

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

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

**REPLY MEMORANDUM IN SUPPORT OF CLS’S RENEWED MOTION FOR
SUMMARY JUDGMENT THAT THE CLAIMS OF ALICE’S PATENTS ARE
INVALID FOR LACK OF PATENTABLE SUBJECT MATTER, AND IN
OPPOSITION TO ALICE’S RENEWED CROSS-MOTION FOR PARTIAL
SUMMARY JUDGMENT AS TO PATENT ELIGIBILITY**

TABLE OF CONTENTS

	<u>Page</u>
PRELIMINARY STATEMENT	1
STATEMENT OF FACTS	3
ARGUMENT	5
I. SUMMARY JUDGMENT SHOULD BE GRANTED THAT CLAIMS 33 AND 34 OF THE '479 PATENT ARE INVALID	5
II. SUMMARY JUDGMENT SHOULD BE GRANTED THAT THE CLAIMS OF THE '510 PATENT ARE INVALID	10
A. Alice Improperly Tries To Read the “Particularity” Requirement Out Of The Machine Or Transformation Test	11
B. Alice’s ’510 Patent Claims Are Not Tied To A “Particular” Machine Imposing “Meaningful Limits” On Claim Scope	13
1. A “Particular Machine” Is One That Imposes “Meaningful Limits” On Claim Scope	13
2. “Electronically Adjust” Is Not A Meaningful Limitation.....	15
C. Alice’s ’510 Patent Claims Do Not Involve A Patentable Transformation.....	19
D. Insignificant Post-Solution Activity Does Not Render Alice’s Claims Patentable.....	21
E. <i>Bilski</i> Changed The Law Regarding Machine Implementation Of A Process, And Abrogated The Holdings On Which Alice Relies	23
III. SUMMARY JUDGMENT SHOULD BE GRANTED THAT THE SYSTEM PATENT CLAIMS OF THE '720 AND '375 PATENTS ARE INVALID.....	28
A. Alice’s Arguments Ignore The Supreme Court’s Admonition That Redrafting Of Unpatentable Method Claims To Recite A Computer Does Not Make The Claims Patentable	29
B. The Holdings On Which Alice Relies Regarding The Patentability Of Unspecified Computer Systems Were Abrogated By <i>Bilski</i>	32
C. Alice’s System Claims Do Not Recite A “Particular Machine” Which Imposes “Meaningful Limits” On The Scope Of Its Claims	34
IV. ALICE’S COMPUTER PRODUCT CLAIMS ARE UNPATENTABLE	38

V. ALICE’S DEPENDENT CLAIMS ARE UNPATENTABLE..... 42

CONCLUSION..... 43

TABLE OF AUTHORITIES

	Page(s)
CASES	
<i>Arrhythmia Research Tech., Inc. v. Corazonix Corp.</i> , 958 F.2d 1053 (Fed. Cir. 1992).....	passim
<i>AT&T Corp. v. Excel Commc'ns, Inc.</i> , 172 F.3d 1352 (Fed. Cir. 1999).....	passim
* <i>Bilski v. Kappos</i> , 130 S. Ct. 3218 (2010).....	passim
<i>Cybersource Corp. v. Retail Decisions, Inc.</i> , 620 F. Supp. 2d 1068 (N.D. Cal. 2009).....	12, 13, 33, 36, 39, 40
<i>Diamond v. Diehr</i> , 450 U.S. 175, 186 (1981).....	14, 29
<i>Ethicon, Inc. v. Quigg</i> , 849 F.2d 1422 (Fed. Cir. 1988).....	38
* <i>Gottschalk v. Benson</i> , 409 U.S. 63 (1972).....	passim
<i>Ex parte Van Beek</i> , 2009 WL 112387 (B.P.A.I. 2009).....	41
<i>In re Abele</i> , 684 F.2d 902 (C.C.P.A. 1982).....	20
<i>In re Alappat</i> , 33 F.3d 1526 (Fed. Cir. 1994).....	passim
<i>In re Beauregard</i> , 53 F.3d 1583 (Fed. Cir. 1995).....	39
* <i>In re Bilski</i> , 545 F. 3d 943 (Fed. Cir. 2008).....	passim
<i>In re Chatfield</i> , 545 F. 2d 152 (C.C.P.A. 1976).....	40
<i>In re Comiskey</i> , 499 F.3d 1365 (Fed. Cir. 2007) (“ <i>Comiskey I</i> ”)	passim
<i>In re Comiskey</i> , 554 F.3d 967 (Fed. Cir. 2009) (“ <i>Comiskey II</i> ”)	12, 26, 27, 34

<i>In re Ferguson</i> , 558 F.3d 1359 (Fed. Cir. 2009).....	34
<i>In re Iwahashi</i> , 888 F.2d 1370 (Fed. Cir. 1989).....	32, 33, 35
<i>In re Lowry</i> , 32 F.3d 1579 (Fed. Cir. 1994).....	39, 41
<i>In re Nuijten</i> , 500 F. 3d 1346 (Fed. Cir. 2007).....	41
<i>In re Warmerdam</i> , 33 F.3d 1354 (Fed. Cir. 1994).....	32, 33, 34, 35
<i>Iron Grip Barbell Co. v. USA Sports, Inc.</i> , 392 F.3d 1317 (Fed. Cir. 2004).....	41
<i>Markman v. Westview Instruments, Inc.</i> , 52 F.3d 967 (Fed. Cir. 1995) (<i>en banc</i>), <i>aff'd</i> , 517 U.S. 370 (1996).....	8
<i>Nazomi Commc'ns, Inc. v. ARM Holdings, PLC</i> , 403 F.3d 1364 (Fed. Cir. 2005).....	9
* <i>Parker v. Flook</i> , 437 U.S 584 (1978).....	passim
<i>Phillips v. AWH Corp.</i> , 415 F.3d 1303 (Fed. Cir. 2005).....	8
<i>Sinorgchem Co., Shandong v. ITC</i> , 511 F.3d 1132 (Fed. Cir. 2007).....	8
* <i>SiRF Tech, Inc. v. Int'l Trade Comm'n</i> , 601 F.3d 1319 (Fed. Cir. 2010).....	passim
<i>State Street Bank & Trust Co. v. Signature Fin. Group, Inc.</i> , 149 F.3d 1368 (Fed. Cir. 1998).....	passim
<i>Symantec Corp. v. Computer Assocs. Int'l, Inc.</i> , 522 F.3d 1279 (Fed. Cir. 2008).....	8
<i>U.S. Credit Sys. Co. v. Am. Credit Indem. Co.</i> , 59 F. 139 (2d Cir. 1893).....	40
<i>Ultramerical, LLC v. Hulu, LLC</i> , 2010 WL 3360098 (C.D. Cal. 2010).....	6

STATUTES

35 U.S.C. § 101.....	passim
35 U.S.C. §§ 102.....	39
35 U.S.C. §§ 103.....	39
35 U.S.C. § 112.....	33
37 C.F.R. § 1.111.....	22

Plaintiff and Counterclaim Defendant CLS Bank International and Counterclaim Defendant CLS Services Ltd. (collectively, “CLS”) respectfully submit this reply memorandum (a) in further support of their renewed motion for summary judgment that the claims of the Alice patents at issue in this litigation are invalid, because the inventions they purport to claim do not fall within the scope of patentable subject matter provided by 35 U.S.C. § 101, and (b) in opposition to Alice’s renewed motion for partial summary judgment that the asserted patent claims are directed to patent-eligible subject matter.

PRELIMINARY STATEMENT

Each of Alice’s patent claims is focused on the abstract idea of “exchanging an obligation” (i.e., effectuating a legal obligation between parties) if “independent” accounts maintained for the parties have “adequate value” – in essence, a two-sided escrow arrangement. Surprisingly, Alice’s entire opposition and cross-motion barely mentions this central concept of its patent claims.

In *Bilski v. Kappos*, 130 S. Ct. 3218 (2010) the U.S. Supreme Court confirmed that claims directed to such abstract ideas are not drawn to patentable subject matter. As shown in CLS’ opening brief,¹ the unpatentability of abstract ideas is a principle that applies to all categories of inventions under § 101, including methods and machines. Merely linking an unpatentable idea to a computer, where the idea has no substantial practical application other than with a computer, does not confer patentability.

Alice’s opposition and cross-motion cannot, and does not, dispute the abstract nature of the underlying business transaction to which all of its patent claims are directed. Rather, the

¹ As used herein, CLS’s “opening brief” and “Opening Br.” refer to the Memorandum in Support of CLS’s Renewed Motion for Summary Judgment that the Claims of Alice’s Patents Are Invalid for Lack of Patentable Subject Matter, dated August 27, 2010.

essence of Alice's position is that a claim to "electronic" implementation of an abstract idea, or the use of a "computer" or "computer readable storage medium" to implement the abstract idea is enough to render the claim patentable, even where that is the only practical way of implementing the abstract idea.

Alice's position is incorrect, because it:

- ignores the fact that its '479 method patent claims make no reference to "electronic" implementation or any "computer."
- ignores the fact that there is no substantial practical application of its abstract idea for exchanging an obligation except in connection with a computer, and that accordingly, its '510 method patent claims that refer to "electronic adjustment," and its '720 and '375 patent claims that recite a "computer" or a "computer readable storage medium," preempt the use of the abstract idea.
- ignores the "particular machine or apparatus" requirement of the machine or transformation test, which mandates that a "particular" machine "must impose meaningful limits on the claim's scope."
- ignores the Supreme Court's admonition against using the "draftsman's art" to recast unpatentable method claims in the form of systems or products.
- inappropriately relies on cases that applied outdated patentability tests (the "technological arts" test; the "Freeman-Walter-Abele" test; the "useful, concrete and tangible result" test) which were rejected by both the Federal Circuit and the Supreme Court in *Bilski*.

In sum, Alice's argument is premised on wishing away *Bilski* and other Supreme Court precedents on which *Bilski* relied. There is no disputed issue of fact that would prevent this

Court from granting summary judgment in CLS's favor. A two-sided escrow-type arrangement – “exchanging an obligation” only if “independent” accounts maintained for the parties have “adequate value” – is unpatentable, regardless of whether the claims are drafted as methods, systems, or products.

Summary judgment should be granted to CLS because all of Alice's asserted claims are directed to unpatentable subject matter. CLS should not be required to engage in further litigation, or to provide additional burdensome discovery, relating to Alice's invalid patents.

STATEMENT OF FACTS

The essential facts concerning Alice's patents are undisputed. Alice concedes, as it must, that each of its four patents is based on the same patent specification and disclosure. Each of its patents claim – in one form or another – rights concerning “exchanging an obligation” between parties if “independent” accounts maintained for the parties have “adequate value.”

The common elements of all of Alice's patent claims are also undisputed, as shown in Table 1 and Figs. 1-4 of CLS's opening brief (CLS' Opening Br. 6-7, 10, 13, 16 and 17), including (1) exchanging an obligation between parties, (2) “accounts” or “shadow records” maintained by an independent institution or system, (3) a test to ensure “adequate value” for a transaction or exchange, and (4) an instruction that is an “irrevocable, time invariant obligation” (a legal mandate) to adjust accounts. Alice attempts to re-characterize its invention as an “innovative trading platform” (*see* Opp. 4),² but neither the patent specifications nor any of the claims contain any such language.

