:

Not disputed.

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.)

Alice's Response:

Alice does not dispute that of the claims of the '479 patent, Alice is only asserting claims 33 and 34 in this litigation. Alice disputes CLS's characterization that those claims "are directed to the exchange of an obligation." They are directed to particular "method[s] of exchanging

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

obligations," comprising particular method steps that are set forth in the claims, the construction

of any term of which is premature, and in all events a legal rather than a factual issue.

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.)

Alice's Response:

    Not disputed.

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.)

Alice's Response:

    Not disputed.

7.   Patent No. 7,149,720 ("the '720 patent") is entitled "Systems for Exchanging an

Obligation." (Exh. 3, '720 patent; s*ee* Amended Answer and Countercl., Countercl. ¶¶ 37, 65.)

Alice's Response:

    Not disputed.

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.)

Alice's Response:

    Not disputed.

9.   Patent No. 7,725,375 ("the '375 patent") is entitled "Systems and Computer

Projects for Exchanging an Obligation." (Exh. 4, '375 patent; *see* Amended Answer and

Countercl., Countercl. ¶¶ 44, 72.)

Alice's Response:

Not disputed.

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.)

Alice's Response:

Not disputed.

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.)

Alice's Response:

Alice responds that the text of the'510, '720 and '375 patents speak for themselves.

While there is substantial overlap between the specifications, Alice disputes that they are

identical; for example, the titles, abstracts, related U.S. application data, and cited references

differ. Alice further disputes the implicit characterization that the three patents claim only one

invention; to the extent there are multiple inventions disclosed and/or claimed by Alice's patents,

the portion of the specification that comprises the detailed description of a best mode for

carrying out each invention may be different even if the text is present in multiple patents.

Identification of the best mode is not relevant to CLS's motion or Alice's cross-motion.

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.)

Alice's Response:

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Alice disputes that claims 33 and 34 of the '479 patent, and claims 1–75 of the '510

patent simply "claim a method of exchanging an obligation." Each claim is directed to a method

of exchanging obligations that comprises particular method steps that are set forth in the claims,

the construction of any term of which is premature, and in all events a legal rather than a factual

issue.

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.)

Alice's Response:

Alice disputes that claims 1–84 of the '720 patent, and claims 1–38 of the '375 patent

simply claim "data processing systems." Each claim is directed to a data processing system that

comprises particular components that are configured in particular ways and to perform particular

functions that are set forth in the claims, the construction of any term of which is premature, and

in all events a legal rather than a factual issue.

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.)

Alice's Response:

Alice disputes that claims 39–47 of the '375 patent claim "computer program

product[s]." Claims 39–41 are directed to computer program products that comprise particular

components that are containing particular program code to perform particular functions that are

set forth in the claims, the construction of any term of which is premature, and in all events a

legal rather than a factual issue. Claims 42–47 are directed to data processing systems that

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comprise particular components that are configured in particular ways and to perform particular functions that are set forth in the claims, the construction of any term of which is premature, and in all events a legal rather than a factual issue.

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.)

Alice's Response:

Alice disputes this statement. Claims 33 and 34, when properly construed, require the use of a computer, data storage unit, and potentially other machine components. By way of example, the terms "shadow credit record" and "shadow debit record," construed in the light of the specification of which they are a part, are electronic records that would require the use of a computer and/or a data storage unit. Alice Ex. 1 (Ginsberg Decl. ¶¶ 28-33). Furthermore, CLS has agreed for purposes of these cross-motions to assume a construction of the claims favorable to Alice. Alice Ex. 6 (8/6/10 Status Conf. Tr. 12:22-25). For purposes of these motions, these claims should be construed to require a computer and a data storage unit.

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

Alice's Response:

Alice disputes this statement. The claims of the '510 patent, when properly construed, require the use of a computer, data storage unit, and potentially other machine components. By way of example, the term "electronically" clearly requires the use of an electronic machine, and, construed in the light of the specification of which they are a part, requires the use of a computer and/or a data storage unit. Alice Ex. 1 (Ginsberg Decl. ¶¶ 34-38). Furthermore, CLS has agreed for purposes of these cross-motions to assume a construction of the claims favorable to Alice.

Alice Ex. 6 (8/6/10 Status Conf. Tr. 12:22-25). For purposes of these motions, these claims

should be construed to require a computer and a data storage unit.

