

No. 13-

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IN THE  
**Supreme Court of the United States**

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ALICE CORPORATION PTY. LTD.,  
*Petitioner,*

v.

CLS BANK INTERNATIONAL AND CLS SERVICES LTD.,  
*Respondent.*

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**On Petition for a Writ of Certiorari  
to the United States Court of Appeals  
for the Federal Circuit**

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**PETITION FOR A WRIT OF CERTIORARI**

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September 4, 2013

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## **QUESTION PRESENTED**

Whether claims to computer-implemented inventions—including claims to systems and machines, processes, and items of manufacture—are directed to patent-eligible subject matter within the meaning of 35 U.S.C. § 101 as interpreted by this Court?

**PARTIES TO THE PROCEEDING**

All parties to the proceeding are identified in the caption.

**RULE 29.6 STATEMENT**

The sole parent corporation or publicly held company that owns 10 percent or more of the stock of Petitioner Alice Corporation Pty. Ltd. is National Australia Bank Limited.

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## **PETITION FOR A WRIT OF CERTIORARI**

Alice Corporation Pty. Ltd. (“Alice”) respectfully petitions for a writ of certiorari to review the judgment of the en banc Federal Circuit in this case.

### **OPINIONS BELOW**

The opinion of the United States District Court for the District of Columbia is reproduced in the appendix to this petition (Pet. App.) at 172a-238a, and reported at 768 F. Supp. 2d 221. The Federal Circuit panel decision is reproduced at Pet. App. 132a-71a, and reported at 685 F.3d 1341. The order of the court of appeals granting rehearing en banc is reproduced at Pet. App. 239a-41a, and is available at 484 F. App’x 559. The numerous opinions of the Judges of the Federal Circuit sitting en banc are reproduced at Pet. App. 1a-131a, and reported at 717 F.3d 1269.

### **JURISDICTION**

A panel of the court of appeals entered judgment on July 9, 2012. Pet. App. 132a. A timely petition for rehearing en banc was granted on October 9, 2012. Pet. App. 239a. The en banc court entered judgment on May 10, 2013. Pet. App. 1a. On July 22, 2013, the Chief Justice granted Alice an extension of time to and including September 6, 2013, within which to file a petition for a writ of certiorari. This Court has jurisdiction pursuant to 28 U.S.C. § 1254(1).

### **STATUTORY PROVISIONS INVOLVED**

Section 101 of the Patent Act provides: “Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain

a patent therefor, subject to the conditions and requirements of this title.” 35 U.S.C. § 101.

## INTRODUCTION

The Federal Circuit granted rehearing en banc in this case to address two fundamental and important questions relating to the patent eligibility of inventions that involve the use of computers: (1) “What test should the court adopt to determine whether a computer-implemented invention is a patent ineligible ‘abstract idea’; and when, if ever, does the presence of a computer in a claim lend patent eligibility to an otherwise ineligible abstract idea?” and (2) “In assessing patent eligibility under 35 U.S.C. § 101 of a computer-implemented invention, should it matter whether the invention is claimed as a method, system, or storage medium ...?” Pet. App. 240a. Technology companies, practitioners, commentators, and district courts all anticipated that the en banc court would use this case to set forth clearer guidance for determining whether, and if so, under what circumstances computer-implemented inventions qualify as patent-eligible subject matter under section 101.

Unfortunately, far from providing clearer guidance, the Federal Circuit issued six separate opinions spanning more than 125 pages, none of which reflected an approach endorsed by a majority. The court split 5-5 with respect to Alice’s claims to computer system inventions, leaving in place the district court’s original summary judgment ruling holding them non-patentable. Alice’s remaining claims were held non-patentable, although for different, and inconsistent, reasons. As a result, the legal standards that govern whether computer-implemented inventions are eligible for patent

protection under section 101 remain entirely unclear and utterly panel dependent. As Judge Newman put it in her separate opinion, the court below

propounded at least three incompatible standards, devoid of consensus, serving simply to add to the unreliability and cost of the system of patents as an incentive for innovation....

... Today's irresolution concerning section 101 affects not only this court and the trial courts, but also the PTO examiners and agency tribunals, and all who invent and invest in new technology.

Pet. App. 100a.