² As used herein, “Opp.” refers to Alice Corporation Pty. Ltd.'s Memorandum in Support of Its Opposition to CLS Bank's Motion for Summary Judgment and Renewed Cross-Motion for Partial Summary Judgment as to Patent Eligibility, dated September 22, 2010.

The chronology of Alice's patents is also undisputed. Alice first obtained method patents – the '479 patent in 1999, and the '510 patent in 2006 – both containing claims a to “methods of exchanging an obligation.” Then, in December 2006, Alice obtained the '720 patent, on the basis of a “continuation” of the application for the '510 method patent. The '720 patent contains claims to a “system to enable the exchange of an obligation,” which recite a computer “configured” to carry out the method of the '510 patent. The '720 patent claims substituted a “data processing system” or “computer” for a “supervisory institution” recited in the claims of the '510 patent that “administered” the exchange obligation. The '375 patent was issued in May 2010 on the basis of another “continuation” of the '510 method patent. It adds claims to a “computer program product” comprising a “computer readable storage medium having computer readable program code” that performs functions respecting the same method.

Each of Alice's patents expires at the same time, as a result of terminal disclaimers filed by Alice to avoid double patenting rejections of the '510, '720, and '375 patent claims in the U.S. Patent Office. (See CLS' Opening Br. 10-11, 13-14, 17.)³

³ Alice argues that “the fact that CLS is seeking patent protection” for certain claims relating to its business “undercuts CLS's arguments, and shows that computer systems, and methods for using them, are patent eligible.” (See Opp. 15.) It is difficult to understand how Alice could draw such a conclusion. There can be no dispute that the Federal Circuit's *Bilski I* decision in October 2008, changed the law regarding the patentability of such claims, and that the law remained uncertain until the Supreme Court affirmed that decision in July 2010. The CLS patent application to which Alice refers was filed and published, in June 2008, before the *Bilski I* decision, and the specific claims to which it refers were filed in March 2010, before the Supreme Court's *Bilski* decision.

ARGUMENT

I. SUMMARY JUDGMENT SHOULD BE GRANTED THAT CLAIMS 33 AND 34 OF THE '479 PATENT ARE INVALID

The original patent obtained by Alice in 1999, the '479 patent, contains only method claims, and Alice is asserting only claims 33 and 34 of the '479 patent in this litigation.⁴ These claims contain no mention of electronic adjustment, or of any computer or computer equipment. (See CLS Exh. 1, '479 patent claims 33, 34.)

While Alice's opposition barely mentions the '479 method patent claims, Alice agrees that their patentability should be evaluated under the "machine or transformation test" laid out by the Federal Circuit in *In re Bilski* ("*Bilski I*"), 545 F.3d 943 (Fed. Cir. 2008), and referred to by the Supreme Court in *Bilski* as a "useful and important clue" or "a critical clue" to patentability. (See Opp. 12.) Under the machine or transformation test, a claim based on an abstract idea is drawn to unpatentable subject matter *unless* it "is tied to a *particular* machine or apparatus" or "transforms a particular article into a different state or thing." *Bilski I*, 545 F.3d at 954. (Emphasis added.) Moreover, to be "particular," the machine or apparatus "must impose meaningful limits on the claim's scope to impart patent-eligibility." *Id.*, 545 F.3d at 961.

Claim 33 of the '479 patent⁵ expressly recites a "method of exchanging obligations" that is administered by a "supervisory institution." For every "transaction resulting in an exchange obligation," claim 33 provides that the supervisory institution "adjust[s]" credit and debit records to reflect the transaction, provided this will not result in the "value" of its debit record being less

⁴ See Alice's Response to CLS's Statement of Material Facts, Response No. 4. The remaining claims of the '479 patent are not alleged to be infringed by CLS and are directed, *inter alia*, to risk management methods and systems, which are the focus of most of the patent specification.

⁵ Claim 34 is a dependent claim which includes all of the limitations of claim 33.

than the “value” of the credit record. The supervisory institution then “instruct[s]” certain “exchange institutions” to adjust their records in accordance with “permitted transactions.” The adjustments constitute “irrevocable, time invariant obligations placed on the exchange institutions.” (CLS Exh. 1, ‘479 patent, claims 33-34.)

Since ‘479 patent claims 33-34 contain no reference whatsoever to any machine or apparatus, they cannot satisfy the “particular machine or apparatus” prong of the “machine or transformation” test. Moreover, since these claims contain no reference to any article of any kind, they cannot satisfy the “transformation” prong of the “machine or transformation” test, which requires that it “transforms a particular article into a different state or thing.” *Bilski I*, 545 F.3d at 954. As the Federal Circuit held, “[p]urported transformations or manipulations of public or private legal obligations . . . cannot meet the test.” *Id.*, at 963.

That should end the matter for the asserted ‘479 patent claims. They do not satisfy the machine or transformation test. There is other viable test or other basis for concluding that these claims are patentable. See *Bilski*, 130 S. Ct. at 3259 (“ . . . the Court intends neither to de-emphasize the test’s usefulness nor to suggest that many patentable processes lie beyond its reach.”); *Ultramercial, LLC v. Hulu, LLC*, 2010 WL 3360098, *3 (C.D. Cal. 2010) (“at least five (and maybe all) Justices seem to agree that the machine or transformation test should retain much of its utility after the Supreme Court’s decision in *Bilski*.”) See also CLS’s Opening Br. 21-22. There is nothing in these claims other than an abstract method of exchanging an obligation.

Alice seeks to avoid summary judgment for CLS on these claims only by suggesting that “[d]etermining whether” these claims are “tied to a machine” requires claim construction. (Opp. at 28).

However, as an initial matter, as explained *infra* at 13-19 with respect to the claims of the '510 patent, even if all of Alice's method claims were construed to be limited to an "electronic" or computer implementation, that construction would not render them patentable, since they would still not recite a "particular" machine that imposes "meaningful limits" on the scope of the claims.

Moreover, claim construction is a spurious issue, because there is no term in '479 claims 33 and 34 that Alice construes as a machine or anything like a machine; all Alice points to is a discussion of computer system software and hardware found in the patent *specification*, rather than the construction of any *claim term* that is ambiguous or otherwise defined in the specifications as a machine. (*See* Opp. 29, 31.) Alice's argument respecting '479 patent claims 33 and 34 is really nothing more than an inappropriate attempt to rewrite these patent claims, rather than to construe them. Nothing in the declaration of Alice's expert, Mr. Ginsberg, raises a genuine issue that claim 33 or 34 of the '479 patent should be construed to require a computer. Indeed, Mr. Ginsberg admits that Alice's method could, "in the abstract sense," be performed "without a computer or other hardware," and implemented "in a non-electronic manner using various pre-computing tools such as an abacus or handwritten ledgers." (*See* 9/22/10 Decl. of Paul Ginsberg ("Ginsberg Decl."), 9/22/10 Decl. of Stanley M. Fisher ("Fisher Decl.") Ex. 1 at ¶ 40.)

In purporting to raise an issue of fact regarding claim construction, Alice relies on the following (*see* Opp. 30): (1) Mr. Ginsberg's opinion regarding how certain terms should be construed (*see* Ginsberg Decl. ¶¶ 32-33, 44-45); (2) certain characteristics of the preferred embodiment (the example) of the invention described in the specification of the '479 patent. (*See* *Id.*, ¶¶ 29, 32; Opp. 29), and (3) language in unasserted claims 12 and 28 of the '479 patent. (*Id.*,

¶¶ 30, 31). None of these grounds suffices to raise a genuine issue regarding claim construction, which is an issue of law for the court to decide. *See Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 970-71 (Fed. Cir. 1995) (*en banc*), *aff'd*, 517 U.S. 370 (1996).

First, “conclusory” assertions by an expert “as to the definition of a claim term are not useful to a court” and cannot be used to construe a claim term. *Phillips v. AWH Corp.*, 415 F.3d 1303, 1318 (Fed. Cir. 2005) (*en banc*). Thus, in *Symantec Corp. v. Computer Assocs. Int’l, Inc.*, 522 F.3d 1279, 1291 (Fed. Cir. 2008), the Federal Circuit held that the district court erred in relying on expert testimony that “simply recites how each expert would construe the term ‘computer system’ based on his own reading of the specification.” *See also id.* at 1289 n.3 (“To the extent that the testimony merely gives the expert’s opinion as to claim construction, we attribute it no weight.”) (citing *Sinorgchem Co., Shandong v. ITC*, 511 F.3d 1132, 1137 n.3 (Fed. Cir. 2007)).

Mr. Ginsberg opines that claims 33 and 34 of the ‘479 patent should be construed as limited to “electronically implemented methods,” because, he asserts, “[t]here are many . . . references throughout this specification [of the ‘479 patent] from which the person of ordinary skill in the art would understand, as I do, that claims 33 and 34” should be so limited. (Ginsberg Decl. ¶ 32.) As *Symantec* teaches, an issue cannot arise as to the construction of the terms of the ‘479 patent based on Mr. Ginsberg’s own reading of the patent’s specification.

Second, Alice improperly relies on the specification of the patent, not to *define* claim terms, but instead to wrongly *import characteristics of the described preferred embodiment as a limitation on the claims*. The Federal Circuit has repeatedly warned against such a practice. *See Phillips*, 415 F.3d at 1323 (“[A]lthough the specification often describes very specific [subject matter], we have repeatedly warned against confining the claims to those embodiments.”);

Nazomi Commc'ns, Inc. v. ARM Holdings, PLC, 403 F.3d 1364, 1369 (Fed. Cir. 2005) (claims may embrace “different subject matter than is illustrated in the specific embodiments in the specification”).

For example, Alice cites the following statement in the '479 patent specification – “. . . the relevant shadow records (in the data file PAYACC SHADOW) . . .” – as evidence that claims 33 and 34 should be limited to “electronic implementation,” because “[d]ata file PAYACC SHADOW’ is a reference to data files in a data storage unit.” (See Ginsberg Decl. ¶ 32). But Alice is not asking the court to define a “shadow record” in the claims as a “PAYACC SHADOW” data file. Rather, Alice asks the court to find that a characteristic of Alice’s preferred embodiment – the location of a “shadow record” in a PAYACC SHADOW data file on a “data storage unit” – should be imported into the claims as a limitation. As discussed above, this is not a proper basis for construing the claim term as Alice demands.

Third, Alice’s citation of specific language in unasserted claims 12 and 28 which refers to “data processing means” and a “data processing apparatus” (*see* Ginsberg Decl. ¶¶ 30, 31) does not mean that the language of those unasserted claims should be imported into claims 33-34. To the contrary, the existence of specific computer-related language in unasserted claims of the ‘479 patent, but not in asserted claims 33 and 34, only confirms that claims 33 and 34 do *not* require electronic implementation or a computer.

Alice is simply trying to rewrite unpatentable claims 33-34 of its ‘479 patent in an attempt to preserve them. That attempt is inconsistent with the plain language of the claims, and legally impermissible.

Accordingly, even though these claims would fail to satisfy the “particular machine” requirement of the machine or transformation test if they included a reference to electronic

implementation (see *infra* at 14-19 respecting the '510 method patent), their actual language does not even raise a threshold issue of patent eligibility under that test. Since all that claims 33 and 34 recite is an abstract method, and they do not satisfy the machine or transformation test, they do not claim patentable subject matter.