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.)

Alice's Response:

Alice responds that the claims of the '720 patent speak for themselves. Alice further

disputes the implicit characterization that the computer systems of the '720 patents are

configured to perform "steps of a method." Each claim is directed to a data processing system

that comprises particular components that are configured in particular ways and to perform

particular functions that are set forth in the claims, the construction of any term of which is

premature, and in all events a legal rather than a factual issue. Each asserted claim of the '479

and '510 patents is directed to a method of exchanging obligations that comprises particular

method steps that are set forth in the claims, the construction of any term of which is premature,

and in all events a legal rather than a factual issue.

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.)

Alice's Response:

Alice responds that the claims of the '375 patent speak for themselves. Alice further

disputes the implicit characterization that the computer systems of claims 1–38 (and 42–47) of

the '375 patents are configured to perform "steps of a method." Each claim is directed to a data

processing system that comprises particular components that are configured in particular ways

and to perform particular functions that are set forth in the claims, the construction of any term of

which is premature, and in all events a legal rather than a factual issue. Each asserted claim of

the '479 and '510 patents is directed to a method of exchanging obligations that comprises

particular method steps that are set forth in the claims, the construction of any term of which is

premature, and in all events a legal rather than a factual issue.

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.)

Alice's Response:

Alice responds that the claims of the '375 patent speak for themselves. With respect to

claims 42–47 of the '375 patent, which claim data processing systems, *see* Alice's Response to

CLS's SMF ¶ 18, *supra*. With respect to claims 41–43, Alice disputes the implicit

characterizations. Each claim is directed to a computer program product, comprising a computer

readable storage medium having particular computer readable program code embodied in the

medium for performing particular functions that are set forth in the claims, the construction of

any term of which is premature, and in all events a legal rather than a factual issue. Each

asserted claim of the '479 and '510 patents is directed to a method of exchanging obligations that

comprises particular method steps that are set forth in the claims, the construction of any term of

which is premature, and in all events a legal rather than a factual issue.

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.

Alice's Response:

Alice does not dispute that the above is an accurate quotation of an excerpt from a Memorandum dated May 19, 2008 that Alice submitted to the Court in response to the Court's request for a plain-English description of how Alice's patents functioned. The Memorandum was submitted for the limited purpose of aiding the court in determining the scope of discovery in the initial phase of the litigation and without prejudice to any other position Alice would take in the litigation, including, specifically, claim construction. To the extent CLS is arguing that this excerpt implies that any claim should be construed in any particular way, Alice disputes that claim construction and further notes that CLS has agreed to assume, for purposes of these cross-motions, a claim construction favorable to Alice. Alice Ex. 6 (8/6/10 Status Conf. Tr. 12:22-25).

21.   In the Alice 5/19/08 Mem., Alice state 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.

Alice's Response:

> See Alice's Response to CLS's SMF ¶ 20, *supra*.

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

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the parties have adequate value in the 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.)

Alice's Response:

See Alice's Response to CLS's SMF ¶ 20, *supra*.

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.)

Alice's Response:

Alice objects to this proposed fact as a characterization of the document referenced. The document states that "[c]laims 62, 80, 99, 118, 119, and 124 [of the application that led to the '510 Patent] are rejected under the judicially created doctrine of double patenting over claim 33 of U.S. Patent No. 5,970,479 since the claims, if allowed, would improperly extend the 'right to exclude' already granted in the patent." CLS Ex. 5 at 6. Alice respectfully submits that the document speaks for itself and that its legal implications are not questions of fact.

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.)

Alice's Response:

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Alice does not dispute that it filed a terminal disclaimer, but objects to CLS's

characterization of the legal effects of such a filing. In any event, the "terminal disclaimers"

Alice filed with the PTO as to its patents are irrelevant to whether the patents claim eligible

subject matter. The purpose of a terminal disclaimer is to prevent so-called "double-patenting,"

whereby an inventor attempts to impermissibly extend his monopoly to the same basic invention

by filing a second application to something that is not, to use the term of art, "patentably

distinct." Filing a terminal disclaimer, which limits the term of the second patent to the term of

the first, cures the problem. *See generally In re Basell Poliolefine Italia S.P.A.*, 547 F.3d 1371,

1375–76 (Fed. Cir. 2008). The terminal disclaimer does not mean that the terms of the second

patent are identical for purposes of the inquiry under § 101. Rather, the second patent's claims

will be impermissible, absent a terminal disclaimer, if they are merely obvious (the inquiry under

§ 103) over the first patent's claims. *See id.* at 1379. Whether the addition of claim limitations

is obvious is irrelevant to the issues now before the Court.