II. SUMMARY JUDGMENT SHOULD BE GRANTED THAT THE CLAIMS OF THE '510 PATENT ARE INVALID

In its opening brief, CLS showed that the method claims of the '510 patent are also directed to the unpatentable abstract idea of “exchanging an obligation between parties” after ensuring that there is “adequate value” in independent accounts maintained for the parties. (*See* CLS' Opening Br. at 24-29.) These claims do not pass muster under *Bilski's* “machine or transformation test” because (1) the requirement in the claims of the '510 patent that accounts/shadow records be adjusted “*electronically*” does not tie those claims to a “*particular* machine or apparatus” that imposes “*meaningful limits* on the claim's scope” (*id.* at 29-31), and (2) they do not involve a patentable transformation (*id.* at 31-32).

The only issue here is whether the addition of the words “electronically adjusting” to the claims of the '510 patent ties those claims to a “particular machine” that would pass the machine or transformation test. The claims of the '510 patent are otherwise clearly directed to an abstract idea. Indeed, the Patent Office found that claim 33 of the '479 patent and the claims of the '510 patent were “claiming common subject matter”; Alice therefore executed a terminal disclaimer, effectively acknowledging that the '479 and '510 patent claims are not “patentably distinct.” (*See* CLS' Opening Br. 10-11, 13-14.)

The “electronically adjusting” language was not in the original claims, but was added during prosecution, when the patent examiner required it to comply with the “technical arts” test then used – and since abrogated – to determine patentability. (*See* CLS Exh. 5, at 3; CLS Exh. 6,

Amendment and Reply, at 22.) Alice now contends that this language is central to its invention and, as a matter of claim construction, requires the use of a computer, and therefore ties these claims to a “machine.” (See Opp. 3.) Alice is wrong, but even if Alice were correct,⁶ the language would not tie the claims to a “particular machine” as required by the machine or transformation test.

A. Alice Improperly Tries To Read the “Particularity” Requirement Out Of The Machine Or Transformation Test

To get around the fact that its ‘510 patent claims do not recite a “particular machine,” Alice now incredibly tries to read the “particularity” requirement out of the law. (Opp. 30-31.)

Alice thus states that: “[s]imply put, *there is no such ‘particularity’ requirement*”, and that “[n]o such authority exists” for one. (Opp. 30-31.) (Emphasis added.) Alice then suggests that the phrase “particular machine” in the machine or transformation test simply means that a machine “be used in performing the steps of the method,” and that accordingly, if Alice’s claims require the use of a computer, that is enough to satisfy the machine or transformation test. (See Opp. 32-33.)

But, of course, there is a particularity requirement. And it goes beyond simply using the machine to perform the steps of the method. The requirement was clearly set forth by the Federal Circuit in *Bilski I*: A method claim is unpatentable, under the machine or transformation test, unless it “is tied to a *particular* machine or apparatus.” 545 F.3d at 954 (*citing Gottschalk v. Benson*, 409 U.S. 63, 70 (1972), emphasis added.) A machine or apparatus is “particular” for purposes of § 101 only if it impose[s] *meaningful limits* on the claim’s scope.” *Bilski I*, 545 F.3d at 961 (emphasis added.) The Supreme Court endorsed the machine or transformation test as an

⁶ For purposes of this motion only, CLS is willing to accept Alice’s proposed construction of “electronically adjust” as requiring the use of a computer.

“important clue” or a “critical clue” to patentability that is “*reliable* in most cases,” without any change to the Federal Circuit’s formulation or application of the test. *Bilski*, 130 S. Ct. at 3227, 3232, 3258-59.

Alice’s attempt to rewrite the law misstates Federal Circuit law, and ignores *Bilski*. Alice quotes from *In re Comiskey*, 554 F.3d 967 (Fed. Cir. 2009) (*Comiskey II*) that a process is patentable if it “is embodied in, operates on, transforms, or otherwise involves another class of statutory subject matter” (Opp. 32), while *ignoring* the Court’s very next statement, i.e., that “[t]he Supreme Court has recognized only two instances in which such a method may qualify as a section 101 process: when the process ‘either [1] was tied to a particular apparatus or [2] operated to change materials to a ‘different state or thing.’” *Comiskey II*, 554 F.3d at 978, quoting *Parker v. Flook*, 437 U.S. 584, 588, n. 9 (1978). See also *Cybersource Corp v. Retail Decisions, Inc.*, 620 F.Supp.2d 1068, 1077 (N.D. Cal. 2009) (*Bilski*’s machine or transformation test “requires that a claimed process be tied to ‘a *particular* machine’” (emphasis in original).)⁷

Alice’s attempt to run from the particularity requirement is a strong indication that it cannot satisfy the machine or transformation test, and that its ‘510 patent claims are directed to an unpatentable abstract idea.

⁷ The same language also appears in *In re Comiskey*, 499 F.3d 1365 (Fed. Cir. 2007) (“*Comiskey I*”). In *Bilski I*, the Federal Circuit commented that “[b]ecause [the *Comiskey*] claims failed the machine or transformation test, we held that they were drawn solely to a fundamental principle.” 545 F.3d at 963. Moreover, in *Bilski I*, the *en banc* decision said that the *Comiskey* language which Alice quoted (Opp. 32) “should not be understood as altering” the *en banc Bilski* court’s formulation of the machine or transformation test. (*Id.* at 961, n. 24.) The history and relationship of the two *Comiskey* decisions is discussed *infra* at 26-27.

B. Alice’s ’510 Patent Claims Are Not Tied To A “Particular” Machine Imposing “Meaningful Limits” On Claim Scope

Alice also contends that if there is a particularity requirement, the “electronically adjusting” limitation in the claims of the ’510 patent satisfies the test, because as Alice interprets it, the test only requires “that a machine be used in performing the steps of the method.” (Opp. 32.) Alice is wrong in this regard because, as *Bilski I* explained, “the use of a specific machine . . . must impose meaningful limits on the claim’s scope” 545 F.3d at 961, and Alice’s “electronically adjust” limitation simply fails to do so. As a practical matter, the only way to implement Alice’s abstract method is on a computer that is used to perform the steps of the method, and Alice’s “electronic” implementation therefore impermissibly preempts all practical applications of the abstract idea to which its method claims are directed.

1. A “Particular Machine” Is One That Imposes “Meaningful Limits” On Claim Scope

As was clearly stated in *Bilski I*, the “particular machine” requirement means that the machine limitation “must impose *meaningful limits* on the claim’s scope.” *Bilski I*, 545 F.3d at 961 (emphasis added); *Cybersource*, at 1077 (rejecting claim because implementation based on “use of the internet does not impose meaningful limits on the scope of the claims”). The Supreme Court stated in *Benson* that the key question is whether “in practical effect” the claim preempts every “practical application” of the method. 409 U.S. at 71-72. As the court in *Cybersource* explained, “[t]he purpose of this requirement is to ensure that all uses of a fundamental principle are not preempted in any field.” 620 F.Supp.2d at 1077.

Alice attempts to minimize the “meaningful limits” requirement by inappropriately characterizing it as a “narrow exception” to the machine or transformation test. (See Opp. 33-34.) But far from being an exception to the test, the “meaningful limits” requirement defines the

only type of machine recitation that will render a claim to an otherwise abstract idea patentable. (See *Bilski I*, 545 F.3d at 961.)

Alice next contends that a “particular machine” which imposes “meaningful limits” simply will “implement a concept in a tangible way with tangible, real world results” (Opp. 34.) But there is no legal basis for this contention, and Alice offers no citation to support it. Indeed, Alice is simply attempting to revive the pre-*Bilski* “useful, concrete and tangible results” test which was expressly rejected by the Federal Circuit in *Bilski I* (545 F.3d at 959-60), and the Supreme Court in its *Bilski* decision (130 S. Ct. at 3231, 3232 n.1, 3259).

From these misstatements of the law, Alice moves on to suggest that the “meaningful limits” doctrine does not apply to all method claims, but is instead limited to those patents that claim “mathematical algorithms.” (See Opp. 35.) Alice argues that its claimed methods “do not recite mathematical algorithms, but rather computerized business methods” and that accordingly “the ‘meaningful limit’ doctrine is wholly inapposite to the eligibility of Alice’s claims.” (Opp. 35.)⁸ However, it is the preemption of any abstract idea or mental process (not just mathematical algorithms) that is to be avoided. See *Benson*, 409 U.S. at 71-72 (issue was whether the limitation to a computer was sufficient recitation of a “particular” machine to avoid preempting every use of the method); *Bilski I*, 545 F.3d at 955 n. 9. Once again, Alice’s proposition is

⁸ Moreover, it is disingenuous for Alice to suggest that its claims do not involve a mathematical algorithm. As discussed in CLS’s Opening Br. 26-27, Alice’s method claims – like the claims at issue in *Benson* and *Flook*, are effectively drawn to an algorithm, and are unpatentable for that reason as well. An algorithm is a “procedure for solving a given type of mathematical problem.” See *Diamond v. Diehr*, 450 U.S. 175, 186 (1981). Alice’s method claims recite “accounts” or “shadow records” – records of numbers – and the method claims apply a mathematical test, based on the magnitude of the parties’ accounts/shadow records, to determine whether there is “adequate value” and whether the accounts should be adjusted; the accounts are adjusted and an instruction is issued to the parties’ banks (“exchange institutions”) only if the mathematical test is passed.

inconsistent with the law, and an unacceptable attempt to emasculate it. *Bilski* applies the “meaningful limits” requirement to all method claims that purport to be tied to a “particular machine.” 545 F.3d at 961.

2. “Electronically Adjust” Is Not A Meaningful Limitation

Alice’s “electronically adjust” limitation, even assuming that it refers to a computer,⁹ is not a “particular machine” that imposes “meaningful limits” on the scope of Alice’s method claims. Recitation of a computer imposes “meaningful limits” on the scope of a method only if it avoids preemption of every practical application of the method. *Benson*, 409 U.S. at 71-72.

As a practical matter, Alice’s claimed methods – exchanging an obligation after ensuring that there is “adequate value” in the parties’ accounts maintained by an “independent institution – can only be carried out electronically, using a computer. Even Alice’s expert admits that implementation on “an abacus or handwritten ledger[]” is no more than an “abstract” possibility that might have been done “[i]f someone had thought of this invention 100 years ago.” (Ginsberg Decl. ¶ 40.) Alice’s “electronically adjust” language thus cannot save its otherwise clearly abstract patent claims, because the claimed methods “ha[ve] no substantial practical application except in connection” with a computer. *Benson*, 409 U.S. at 71-72.

Alice’s claims are no more tied to a “particular” machine than those at issue in *Benson*, which “purported to cover any use of the claimed method in a general-purpose digital computer” *Id.* at 64. The method had “no substantial practical application except in connection with a digital computer,” so that “the patent would wholly pre-empt [the method] and in practical effect would be a patent on the [method] itself.” *Id.* at 71-72.

⁹ As noted earlier, for purposes of this motion only, CLS is willing to assume that “electronically adjust” should be construed to refer to a computer.