      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[ed] any specific technology." (Exh. 5, Office

Action dated September 3, 2003 at 3).

Alice's Response:

      Alice disputes the characterization of this office action, which speaks for itself. CLS Ex.

5, Office Action, at 3. Alice does not dispute that the term "electronically" appears in each of

the independent claims of the '510 patent as issued, and that the claim term was added in

response to a preliminary rejection of the claims submitted during the prosecution of the '510

patent. However, Alice disputes that it agreed that the claims of the '510 patent, as originally

filed, were directed to non-statutory subject matter. CLS Ex. 6 at 22. Alice also disputes that

"electronically" merely modifies "adjusting," as opposed to modifying "adjusting" and other

steps of the claimed methods.

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.)

Alice's Response:

Alice objects to this proposed fact as a characterization of the document referenced. The

documents cited speak for themselves.

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.)

Alice's Response:

Alice objects to this proposed fact as a characterization of the document referenced. That

document states "Claims 26–109 are rejected under the judicially created doctrine of

obviousness-type double patenting as being unpatentable over claims 1-75 of U.S. Patent No.

6,912,510." CLS Ex. 8 at 2. Alice respectfully submits that the document speaks for itself and

that its legal implications are not questions of fact. *See also* Alice's Response to SMF ¶ 24

(discussing irrelevance of double-patenting to issues now before the Court).

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.)

Alice's Response:

Not disputed that the examiner stated the quoted text. The document otherwise speaks for itself.

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.)

Alice's Response:

Not disputed that the examiner stated the quoted text. The document otherwise speaks for itself.

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.)

Alice's Response:

Alice does not dispute that it filed a terminal disclaimer, but objects to CLS's characterization of the legal effects of such a filing. In any event, the "terminal disclaimers" Alice filed with the PTO as to its patents are irrelevant to whether the patents claim eligible subject matter. The purpose of a terminal disclaimer is to prevent so-called "double-patenting," whereby an inventor attempts to impermissibly extend his monopoly to the same basic invention

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by filing a second application to something that is not, to use the term of art, "patentably

distinct." Filing a terminal disclaimer, which limits the term of the second patent to the term of

the first, cures the problem. *See generally In re Basell Poliolefine Italia S.P.A.*, 547 F.3d 1371,

1375–76 (Fed. Cir. 2008). The terminal disclaimer does not mean that the terms of the second

patent are identical for purposes of the inquiry under § 101. Rather, the second patent's claims

will be impermissible, absent a terminal disclaimer, if they are merely obvious (the inquiry under

§ 103) over the first patent's claims. *See id.* at 1379. Whether the addition of claim limitations

is obvious is irrelevant to the issues now before the Court.

      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.)

Alice's Response:

      Alice does not dispute that it filed a terminal disclaimer, but objects to CLS's

characterization of the legal effects of such a filing. In any event, the "terminal disclaimers"

Alice filed with the PTO as to its patents are irrelevant to whether the patents claim eligible

subject matter. The purpose of a terminal disclaimer is to prevent so-called "double-patenting,"

whereby an inventor attempts to impermissibly extend his monopoly to the same basic invention

by filing a second application to something that is not, to use the term of art, "patentably

distinct." Filing a terminal disclaimer, which limits the term of the second patent to the term of

the first, cures the problem. *See generally In re Basell Poliolefine Italia S.P.A.*, 547 F.3d 1371,

1375–76 (Fed. Cir. 2008). The terminal disclaimer does not mean that the terms of the second

patent are identical for purposes of the inquiry under § 101. Rather, the second patent's claims

will be impermissible, absent a terminal disclaimer, if they are merely obvious (the inquiry under

§ 103) over the first patent's claims. *See id.* at 1379. Whether the addition of claim limitations

is obvious is irrelevant to the issues now before the Court.

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	

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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 line-of-credit"	35	36	

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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 debut 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 via a "communications controller"				12, 25, 37
"first party device" and "second party device" "include a computer"				13, 38
Limitations 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, 65-77, 69-79, 81-84; Exh. 4, '375 patent at claims 2-13, 15-25, 27-38, 40-47.)