Alice also argues that “even if the Court were to apply a ‘meaningful limits’ test to evaluate Alice’s claims,” its “electronically adjusting” limitation provides such a limit on claim scope. (*See* Opp. 36.) Alice relies on *SiRF Tech, Inc. v. Int’l Trade Comm’n*, 601 F.3d 1319, 1333 (Fed. Cir. 2010) (*see* Opp. 36). In fact, far from supporting Alice, *SiRF Tech* shows why Alice’s ’510 claims, as well as the “data processing system” and “computer storage medium” claims in the ’720 and ’375 patents (discussed *infra*) are not patentable.

In *SiRF*, decided post-*Bilski I*, the Federal Circuit considered the patentability of two method claims in the field of GPS satellite navigation technology. The first claim was directed to “a method for calculating an absolute position of a GPS receiver” by, *inter alia*, “providing pseudoranges that estimate the range of the GPS receiver to a plurality of GPS satellites” and using the “pseudorange” information (along with other information) to “estimate the position of the GPS receiver.” 601 F.3d at 1331. The second claim was similarly directed to a method that required “estimating a plurality of states associated with a satellite signal receiver” (a GPS receiver), and using that state information (with other information) to “compute position of the satellite signal receiver.” *Id.* at 1332.

Relying on *Bilski I*, the Federal Circuit held that, to render an abstract method patentable, the presence of a machine in a claim directed to that method must “impose a meaningful limit on the scope of [the] claim.” *Id.* at 1333. To do so, the machine 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, i.e., through the utilization of a computer for performing calculations.” *Id.* at 1333.

In concluding that the claimed methods at issue in *SiRF Tech.* were directed to patentable subject matter, the court determined that a GPS receiver was “integral” to each of the claims,

because “it is clear that the methods at issue could not be performed without the use of a GPS receiver” *Id.* at 1332. “Indeed,” the court found, “without a GPS receiver it would be impossible to generate pseudoranges or to determine the position of the *GPS receiver* whose position is the precise goal of the claims.” *Id.* (emphasis in original). It reasoned that the GPS receiver was “essential” to the claims because “we are not dealing with a situation in which there is a method that can be performed without a machine” or where the calculations “can be performed entirely in the human mind.” *Id.* at 1333.

Alice’s claims, in stark contrast with those in *SiRF*, merely involve electronic adjusting or a computer or computer readable medium that enables the method to be performed more quickly, for a large volume of transactions. The method could be performed by humans, albeit much more slowly, rather than electronically by a computer. Alice asserts that its claims fall within the rule of *SiRF* because, it contends, “electronic” implementation plays a “significant part” in permitting its claimed method to be performed. (Opp. at 36.) But this argument is refuted by Alice’s own expert declaration, which recognized that, in the absence of “electronic” implementation, Alice’s claimed method could be performed, albeit slowly, by hand with handwritten accounts and calculations of “adequate value.” Alice’s expert stated that “[i]n the abstract sense, it is possible to perform the business methods of maintaining accounts, adjusting accounts, and providing an instruction without a computer or other hardware.” (Ginsberg Decl. ¶ 40.) He acknowledged that “[i]f someone had thought of this invention 100 years ago, they might have implemented it in a non-electronic manner using various pre-computing tools such as an abacus or handwritten ledgers.” (*Id.*) Thus, Alice’s claims are the precise opposite of those in *SiRF Tech.*, because they can be “performed without a machine,” “entirely in the human mind.” *See SiRF Tech.*, 603 F.3d at 1333.

Alice also asserts, without any real justification or explanation, that “the use of electronics” is “central” to Alice’s claimed methods, 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.”¹⁰ (Opp. at 36; *see also id.* at 38.) As a result, Alice claims (again without explanation), ““electronic[] adjust[ment]” is not performed merely in order to speed up a calculation that could otherwise be performed off-line.” (*Id.* at 36; citing Ginsberg Decl. ¶¶ 40-45.) However, according to Alice’s expert, electronic processing is necessary only because of the “the level of complexity in adjusting,. maintaining and controlling multiple accounts for multiple stakeholders, and exchanging multiple obligations” and because “[t]he methods are dependent on the ability to capture, store, control, adjust and manage multiple accounts and transactions” (*Id.* at ¶¶ 44, 45.)

Thus, according to Alice’s expert, there is nothing in Alice’s method claims that could not be carried out by a human brain, using pencil, paper, ledgers, etc. The only reason for implementing Alice’s method on a computer is because the computer can perform the calculations necessary to maintain and adjust accounts for “multiple stakeholders,” involving “multiple obligations,” more quickly and accurately than by humans; in other words, a computer is used because it can deal more easily with the “level of complexity” that results from high

¹⁰ Notably, this justification is not consistent with the language of Alice’s method claims. The actual language of each claim makes clear that it is a “supervisory institution,” not any purported “computer,” which is the “intermediary” between the counterparties to the exchange obligation that is purportedly settled using the claimed method. *See, e.g.*, ’510 patent, claim 68 (method directed to exchanging “an exchange . . . obligation . . . administered by a supervisory institution” and “the method [of exchanging an obligation] is performed by the supervisory institution.”)

It is also worth noting that the “electronically adjust” limitation Alice’s now asserts as “central” to its ’510 patent claims was one that Alice did not initially include and did not want to include in those claims. *See supra* at 10.

volume transaction processing. Of course, in the modern world of electronic transaction processing, reliance on the speed and accuracy of computer calculation is the only *practical* way of implementing the underlying methods. But that does not change that fact that, unlike the claims in *SiRF*, computer implementation of Alice’s claimed methods is merely “an obvious mechanism for permitting a solution to be achieved more quickly,” “through utilization of a computer,” as opposed to a human brain, “for performing calculations.” *See SiRF Tech.*, 603 F.3d at 1333.

In short, Alice’s expert declaration, in conjunction with the holding and reasoning of *SiRF Tech.*, confirms that Alice’s “electronic” implementation is not a “meaningful limit” on claim scope here, and does not confer patentability.¹¹

C. Alice’s ’510 Patent Claims Do Not Involve A Patentable Transformation

Alice also asserts that its claims involve a patentable transformation under *Bilski* because they “effect an electronic transformation of data by ‘electronically adjusting’ an ‘account’ or ‘record.’” (Opp. 33.) Once again, Alice is wrong.

First, citing *Arrhythmia Research Tech., Inc. v. Corazonix Corp.*, 958 F.2d 1053, 1059 (Fed. Cir. 1992), Alice claims that the conversion of one electronic signal into another “involves ‘physical process steps’ that are patentable.” (*See* Opp. 33.) But in *Bilski I*, the Court expressly

¹¹ Alice’s expert also states that the difference between the “abstract business method” and the patent claims is “not just that the methods can be performed faster using a computer than an exchange of obligations could be performed off-line; rather, the particular methods claimed in these patents only work, as intended, when carried out using a computer.” (Ginsberg Decl. ¶ 41.) This statement is meaningless double-talk. It is obvious that to perform “as intended” in the modern world, the method is applied to maintain and adjust “multiple accounts” and exchange “multiple obligations” using “reliable computers.” (*See* Ginsberg Decl. ¶ 44.) This means effective reliance on the speed and accuracy afforded by computers. Once again, since the only practical way of implementing Alice’s method is on a computer, Alice’s “electronic” limitation is not a “meaningful limit” on claim scope.

rejected the “physical steps” test, stating that “the proper inquiry under § 101 is not whether the process claim recites sufficient ‘physical steps’” and thus, that “it is simply inapposite to the § 101 analysis whether process steps performed by software on a computer are sufficiently ‘physical.’” *Bilski I*, 545 F.3d at 961 n.25. The Supreme Court in *Bilski* also made it abundantly clear that the Federal Circuit’s pre-*Bilski* cases, to the extent they relied on tests other than the machine or transformation test to find abstract method claims patentable (including methods implemented on a computer), are no longer good law. (*See* CLS’ Opening Br. 23.)

Second, citing *In re Abele*, 684 F.2d 902, 908-09 (C.C.P.A. 1982), Alice asserts that transformation of data “representing a physical object” renders a claim patentable. (*See* Opp. 33.) But as *Bilski I* explained, the claim in *Abele* was patentable because the transformed data “clearly represented physical and tangible objects, namely the structure of bones, organs, and other body tissues.” 545 F.3d at 962-63. The transformation of “raw data into a particular visual depiction of a physical object on a display” was what rendered the claim patentable. *Id.* at 963.

Here, in contrast with *Abele*, the data purportedly transformed when an “account” or “record” is “electronically adjusted” does not represent a physical object. In *Cybersource*, for example, the court applied *Bilski*’s discussion of *Abele* to find that a purported transformation of data representing credit card accounts was not sufficient because the data did not represent a “physical” or “tangible” object. *Id.* at 1074. The court noted that a credit card account is simply an “abstraction” of the “series of rights and obligations existing between an account holder . . . and a card issuer.” *Id.* Here, likewise, the data purportedly transformed in Alice’s claims is not representative of a physical object, but simply represents a record or account balance, an

abstraction of the legal rights and financial obligations that exist between the entity to which the account pertains, and the entity performing the settlement.

Third, Alice argues that “electronically adjusting” an account results in a “physical transformation” because the storage of data requires that a storage device change its state. (*See* Opp. 33.) Alice’s argument is no more than a second attempt to apply the “physical steps” analysis of *Arrhythmia* that was abrogated in *Bilski*. (*See id.* (citing *Arrhythmia* again in support of this argument).)

This argument is inconsistent with *Bilski* for another reason. *Bilski I* recognized that “[t]he raw materials of many information-age processes . . . are electronic signals and electronically-manipulated data.” 545 F.3d at 962. The court went on to analyze “[w]hich, if any, of these processes qualify as a transformation or reduction of an article into a different state or thing constituting patent-eligible subject matter” in terms of, for example, whether the signal or data represents a “physical and tangible” object. *Id.* at 962-63. If a patent-eligible transformation could be found simply by the act of storing the electronic data in a memory or other device, an act that necessarily occurs in any manipulation of such data, the court’s analysis in *Bilski* would have been entirely unnecessary.

D. Insignificant Post-Solution Activity Does Not Render Alice’s Claims Patentable

Adding steps that amount to no more than insignificant post-solution activity cannot render unpatentable subject matter patentable. *Bilski I*, 545 F.3d at 902 (“the involvement of the machine or transformation in the claimed process must not merely be insignificant extra-solution activity”). Here, Alice’s “adjustment” to accounts after a determination that there is “adequate value” for a transaction, as well as the provision of an “instruction” to another institution that is “an irrevocable, time-invariant obligation” to adjust its own records (see, e.g., ‘510 patent claim 68; CLS Exh. 2, at claim 68), in addition to being abstract and unpatentable manipulations of

legal obligations (*see* CLS' Opening Br. 26-27), are precisely such insignificant "post-solution activity."

Alice entirely ignores the "instruction" limitation, but asserts that the "electronically adjusting" limitation cannot be called "insignificant post-solution activity" because, it contends, this doctrine describes only "a narrow circumstance" (Opp. 40); and because the limitation "is at the heart of the claimed method as a whole." (Opp. 41-42.)

To the extent that this limitation may be considered "at the heart" of the claimed method, it is itself merely an abstract manipulation of data. And for multiple reasons, Alice is wrong respecting the post-solution issue as well.

First, as with the "meaningful limits" doctrine that Alice sought to avoid, the principle that "insignificant post-solution activity" does not render a method patentable is hardly a "narrow exception" as Alice wishes. The Supreme Court in *Bilski* fully embraced this principle, without restrictions. 130 S. Ct. at 3230 ("the prohibition against patenting abstract ideas 'cannot be circumvented . . .' [by] adding 'insignificant post-solution activity.'")

Second, Alice's assertion that "electronically adjusting" is a critical limitation on its claimed method is inconsistent with the record of the history of its claim. The limitation was not in Alice's original claims, and Alice objected to the examiner's request that the limitation be added. (*See* CLS Exh. 6, Amendment and Reply Under 37 C.F.R. § 1.111, dated Oct. 31, 2003 at 22.) It ultimately agreed to add the term only "to expedite prosecution" and to overcome a pending rejection. (*Id.*) It is disingenuous, at best, for Alice now to claim that a limitation that it did not originally include, did not want, and only added to speed up review by the PTO, is at the "heart" of its claims.

Third, Alice’s argument that the limitation cannot be an insignificant post-solution activity because “electronically adjusting” is done “in order to effect[] the exchange” misapprehends the nature of the “post-solution activity” inquiry. (*See* Opp. 41.) A claim directed to an unpatentable process cannot be rendered patentable merely because the claim also requires the result contemplated to be achieved by the method. Thus, in *Parker v. Flook*, 437 U.S. 584 (1978), the claim was directed to an unpatentable method for updating an alarm limit. The claim did not become patentable simply because it also required “the adjustment of the alarm limit.” *Id.* at 590; (*see also* CLS’ Opening Br. 19 (discussing *Flook*).) Similarly, the claims in *Bilski* directed to the method “of identifying transactions that would hedge risk” did not become patentable merely because “the claim require[ed] the identified transactions actually to be made” 545 F.3d at 965. Likewise, the claims in *Comiskey I* directed to an unpatentable arbitration process did not become patentable simply because “the claims . . . required a decision to actually be rendered in the arbitration.” *See id.* (discussing *Comiskey I*, 499 F.3d 1365).

Here, Alice’s patent claims as a whole are directed to an unpatentable process for “exchanging an obligation,” based on a mathematical algorithm as well as “transformations or manipulations . . . of . . . legal obligations” and “business risks.” *Bilski I*, 545 F.3d at 963. The character of those claims as a whole, and their unpatentability, is not changed merely because the claims also require that the result of a mathematical algorithm (the determination of “adequate value”) be recorded, or that the exchange be consummated.

E. *Bilski* Changed The Law Regarding Machine Implementation Of A Process, And Abrogated The Holdings On Which Alice Relies

Alice argues that neither the Supreme Court’s nor the Federal Circuit’s *Bilski* decisions limited the patent eligibility of processes involving the use of machines. Accordingly, Alice contends that in examining the patentability of the claims of the ’510 patent, the Court may rely

on the analysis in several pre-*Bilski* decisions that Alice contends “held that claims to methods implemented electronically . . . were patent eligible under § 101.” (Opp. 42-43) (citing *AT&T Corp. v. Excel Commc’ns, Inc.*, 172 F.3d 1352 (Fed. Cir. 1999) and *Arrhythmia Research Tech., Inc. v. Corazonix Corp.*, 958 F.2d 1053, 1059 (Fed. Cir. 1992)). Alice is fundamentally wrong, in multiple ways. To begin with, neither case held that the claims at issue were patentable *merely* because they were “implemented electronically.” Rather, specific tests were used to determine patentability in each of these cases, which tests have been rejected by both the Federal Circuit and the Supreme Court, in their respective *Bilski* decisions. And contrary to Alice’s claim, nothing following the Federal Circuit’s *Bilski* decision “reaffirmed” the tests or claims at issue in either *AT&T* or *Arrhythmia*.

First, neither *AT&T* nor *Arrhythmia* held that the claims at issue were patentable simply because they were “implemented electronically.” In *AT&T*, the claimed methods used a mathematical algorithm to derive the value of certain information (a “PIC indicator”) used to facilitate billing for long-distance telephone calls. 172 F.3d at 1354. The Federal Circuit held the method patent-eligible but not, as Alice asserts, simply because “the claimed method required the use of ‘switches and computers.’” (See Opp. 42.) Rather, the court applied the now-discredited “useful, concrete and tangible result” test: It held that the claimed process fell “within the scope of § 101” because it “applies the Boolean principle [a mathematical algorithm] to produce a useful, concrete, tangible result without pre-empting other uses of the mathematical principle” 172 F.3d at 1358.

In *Arrhythmia*, the court addressed claims directed to processes and apparatus for “the analysis of electrocardiographic signals in order to determine certain characteristics of the heart function.” 958 F.2d at 1054. The process claim was found patent-eligible, but again not, as

Alice suggests, merely “because it used ‘electronic equipment’” (*See* Opp. 43.) Instead, the court analyzed the claims using the “*Freeman-Walter-Abele*” test, and held that the claims fell within Section 101 because “the steps of [the] claimed method comprise an otherwise statutory process whose mathematical procedures are applied to physical process steps.”¹² 958 F.2d at 1059.

Even if these cases said what Alice contends they say, they could not support the patentability of Alice’s claims, post-*Bilski*. In *Bilski I*, the Federal Circuit expressly held that both the “useful, concrete and tangible result” and “*Freeman-Walter-Abele*” tests should not be used to determine whether claimed subject matter is patent-eligible. 545 F.3d at 959-60 (“[W]e conclude that the *Freeman-Walter-Abele* test is inadequate. . . . [W]e also conclude that the ‘useful, concrete and tangible result’ inquiry is inadequate”). Moreover, the Federal Circuit expressly referred to both *Arrhythmia* and *AT&T* in cautioning that its decisions based on those tests – the very decisions Alice now suggests the court should follow – “should no longer be relied on.” *Id.* at 959 n.17, 960 n.19.

The Supreme Court went even further in rejecting the tests used in *AT&T* and *Arrhythmia*, stating that “nothing in [this] opinion should be read as endorsing interpretations of § 101 that the Court of Appeals for the Federal Circuit has used in the past.” 130 S. Ct at 3231. And a majority of the Justices specifically rejected the “useful, concrete and tangible result” test. *Id.* at 3232 n.1 (Stevens, J. concurring) (“it would be a grave mistake to assume that anything with a “useful, concrete and tangible result . . . may be patented;” *id.* at 3259 (Breyer, J.,

¹² As *Bilski I* explained, the *Freeman-Walter-Abele* test had two steps: “(1) determining whether the claim recites an ‘algorithm’ within the meaning of *Benson*” and “(2) determining whether that algorithm is ‘applied in any manner to physical elements or process steps.’” 545 F.3d at 959 (citation omitted).

concurring) (nothing in the Court’s decision “indicates that anything which produces a ‘useful, concrete and tangible result’ is patentable”). The Supreme Court thus made it abundantly clear that the Federal Circuit’s prior cases, to the extent they relied on tests other than the machine or transformation test to find abstract method claims patentable (including methods implemented on a digital computer), are no longer good law. At the same time, the Court refused to endorse any test other than the machine or transformation test for the determination of patentable subject matter.

Alice also suggests, incorrectly, that a footnote in the revised panel opinion in *In re Comiskey*, 554 F.3d 967 (Fed. Cir. 2009) (“*Comiskey II*”), resurrected the holdings of *AT&T* and *Arrhythmia*. (See Opp. 43, citing *Comiskey II*, 554 F.3d at 979 n.14). Far from supporting Alice’s contention that *Bilski* did not affect the Court’s prior decisions regarding machine implementation, the history of the *Comiskey* appeal, which Alice fails to mention, shows that the opposite is true. The original panel decision was entered on September 20, 2007, before *Bilski*. See *In re Comiskey*, 499 F.3d 1365 (Fed. Cir. 2007) (vacated) (“*Comiskey I*”). In denying rehearing *en banc*, the court vacated the original panel decision and directed the panel to issue a revised opinion, which was entered post-*Bilski I* on January 13, 2009. See *Comiskey II*, 554 F.3d at 969. The footnote on which Alice relies appears in a portion of the *Comiskey I* opinion discussing the patentability of abstract ideas that simply was not revised by the court in light of *Bilski* when it issued its second opinion; it merely represents pre-*Bilski* law. Compare *Comiskey I*, 499 F.3d at 1376-77 n.14 with *Comiskey II*, 554 F.3d at 979 n.14. Indeed, while mentioning the “useful, concrete and tangible result” test that was abrogated by *Bilski*, the footnote does not even mention *Bilski* itself. 554 F.3d at 979 n.14.

Tellingly, the original pre-*Bilski* panel decision held that, while the method claims at issue were directed to non-patentable subject matter, machine claims based on the same methods “claim[ed] patentable subject matter.” See *Comiskey I*, 499 F. 3d at 1379-80 (relying on *State Street* and *AT&T* to hold, *inter alia*, that a claim to a “system” comprised of various modules was patentable). But the panel revised this holding in the post-*Bilski* opinion; in *Comiskey II* the same machine claims were remanded to the Patent Office to consider whether they “recite patentable subject matter.” *Comiskey II*, 554 F.3d at 976. If *Bilski* simply left in place the court’s previous holdings regarding machine implementation of a process, why were such claims patentable before *Bilski*, but questionable afterwards? The answer, of course, is that the panel recognized that the Federal Circuit’s *Bilski* decision changed the law. And Alice’s further contention, that “nothing in the Supreme Court’s opinion in *Bilski* upset the holding of *Comiskey*” (Opp. 43) – which Alice apparently takes to be that any machine-implemented process is patentable subject matter – is directly rebutted by the Supreme Court’s statement that “nothing in [this] opinion should be read as endorsing interpretations of § 101 that the Court of Appeals for the Federal Circuit has used in the past.” See 130 S. Ct. at 3231.

Finally, Alice’s suggestion that “*Bilski I* itself did not limit the patent eligibility of processes involving the use of machines” (Opp. 43), simply ignores the language of that decision. While leaving to “future cases” the “precise contours of machine implementation,” *Bilski I* expressly stated that the “particular machine” of the “machine or transformation” test “must impose meaningful limits on the claim’s scope.” 545 F.3d at 961. Further, the Court specifically abrogated its prior holdings relating to machine-implemented claims (including the holdings in *AT&T* and *Arrhythmia*). *Id.* at 961-62. The Federal Circuit would not have left the development of machine implementation law to “future cases,” after setting out the standard, if

the court's past decisions had already defined that law. And, as noted above, the Supreme Court made clear that "nothing in [this] Opinion should be read as endorsing" prior Federal Circuit tests. 130 S. Ct. at 3231.¹³

Alice's '510 method patent claims, as well as its '479 patent method claims, do not satisfy the machine or transformation test, and are unpatentable.