Alice's Response:

Alice does not dispute that the four Alice patents, in addition to their independent claims, also include multiple dependent claims. However, Alice objects to CLS's characterizations of the limitations of those claims. The text of each of its claims is apparent on the face of those claims. Alice further objects to this purported statement of fact on the grounds that this is a demonstrative purporting to summarize and categorize the claims and their limitations, which (subject to claim construction that is now premature) speak for themselves.

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ALICE'S COUNTER-STATEMENT OF MATERIAL FACTS

These statements of fact are submitted in support of Alice's opposition to CLS's motion for summary judgment of invalidity under § 101 and in support of Alice's cross-motion.

1.   Each of claims 1–38 and 42–47 of the '375 patent includes the claim terms "data storage unit," "computer coupled to said data storage unit" and "configured," as well as "first party device" and/or "communications controller." CLS Ex. 4, '375 patent, claims 1–38, 42–47.

2.   Each claim of the '720 patent includes the terms "data storage unit," "computer coupled to said data storage unit" and "configured." CLS Ex. 3, '720 patent, claims 1–84.

3.   Each of the claims of the '720 patent and claims 1–38 and 42–47 of the '375 patent, are to "data processing system[s]" configured to perform certain functions. CLS Ex. 3, '720 patent, claims 1–84; CLS Ex. 4, '375 patent, claims 1–38, 42–47.

4.   Each of the claims of the '720 patent and claims 1–38 and 42–47 of the '375 patent require "a data storage unit having stored therein" information about accounts or records, and a "computer, coupled to said data storage unit" that is "configured" to perform certain functions. CLS Ex. 3, '720 patent, claims 1–84; CLS Ex. 4, '375 patent, claims 1–38, 42–47.

5.   The computer and data storage unit, required by each of the claims of the '720 patent and claims 1–38 and 42–47 of the '375 patent, are concrete things consisting of parts. Alice Ex. 1 (Ginsberg Decl. ¶¶ 46-49).

6.   The computer coupled to the data storage unit, required by each of the claims of the '720 patent and claims 1–38 and 42–47 of the '375 patent, is a machine. Alice Ex. 1 (Ginsberg Decl. ¶¶ 46-49).

7.   The computer and data storage unit, required by each of the claims of the '720 patent and claims 1–38 and 42–47 of the '375 patent, are made by man from raw materials. Alice Ex. 1 (Ginsberg Decl. ¶¶ 47, 58).

8.   The computer coupled to the data storage unit, required by each of the claims of the '720 patent and claims 1–38 and 42–47 of the '375 patent, are articles of manufacture. Alice Ex. 1 (Ginsberg Decl. ¶¶ 47, 58).

9.   Each of claims 39–41 of the '375 patent includes the terms "computer program product," "computer readable storage medium," "computer readable program code embodied in the medium," "computer," and "electronically." CLS Ex. 4, '375 patent, claims 39–41.

10.   Each of claims 39–41 of the '375 patent requires a "computer readable storage medium" and "computer readable program code embodied in the medium." CLS Ex. 4, '375 patent, claims 39–41.

11.   The computer readable storage medium, required by each of claims 39–41 of the '375 patent, is made by man from raw materials. Alice Ex. 1 (Ginsberg Decl. ¶ 55).

12.   The computer readable storage medium, required by each of claims 39–41 of the '375 patent, is an article of manufacture. Alice Ex. 1 (Ginsberg Decl. ¶ 55).

13.   The '479 and '510 patents claim methods that are implemented electronically using a computer coupled to a data storage unit. Alice Ex. 1 (Ginsberg Decl. ¶¶ 28-43).

14.   Each claim of the '510 patent includes the term "electronically" and either the term "account" or the term "record." CLS Ex. 2, '510 patent, claims 1–75.

15.   Claims 33 and 34 of the '479 patent include the terms "shadow credit record," shadow debit record," and "transaction." CLS Ex. 1, '479 patent, claims 33–34.

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16.   An exchange of obligations is, *inter alia*, the stated purpose of the methods claimed in the '479 and '510 patents. CLS Ex. 2, '510 patent, claims 1–75; CLS Ex. 1, '479 patent, claims 33–34.