III. SUMMARY JUDGMENT SHOULD BE GRANTED THAT THE SYSTEM PATENT CLAIMS OF THE '720 AND '375 PATENTS ARE INVALID

In its opening brief, CLS showed that Alice's system claims were not drawn to patentable subject matter because they merely redrafted Alice's unpatentable method claims to recite an otherwise unspecified "computer" that is "configured" to carry out the method. Alice's opposition papers accept, as they must, the fact that their system and method claims have common elements, and that the language of the system and method claims is virtually identical except for the recitation of a "data processing system" and an unspecified "computer"; the "computer" in the '720 and '375 system patent claims is substituted in the place of the "supervisory institution" recited in the '510 method patent claims. *See* CLS' Opening Br. 3-17, and Opp. 22-23 (circling in red the "computer" language in '720 patent system claim 68 on a copy of CLS' chart noting the otherwise similar or identical language of '720 patent system claim 68 and '510 patent method claim 68).

¹³ Alice also suggests that, during prosecution, the PTO found that by adding the "electronically" limitation to its claims, Alice tied them to a "particular" machine. (*See* Opp. 32.) But the PTO did nothing of the sort. As explained in CLS's opening brief, the examiner found the claims, including the "electronically" limitation, patentable under the "technological arts" test. (*See* CLS' Opening Br. 29.) *Bilski* abrogated this test, *see* 545 F.3d at 960, and, indeed, flatly stated that "[n]either the PTO nor the courts may pay short shrift to the machine-or-transformation test by using purported equivalents or shortcuts such as a 'technological arts' requirement." *Id.* at 964.

Supreme Court cases cited and relied upon in *Bilski*, including the prior decisions in *Benson*, *Flook*, and *Diehr*, make clear that a redrafting of method claims in this fashion cannot make unpatentable subject matter patentable. The exception to § 101 patentability for abstract ideas and mental processes applies to all statutory categories, including methods and machines. And both the Supreme Court and Federal Circuit *Bilski* decisions rejected the Federal Circuit's prior precedents that had upheld the validity of otherwise unpatentable methods implemented on a general purpose computer. (*See* CLS' Opening Br. 32-35.)

Against this background, Alice's response is to completely ignore the Supreme Court cases warning against use of the draftsman's pen in an attempt to convert unpatentable method claims into system or apparatus claims, and to rely on the very Federal Circuit precedents that were rejected by *Bilski*.

A. Alice's Arguments Ignore The Supreme Court's Admonition That Redrafting Of Unpatentable Method Claims To Recite A Computer Does Not Make The Claims Patentable

CLS's opening brief demonstrated that Alice cannot overcome the lack of patentable subject matter in its method patent claims by restating the same claims as a system. The Supreme Court, in *Benson*, stated that "the same principle" regarding non-patentability of mental processes and abstract intellectual concepts "applies" to both "process" and "product" claims. Linking an unpatentable idea to the conventional use of a computer is not enough to confer patentability, particularly where the idea "has no substantial practical application except in connection with a digital computer." *Benson*, 409 U.S. at 67-68, 71-72. In the present case, as discussed *supra* at 15-19, and as effectively acknowledged by Alice's expert, Alice's unpatentable method has no practical application except in connection with a digital computer; its redrafted claims are still unpatentable.

In *Flook*, the Supreme Court emphatically stated that the determination of patentable subject matter *cannot* “depend simply on the draftsman’s art” since this “would ill serve the principles underlying the prohibition against patents for ‘ideas’ or phenomena of nature.” 437 U.S. at 593.

Both *Benson* and *Flook* were expressly relied upon and approvingly cited by the Supreme Court in *Bilski*. 130 S. Ct. at 3231. But Alice’s entire argument respecting the patentability of its system claims virtually ignores *Benson* and utterly ignores *Flook*.

While Alice initially concedes that the “exception” to patent eligibility under § 101 for abstract ideas applies to the four categories of “statutory subject matter” – machines, manufactures, composition of matter, and processes (*see* Opp. 1) – the remainder of its argument concerning its system claims ignores this guiding principle, and acts as if its recitation of a “machine” or “computer” places its system claims in a protected category and allows it to patent an otherwise unpatentable method. Alice thus argues that “[f]or machines and manufactures – such as the claims of the ‘375 and ‘720 patents – the analysis is straightforward” and that these “computer system patents clearly meet the standards for patent eligibility, as they claim computer systems that are patent-eligible ‘machines.’” (*See* Opp. 12.) Similarly, Alice argues that since computer systems are machines, and a machine is a “concrete thing, consisting of parts,” they are “clearly patentable subject matter.” (*Id.* 16-17.)

Indeed, much of Alice’s argument is based on the supposition that CLS is asking the Court to “ignore” claim limitations reciting a “computer” and other related hardware which make Alice’s system claims “machine claims.” (*See* Opp. 20-25.) But CLS is in no way ignoring the computer language in Alice’s system claims. Rather, CLS’ position on the unpatentability of Alice’s system claims is based on the indisputable proposition that the “abstract” exception to

§ 101 patentability applies to each of the four categories of patentable subject matter, including machines. Based on that proposition, the proper analysis is not whether the claim is drafted in the form of a machine or mentions machine components, but rather whether the underlying invention relates to an abstract idea or mental process, and whether as a practical matter the claim would preempt all uses of the abstract idea – regardless of whether it is drafted as a method, machine, or other category of statutory subject matter. *See Benson; Flook*. Under these controlling authorities, a computer system merely “configured” to implement an abstract method is no more patentable than an abstract method that is simply “electronically” implemented.

As the Patent Office found when it rejected Alice’s system claims under the doctrine of double patenting and required a “terminal disclaimer,” Alice’s ‘720 and ‘375 system claims are “not patentably distinct” from the method claims of the ‘510 patent. (*See* CLS’ Opening Br. 13-14, 17.) They implement the same abstract idea, and their recitation of a computer does nothing to avoid preemption of every practical application of that abstract idea. Under *Bilski*, *Benson* and *Flook*, Alice’s approach should be rejected. Alice’s system claims are “attempts to patent abstract ideas,” and are therefore unpatentable. *Bilski*, 130 S. Ct. at 3230.¹⁴

¹⁴ Alice also argues that certain August 9, 2009 PTO training slides support its assertion that an unpatentable abstract idea may be rendered patentable by claiming it in connection with “particular computer components specifically configured.” (*See* Opp. 16., discussing Fisher Decl., Ex. 8; *see also* Opp. 22 n. 8.) Alice asserts that the illustration of a patentable “microprocessor” “programmed to evaluate search results” supports its argument. But the PTO did not contend that the claim was patentable simply because it was implemented on a “microprocessor.” Rather, the PTO first recognized that “[a]bstract [i]dea[s],” “mental processes,” and “mathematical algorithms” are not patentable, regardless of the category of statutory subject matter in which they are embodied. *See* Fisher Decl., Ex. 8 at 7. The PTO then recognized that the claim to which Alice points included a “mathematical algorithm.” *See id.*, at 9. It found the claim patentable only because – in contrast to Alice’s claims here – it was *not* “directed to substantially all practical applications of” the mathematical algorithm. *See id.*, at 7.

B. The Holdings On Which Alice Relies Regarding The Patentability Of Unspecified Computer Systems Were Abrogated By *Bilski*

In the course of its arguments that the system claims of the '720 and '375 patents are patentable under Section 101 simply because they are directed to “machines,” Alice argues that certain pre-*Bilski* decisions held that the “recitation of computer (machine) limitations” is “dispositive of patent eligibility.” (Opp. at 16-19, 21-22, 25) (discussing *In re Iwahashi*, 888 F.2d 1370, 1375 (Fed. Cir. 1989); *State Street Bank & Trust Co. v. Signature Fin. Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998); *In re Alappat*, 33 F.3d 1526 (Fed. Cir. 1994) (*en banc*); *In re Warmerdam*, 33 F.3d 1354 (Fed. Cir. 1994)).

Once again, Alice is wrong. It misstates the holdings of the cases on which it relies, and in any event, the tests for patentability used in those cases were abrogated by both the Federal Circuit and Supreme Court in *Bilski*.

First, Alice’s cases did not hold that a claim is patentable under Section 101 simply because it is drafted in the form of a “machine” or computer system. Rather, those cases used the now-discredited *Freeman-Walter-Abele* and “useful, concrete and tangible result” tests.

In *State Street*, the court did not uphold the patentability of the claimed computer system merely because it was a machine. After determining that the claim at issue was directed to a “machine,” the court flatly stated that “[t]his does not end our analysis” 149 F.3d at 1372. Regardless of whether a machine was claimed, the court still had to determine whether the “mathematical algorithm” exception to patentability under Section 101 would apply. To do that, the court applied the “useful, concrete and tangible” test — it held that the “machine” was patentable because “it produces a useful, concrete, and tangible result.” *Id.* at 1373 (internal

quotation omitted).¹⁵ Likewise, the court in *Alappat* found that “a computer operating pursuant to software *may* represent patentable subject matter,” but only if it “produce[s] a useful, concrete and tangible result.”¹⁶ 33 F.3d at 1544-45 (emphasis in original).

Similarly, in *Iwahashi*, the court did not uphold the patentability of the claims merely because they recited a computer memory. (See Opp. 16.) Instead, the court applied the *Freeman-Walter* test and found the claims patentable because they met the requirements of that test. 888 F.2d at 1375.

Both the “useful, concrete and tangible result” and the *Freeman-Walter*-tests were abrogated by the Federal Circuit in *Bilski I*, which held that they were “inadequate,” and that its decisions based on those tests should no longer be relied on.” 545 F.3d at 959-60 n. 19 (internal quotation omitted); see also *supra* at 25. Regardless of whether *Bilski I* overruled those cases in their entirety, the *en banc* court’s statement that the analysis in these cases “should no longer be relied on” certainly eliminated the precedential value of these decisions on the issue of subject matter patentability. See *Cybersource*, 620 F.Supp.2d at 1080 (noting that “[w]ithout expressly overruling *State Street*, the *Bilski* majority struck down its underpinnings” and that “[t]he *Alappat* case has . . . been abrogated by *Bilski*.”) Likewise, the Supreme Court in *Bilski* rejected

¹⁵ The Federal Circuit’s decision in *State Street* upheld a claim to a business method implemented on a computer, based on application of the “uniform, concrete and tangible result” test.). As Justice Breyer noted in his *Bilski* concurrence, “the introduction of the ‘useful, concrete and tangible result test’, associated with the Federal Circuit’s *State Street* decision, preceded the granting of patents that ranged from the somewhat ridiculous to the truly absurd.” *Bilski*, 130 S. Ct. at 3259.

¹⁶ Alice’s reliance on *Warmerdam* is also misplaced. The statement that “[c]laim 5 is for a machine, and is clearly patentable subject matter,” 33 F.3d at 1360, is dictum and represents the totality of the discussion regarding machine patentability in *Warmerdam*. The subject matter patentability of claim 5 was simply not at issue in that case. *Id.* at 1360-61 (addressing only whether claim was “indefinite” under 35 U.S.C. § 112, and noting that whether claim was “otherwise patentable is not at issue in this appeal”).

the “useful, concrete and tangible result” test, and stated that “nothing in [this] opinion should be read as endorsing interpretations of § 101 that the Court of Appeals for the Federal Circuit has used in the past.” *See Supra* at 26.

Alice incorrectly argues that two other decisions, *Comiskey I* and *In re Ferguson*, 558 F.3d 1359 (Fed. Cir. 2009), somehow establish that *State Street*, *Alappat*, and *Warmerdam* remain good law. (*See Opp.* 18.)

As discussed *supra* at 26, the footnote in *Comiskey II* that mentions *State Street* and *Alappat* is unchanged from *Comiskey I*, and merely represents pre-*Bilski* law. Moreover, *Comiskey II* clearly shows that *Bilski* represents a change in the law regarding machine patentability, because the same machine claims held patentable in *Comiskey I* were, post-*Bilski*, found questionable in *Comiskey II*. *See id.* In any event, a footnote in the *Comiskey II* panel decision cannot overturn the *en banc* decision in *Bilski*.

With respect to *Ferguson*, Alice relies on an out-of-context statement (*Opp.* 18) that “the claim in *State Street* was thus drawn to a patent-eligible machine implementation of what may have otherwise been a non-patent-eligible abstract idea.” *Ferguson*, 558 F.3d 1359, 1365. But the court was simply describing the holding in *State Street*, not resurrecting it. It stated the holding only in order to criticize it in the next passage in the opinion, which notes that *Bilski* “refused to extend or even to take a broad reading” of *State Street*, and further notes that the holding was based on an analysis that “should no longer be relied on.” *Id.*

C. Alice’s System Claims Do Not Recite A “Particular Machine” Which Imposes “Meaningful Limits” On The Scope Of Its Claims

As discussed above with respect to Alice’s ’510 patent claims, Alice’s method claims are unpatentable, even if the “electronically adjust” language is construed to require computer implementation of the method, because the limitation does not constitute a “particular machine”

which imposes “meaningful limits” on the scope of Alice’s claims. *See supra* at 13-19. A similar analysis applies to Alice’s system claims.

Alice contends that the “particular machine” test of *Bilski* is inapplicable to system claims, because, its asserts, a machine is patentable simply because it is a machine, regardless of whether it implements an otherwise unpatentable process. (Opp. 12.) In essence, Alice asserts that it is entitled to escape review of its claims under Section 101 because it was able to skillfully redraft its method claims as claims to a machine.¹⁷

However, as discussed earlier, Alice’s argument has been squarely rejected by the Supreme Court, which has held that “the same principle” regarding non-patentability of mental processes, algorithms and abstract ideas “applies” to both “product” and “process” claims. *Benson*, 409 U.S. at 67-68. Indeed, the very cases on which Alice relies, even though they applied now-discredited tests for patentability, still recognized that the same exception to subject matter patentability is applicable regardless of whether the claim is drafted as a process or as a machine. Thus, in *State Street*, the court noted that

[t]he question of whether a claim encompasses statutory subject matter should not focus on *which* of the four categories of subject matter a claim is directed to – process, machine, manufacture or composition of matter – but rather on the essential characteristics of the subject matter

¹⁷ Alice’s citation of *Iwahashi* and *Alappat* for the proposition that it is a mistake to treat a machine claim “as though it were a method” (*see* Opp. 16, 21) is misplaced. The passages on which Alice relies were not about whether the same patentability test should apply to both method and system claims. Instead, the courts held that the “means plus function” limitations of the claims should be considered in defining structural relationships between the physical elements. *Iwahashi*, 888 F.2d at 1375; *Alappat*, 33 F.3d at 1540-41. The court statements are irrelevant to Alice’s ’720 or ’375 patent claims, which have no “means plus function” limitations. Alice also relies on *Warmerdam*. (*See* Opp. 24.) As noted at 33, n.16 *supra*, however, the patentability of the system claim was not at issue in that case, and the opinion contains no discussion at all regarding what test a court should apply to determine whether a machine claim is patentable.

State Street, 149 F.3d at 1375 (emphasis in original); *see also id.* at 1372 n.1 (“the judicially-created exceptions, i.e., abstract ideas, laws of nature, etc., should be applicable to all categories of statutory subject matter, as our own precedent suggests.”); *Alappat*, 33 F.3d at 1542 (“[W]e recognize that our own precedent suggests” that “the ‘mathematical algorithm’ exception applies to true apparatus claims”); *Cybersource*, 2620 F.Supp.2d at 1072 (“Excluded from patent protection are fundamental principles, including laws of nature, natural phenomena and abstract ideas, even when these may be deemed literally to fall within one or more statutory categories.”).

Prior to *Bilski*, the Federal Circuit applied the same patentability tests to both types of claims. *Compare State Street*, 149 F.3d at 1373 (holding claim to machine patentable under “useful, concrete and tangible result” test), *with AT&T*, 172 F.3d at 1357-61 (holding claim to method patentable using the same test). The court in *AT&T* stated emphatically that “the scope of § 101 [is] the same regardless of the form – machine or process – in which a particular claim is drafted.” *AT&T*, 172 F.3d at 1357-58. For this reason, the court was “comfortable in applying [its] reasoning in *State Street* and *Alappat*” – that the machine claims at issue in those cases were patentable under the pre-*Bilski* “useful, concrete and tangible result” test – “to the method claims at issue” in *AT&T*. *Id.* at 1358. There is no reason to believe that, post-*Bilski*, the applicability of the “particular machine” requirement, should be more limited than that of prior tests.

Thus, the same analysis should apply regardless of whether the claim is drafted as a method to be performed on a computer (as Alice contends its ’510 patent claims should be construed) or as a computer configured to perform the same method. It makes no sense to read the machine or transformation test as inapplicable to claims like those of the ’720 and ’375 patents which, as shown in CLS’s opening memorandum, are merely process claims redrafted to

recite a “computer.”¹⁸ (*See* CLS’ Opening Br. 11-15.) *Bilski I* expressly considered the test used to determine the patentability of the system claim in *State Street*, and rejected it in favor of the machine or transformation test. 545 F.3d at 960. The Federal Circuit specifically recognized, in discussing the inadequacy of the “useful, concrete and tangible result” test and why the analysis in *State Street* “should no longer be relied on,” that the claim in *State Street* “was drawn not to a process, but to a *machine*.” *Id.* at 959 n.18 (emphasis in original). Justice Stevens concurrence in the Supreme Court’s *Bilski* decision – which specifically rejected the holding of *State Street* – recognized this as well. *See* 130 S. Ct. at 3257 (Stevens, J. concurring); *see also* Opp. 14-15 (citing concurrence).¹⁹

¹⁸ Alice’s expert admits that the “computer” of the claims of the ’720 patent is “configured to’ perform steps of a method that is similar to (though not identical with) the methods of the “’479 and ’510 patents.” (Ginsberg Decl. ¶ 49) And Alice’s exegesis on terminal disclaimer law (*see* Opp. 24 n.9) cannot obscure the fact that Alice’s execution of terminal disclaimers here means that there is no patentable difference between the claims of the ’479, ’510, ’720, and ’375 patents; as Alice admits, they amount to “an obvious variant of the basic invention.” (*See id.*)

¹⁹ As evidence for its assertion that *Bilski* did not change the law regarding the patentability of machine claims (Opp. 19), Alice claims that, in the wake of the Supreme Court’s *Bilski* decision, the PTO issued guidelines (the “July 27, 2010 Guidelines;” Fisher Decl. Ex. 5) for evaluating subject matter patentability of process claims, but which did not specifically address the evaluation of machine or manufacture claims. But the July 27, 2010 Guidelines themselves explain why they did not include the latter types of claims: Those Guidelines were “intended to be used as a supplement” to the previously issued *Interim Examination Instructions for Evaluating Subject Matter Eligibility Under 35 U.S.C. 101* dated August 24, 2009 (the “August 24, 2009 Guidelines”). And *those* Guidelines, the August 24, 2009 Guidelines which were issued following the Federal Circuit’s *Bilski* decision, specifically addressed the standards to be used by examiners to evaluate subject matter patentability of machine and manufacture claims in light of that decision, and included both flow charts and detailed instructions. (*See, e.g.*, Fisher Decl. Ex. 4.) In fact, in the memo which accompanied the PTO’s release to its examiners of the July 27, 2010 Guidelines, the PTO explicitly instructed them that “The August 2009 Interim Instructions are to be consulted for determining subject matter patent eligibility under 35 U.S.C. § 101 of machine, composition and manufacture claims.” (See Appendix A hereto.)

In short, it is clear that the PTO recognized that the Federal Circuit’s *Bilski* decision

Alice’s system claims fail to satisfy the machine prong of the machine or transformation test for the same reasons that its method claims fail to satisfy it. They do not recite a “particular machine” that imposes “meaningful limits” on the scope of the claims. Rather, Alice’s system claims, implemented on a claimed “computer,” preempt every practical application of the method. They are thus drawn to unpatentable subject matter.

IV. ALICE’S COMPUTER PRODUCT CLAIMS ARE UNPATENTABLE

As discussed in CLS’ opening brief, Claim 39 of Alice’s ‘375 patent recites a “computer program product” that is made up of a “computer readable storage medium having computer readable program code” which would cause a computer to send a transaction, and allows viewing of information relating to the claimed method on the computer. (CLS’ Opening Br. 35.) Alice does not dispute this characterization of its claim. (Opp. 25-26.) Instead, Alice argues that “computer readable storage media” are “manufactures” that “do not raise issues of patent eligibility” under Section 101. As with its machine claims, Alice’s argument amounts to nothing more than a contention that placing its unpatentable method on a “computer readable medium” renders its claims patentable, without further analysis.

changed the law regarding patentability of machines, manufactures and methods, and, in August 2009, it issued new guidelines accordingly. It subsequently recognized that the Supreme Court’s decision left in place those aspects of the Federal Circuit’s *Bilski* – decision (which the Supreme Court affirmed) regarding machines and manufactures obviating the need for entirely new Guidelines as to those types of subject matter.

In any event, “an agency’s interpretation of a statute it administers is entitled to deference . . . but ‘the courts are the final authorities on issues of statutory construction’” *Ethicon, Inc. v. Quigg*, 849 F.2d 1422 (Fed. Cir. 1988). It is this Court, not the PTO, that must determine the meaning of § 101 in light of *Bilski*, and the patentability of Alice’s claims under the statute.

Alice is wrong, and none of the authority it cites supports the proposition that the mere recitation of “computer readable storage media” is sufficient to confer patentability on a claim otherwise directed to an unpatentable abstract idea.

First, as pointed out in CLS’s opening brief, *In re Beauregard*, 53 F.3d 1583 (Fed. Cir. 1995) (cited in CLS’ Opening Br. 35, cited in Opp. 26) did not reach the issue of the subject matter patentability of “computer readable media” claims, but rather dismissed for lack of case or controversy. Likewise, the subject matter patentability of such claims was not at issue in *In re Lowry*, 32 F.3d 1579 , 1582-84 (Fed. Cir. 1994) (cited in Alice Reply Br. at 26). *See, e.g., Lowry*, 32 F.3d. at 1582 (discussing standard of review only under 35 U.S.C. §§ 102 and 103); *see also Cybersource Corp. v. Retail Decisions, Inc.*, 620 F. Supp. 2d 1068, 1079 (N.D. Cal. 2009) (The *Lowry* “decision reversed a Section 103 ‘printed matter’ rejection of certain claimed data structures.”) Thus, contrary to Alice’s bald assertion, the Federal Circuit in *Lowry* never “held” that “computer code is “*per se* patentable.” (See Alice Reply Br. 27 n. 12.) It did not even consider the issue.