17.   The exchange of an obligation in the claims of the '510 patent is accomplished by, *inter alia*, the data storage unit "maintaining" accounts in a specific manner, the computer "electronically" adjusting the "first account" and "third account" under certain conditions, and the computer "providing an instruction" to the exchange institutions in a specific manner. CLS Ex. 2, '510 patent, claim 68; Alice Ex. 1 (Ginsberg Decl. ¶¶ 35-38).

18.   Similarly, the exchange of an obligation in claims 33 and 34 of the '479 patent is accomplished, *inter alia*, by creating an electronic "shadow credit record" and "shadow debit record" in a specific manner in the data storage unit, the computer "obtaining" a start of day balance for each "shadow credit record" and "shadow debit record" in a specific manner, the computer electronically "adjusting each respective party's shadow credit record or shadow debit record," and computer then "instructing" the exchange institutions in a specific manner. '479 patent, claim 33; Alice Ex. 1 (Ginsberg Decl. ¶¶ 29-33).

19.   The methods recited by claims 33 and 34 of the '479 patent and each of the claims of the '510 patent require the use of a computer and data storage unit to perform each of the claimed functions. Necessarily, the "accounts" and "records" recited in each asserted method claim must be stored electronically in a data storage unit, as only an account that is stored electronically can be adjusted electronically. Alice Ex. 1 (Ginsberg Decl. ¶¶ 36-39). And the instructions to the exchange institutions are generated electronically. Alice Ex. 1 (Ginsberg Decl. ¶¶ 36-39).

20.   The electronic adjustment of account data necessarily results in a physical, electronic change in the medium in which the data are stored. When the accounts are electronically adjusted, the medium in which they are stored will be physically altered and there will also be, for example, a change in the magnetization of a portion of a hard disk drive necessary to effect the adjustment of the accounts. Alice Ex. 1 (Ginsberg Decl. ¶ 37).

21.   The term "electronically" was added to overcome a preliminary rejection of the draft claims of the '510 Patent over Alice's objection that the draft claims were directed to statutory subject matter. Alice agreed to add the term "electronically" in order to expedite prosecution of the patents. CLS Ex. 5 at 3; CLS Ex. 6 at 22.

22.   The addition of the term "electronically" satisfied the examiner's concerns and the examiner allowed the patent to issue. CLS Ex. 6 at 22; Alice Ex. 7 (Notice of Allowance (Oct. 5, 2004)).

23.   In an interview following the preliminary rejection of the draft claims of the '510 patent, the examiner "agreed with Applicant's representative . . . that the claim did not merely recite an abstract idea, but rather recited a 'real world' purpose, i.e. an exchange of obligations between parties (e.g., an exchange of money between parties) using exchange institutions (e.g., banks)." CLS Ex. 5 at 22.

24.   After filing this suit, CLS sought patents for its system and methods. Ex. 2, U.S. Patent App. No. 2008/0154771 (published Jun. 26, 2008).

25.   CLS's proposed claims generically recite a "system for facilitating the settlement of payments" comprising an "interface," a "first processor," and a "second processor" configured to perform various steps. Ex. 2, U.S. Patent App. No. 2008/0154771 (published Jun. 26, 2008).

26.   CLS also proposes method claims for "facilitating the settlement of payments."

Claim 81 is typical and recites:

A method for facilitating settlement of payments relating to transactions involving financial instruments among multiple participants, comprising:

receiving from any of the multiple participants first instructions associated with first financial instruments of a first form and second instructions associated with the first financial instruments of the first form, by at least one computer;

receiving from any of-the multiple participants third instructions associated with second financial instruments of a second form and fourth instructions associated with the second financial instruments of the second form, wherein the second financial instrument of the second form is different from the first financial instrument of the first form, by the at least one computer;

establishing, by a first processing module of the at least one computer, associations between respective first and second instructions associated with the first financial instruments;

applying, by the first processing module, a first set of pre-settlement rules to the respective associated first and second instructions associated with the first financial instruments;

establishing, by a second processing module, of the at least one computer, different from the first processing module, associations between only respective third and fourth instructions associated with the second financial instruments; and

applying, by the second processing module, a second set of pre-settlement rules to the respective associated third and fourth instructions associated with only the second financial instruments.

Ex. 2, U.S. Patent App. No. 2008/0154771 (published Jun. 26, 2008), claim 81.

Respectfully submitted,

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