Second, Alice is not aided by its reliance on the PTO’s August 24, 2009 “Interim Examination Instructions for Evaluating Subject Matter Eligibility Under 35 U.S.C. § 101” (Fisher Decl., Ex. 4). Contrary to Alice’s abbreviated description (*see* Opp. 26), the example claim in the guideline was not found patentable merely because it was a “claim to a non-transitory, tangible computer readable storage medium.” Rather, the August 24, 2009 Guidelines make it clear that such a claim, following *Bilski*, is only patentable if it “possesses structural limitations” and if it does not cover “substantially all practical uses” of an abstract idea. (Fisher Decl., Exh. 4, at 4.) Unfortunately for Alice, its own “computer readable storage medium”

claims meet neither of these requirements.²⁰ They have no structural limitations at all, and, as discussed above with respect to Alice’s machine claims, the only practical use of Alice’s method is in on a computer.

Finally, Alice asserts that the Court should not rely on or follow *Cybersource*. Opp. at 26-28. *Cybersource* held that “simply appending ‘[a] computer readable media including program instructions . . .’ to an otherwise non-statutory process claim is insufficient to make it statutory.” 620 F. Supp. 2d at 1080. Alice argues that *Cybersource* was wrongly decided for several reasons, but every aspect of Alice’s “analysis” of *Cybersource* is incorrect.²¹ More

²⁰ Alice fails to mention that the August 24, 2009 Guidelines note that a claim to a “computer readable medium” should be “rejected under § 101” where it fails to recite structural limitations that make clear that the “medium” is tangible. Thus, the Guidelines state that “a claim to a computer readable medium that can be a compact disc or a *carrier wave*” – the latter is a non-tangible medium – “covers a non-statutory embodiment and therefore should be rejected . . .” August 24, 2009 Guidelines, at 2. Notably, Alice’s claims directed to a “computer readable storage medium” lacks any structural limitations or any indication that the claim is limited to a tangible medium.

²¹ Alice argues that the Court should decline to follow *Cybersource* because (1) “the patentee did not argue that its claims were to “manufactures” or “machines;” (2) “*Cybersource* assertedly “relied exclusively on two appellate decisions for its conclusion that computer storage media are not patent eligible even though neither of these decision had anything to do with § 101;” and (3) the decision is purportedly “based . . . on a belief” that the Federal Circuit’s *Bilski* decision held that “business method patents were *per se* unreasonable.” (Opp. 26-27.) Each of these points is wrong. First, while not expressly stating that its claim was to a “machine” or “manufacture,” the patentee in *Cybersource* certainly argued that its “claim is a product claim.” The Court addressed the patentability of Beauregard claims whatever their “statutory category” and found no legal doctrine to exempt them from the purview of Section 101. *Id.* at 1080. Second, Alice’s claim that that the *Cybersource* court “exclusively” relied on two appellate decisions – *In re Chatfield*, 545 F. 2d 152 (C.C.P.A. 1976) and *U.S. Credit Sys. Co. v. Am. Credit Indem. Co.*, 59 F. 139 (2d Cir. 1893) – is utterly wrong. *Cybersource* only cited *Chatfield* and *U.S. Credit* in background dicta when trying to explain the printed matter rule, “which can be a source of confusion.” *Id.* at 1078. And far from relying “exclusively” on *Chatfield* and *U.S. Credit*, the *Cybersource* court considered a number of other decisions: *Ex parte Bo Li*, 2008 Pat. App. LEXIS 27 (B.P.A.I. 2008), *Ex parte Van Beek*, 2009 WL 112387 (B.P.A.I. 2009), *In re Lowry*, 32 F. 3d 1579 (Fed. Cir. 1994), *In re Nuijten*, 500 F. 3d 1346 (Fed. Cir. 2007), *In re Alappat*, 33 F. 3d 1526 (Fed. Cir. 1994) and *In re Bilski*, 545 F. 3d 943 (Fed. Cir. 2008). See *Cybersource*, 630 F.

importantly, however, Alice has missed the forest for the trees. After analyzing “a tangle of references,” *Cybersource* correctly held that there was no legal doctrine that exempted “computer readable medium” claims from the Section 101 analysis applicable to every other type of claim post-*Bilski*. *See Id.* (“there is . . . no legal doctrine creating a special ‘Beauregard claim’ that would exempt [such claims] from the analysis of *Bilski*.”) That is indisputably true. Alice does not, and cannot, cite any authority to establish the doctrine – *per se* patentability for claims directed to computer readable storage media – that it advocates.²²

Supp. 2d at 1079. Third, nowhere in its discussion of Beauregard claims did the *Cybersource* court rely on, or even mention, the “underpinnings” of *State Street* or the patentability of business methods following *Bilski*. Only after the court resolved the Beauregard claims did it “ponder” the implications of *Bilski* with respect to “whether the end has arrived for business method patents” *Id.* at 1180-81.

²² Alice points (Opp. at 15 n. 5) to the PTO’s issuance of the ’375 patent after the Federal Circuit’s *Bilski I* decision as evidence that “the PTO disagrees with CLS” regarding the application of Section 101 to Alice’s claims. It is no such thing. There is nothing in the prosecution history of the ’375 patent to indicate that the examiner even considered, much less rejected, CLS’s arguments here. Alice also claims that, based on the issuance of the patent, the Court should apply a “heightened presumption of validity.” But in support of its “heightened presumption,” Alice cites only a single 30-year-old district court decision – decided before the formation of the Federal Circuit – that relied on an even older 7th Circuit decision. Alice does not cite, and CLS is not aware of, any Federal Circuit decision that would support Alice’s contention. CLS does not dispute that a patent is presumed valid, and that the fact supporting invalidity must be proven by clear and convincing evidence. Here, however, the material facts are not in dispute, and the only issue is the application of those facts to the legal question of Section 101 patentability. In these circumstances, the presumption of validity has no bearing on the question the Court must decide, which is what may or may not be patentable under Section 101. *See, e.g., Iron Grip Barbell Co. v. USA Sports, Inc.*, 392 F.3d 1317, 1323 (Fed. Cir. 2004) (“On the legal issue of [validity] (as opposed to the underlying factual issues) the grant of a patent does not create a presumption of validity beyond the requirement that the party seeking to invalidate a patent must prove invalidity by clear and convincing *evidence*.”) (Emphasis added.)

Alice's "computer program product" claims are drawn to unpatentable subject matter, and should be dismissed as well.

V. ALICE'S DEPENDENT CLAIMS ARE UNPATENTABLE

As CLS demonstrated in its opening brief, the "dependent" claims in Alice's patents, which add limitations on the "field of use" of the claimed invention, do not add anything which renders their subject matter patentable. (*See* CLS' Opening Br. 36-37.) The "prohibition against patenting abstract ideas 'cannot be circumvented by attempting to limit the use of the formula to a particular technological environment'" *Bilski*, 130 S. Ct. at 3230 (quoting *Flook*).

Alice makes no substantive response to this argument, other than to acknowledge it and to state that it relies solely on its arguments regarding the patentability of its independent claims. (*See* Opp. 35, n. 16.)

Accordingly, given the unpatentable nature of Alice's independent claims, as discussed herein, the dependent claims should be dismissed as well for lack of patentable subject matter.

CONCLUSION

For the foregoing reasons, and those set forth in its opening memorandum, CLS should be granted summary judgment that all of the claims of the Alice Patents are invalid for lack of patentable subject matter, and Alice's cross-motion for partial summary judgment as to patent eligibility should be denied.

Dated: October 8, 2010

Respectfully submitted,

/s/ Steven J. Glassman

William A. Tanenbaum (WT-9960)
Steven J. Glassman (SG-1616)
Stephen J. Elliott (SE-5437)
KAYE SCHOLER LLP
425 Park Avenue
New York, NY 10022-3598
(212) 836-8000

David O. Bickart (Bar # 355313)
KAYE SCHOLER LLP
901 Fifteenth Street, N.W.
Washington, DC 20005-2327
(202) 682-3503

*Attorneys for CLS Bank International and
CLS Services Ltd.*

APPENDIX A



UNITED STATES PATENT AND TRADEMARK OFFICE

Commissioner for Patents
 United States Patent and Trademark Office
 P.O. Box 1450
 Alexandria, VA 22313-1450
 www.uspto.gov

MEMORANDUM

DATE: July 27, 2010

TO: Patent Examining Corps

FROM: 
 Robert W. Bahr
 Acting Associate Commissioner
 For Patent Examination Policy

SUBJECT: **Interim Guidance for Determining Subject Matter Eligibility for Process Claims in View of *Bilski v. Kappos***

The attached Federal Register notice entitled **Interim Guidance for Determining Subject Matter Eligibility for Process Claims in View of *Bilski v. Kappos* (Interim Bilski Guidance)** is for use by USPTO personnel in determining subject matter eligibility under 35 U.S.C. § 101 in view of the recent decision by the United States Supreme Court (Supreme Court) in *Bilski v. Kappos*, 561 U.S. ___ (2010) (*Bilski*). The *Interim Bilski Guidance* is a supplement to the previously issued *Interim Examination Instructions for Evaluating Subject Matter Eligibility Under 35 U.S.C. § 101* dated August 24, 2009 (*August 2009 Interim Instructions*) and the memorandum to the Patent Examining Corps on the Supreme Court Decision in *Bilski* dated June 28, 2010. The *August 2009 Interim Instructions* are to be consulted for determining subject matter eligibility under 35 U.S.C. § 101 of machine, composition, and manufacture claims.

The *Interim Bilski Guidance* provides factors to consider in determining whether a claim is directed to an abstract idea and is therefore not patent-eligible under 35 U.S.C. § 101. Under the *Interim Bilski Guidance*, factors that weigh in favor of patent-eligibility satisfy the criteria of the machine-or-transformation test or provide evidence that the abstract idea has been practically applied, and factors that weigh against patent-eligibility neither satisfy the criteria of the machine-or-transformation test nor provide evidence that the abstract idea has been practically applied. A summary sheet of these factors is also attached to this memorandum. The machine-or-transformation test remains an investigative tool and is a useful starting point for determining whether a claimed invention is a patent-eligible process under 35 U.S.C. § 101. The *Interim Bilski Guidance* provides additional factors to aid in the determination of whether a claimed method that fails the machine-or-transformation test is nonetheless patent-eligible (*i.e.*, is not an abstract idea), and also whether a claimed method that meets the machine-or-transformation test is nonetheless patent-ineligible (*i.e.*, is an abstract idea). Since claims directed to abstract ideas were not patent-eligible prior to *Bilski*, subject matter eligibility outcomes based on the *Interim Bilski Guidance* are not likely to change in most cases. The difference is that in some rare cases, factors beyond those relevant to machine-or-transformation may weigh for or against a finding that a claim is directed to an abstract idea.

Finally, under the principles of compact prosecution, Office personnel should state all non-cumulative reasons and bases for rejecting claims in the first Office action, and should avoid focusing on issues of patent-eligibility under 35 U.S.C. § 101 to the detriment of considering an application for compliance with the requirements of 35 U.S.C. §§ 102, 103, and 112, and also avoid treating an application solely on the basis of patent-eligibility under 35 U.S.C. § 101 except in the most extreme cases.