The Federal Circuit has left no doubt that it is irreconcilably fractured. The uncertainty that now plagues—and will, absent this Court's intervention, continue to plague—the patent system will cause severe harm and waste for innovators and litigants, as well as lower courts and the Patent and Trademark Office. Moreover, neither the judgment nor the analysis offered in the plurality opinion can be reconciled with this Court's precedents. What makes the current state of legal disarray completely intolerable is that patented inventions are the engine of much of the nation's and the world's economic growth, which will be needlessly stifled unless the standards for patentability are much clearer than they are today. The Court should grant certiorari in order to bring much-needed clarity to the application of section 101 to computer-implemented inventions.

## STATEMENT OF THE CASE

### I. STATUTORY BACKGROUND

The Patent Act confers on those who obtain a patent the right to exclude others from making, selling, or using the patented invention for a specified period of time. 35 U.S.C. § 154(a). A patent includes both a written description, or “specification,” that describes the invention, and specific “claims” that “particularly point[] out and distinctly claim[] the subject matter which the inventor or a joint inventor regards as the invention.” *Id.* § 112(a)-(b). The claims define the patented invention and set the boundaries of the patent right. *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 373 (1996). Patents commonly contain more than one claim, and the claims themselves commonly contain multiple elements or limitations.

The patent statute specifies what general subject matter is eligible for a patent—namely “any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof.” 35 U.S.C. § 101. “The general purpose of the statutory classes of subject matter is to limit patent protection to the field of applied technology, what the United States constitution calls ‘the useful arts.’” 1 Donald S. Chisum, *Chisum on Patents* § 1.01 (2013) (quoting U.S. Const. art. I, § 8, cl. 8). In a series of decisions, including three recent ones, this Court has identified three exceptions to the statutory categories of patentable subject matter. See *Ass’n for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107 (2013); *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289 (2012); *Bilski v. Kappos*,

130 S. Ct. 3218 (2010).<sup>1</sup> In particular, the Court has declared that “laws of nature, natural phenomena, and abstract ideas” lie outside the realm of patent-eligible subject matter. *E.g.*, *Myriad Genetics*, 133 S. Ct. at 2116.

Significantly, subject matter that fits within the scope of section 101 is merely *eligible* for a patent—not necessarily entitled to patent protection. Instead, a patent claim will not be granted, and if granted will be held “invalid,” unless it satisfies specific requirements set forth in other provisions of the Patent Act. If, for instance, a claim covers what already has been done or disclosed, it is “anticipated,” *i.e.*, invalid for lack of novelty. See 35 U.S.C. § 102. If a claim merely covers obvious modifications to what previously has been done or disclosed, it is invalid for “obviousness.” *Id.* § 103; see *KSR Int’l Co. v. Teleflex, Inc.*, 550 U.S. 398, 417-18 (2007). If the patent specification does not provide a description that would permit one of ordinary skill in the art to implement the full scope of what is claimed without undue experimentation, the claim is invalid for lack of enablement. 35 U.S.C. § 112(a). While these and other statutory requirements must be satisfied before a patent claim can be validly enforced to prevent infringement, they do not limit what subject matter is patent-eligible. *E.g.*, *Parker v. Flook*, 437 U.S. 584, 588 (1978). That is solely the province of section 101.

The various categories of patent-eligible subject matter give rise to different types of patent claims, which fall into two general categories: claims that cover products and claims that cover methods. See 1

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<sup>1</sup> See also *Diamond v. Diehr*, 450 U.S. 175 (1981); *Parker v. Flook*, 437 U.S. 584 (1978); *Gottschalk v. Benson*, 409 U.S. 63 (1972).

*Chisum on Patents* § 1.02. Product claims relate to tangible items—*i.e.*, in the terms of section 101, “machine[s], manufacture[s], or composition[s] of matter.” *Id.* In patent terms, claims to machines are often called “system” or “apparatus” claims. Also in the category of product claims are claims to computer programs embodied in tangible computer-readable media (such as a CD-ROM). *Id.* § 1.02[4]. Unlike product claims, “method” claims (also known, in the terms of section 101, as “process” claims) do not claim tangible matter, but instead recite a series of steps that lead to a useful result. See *id.* § 1.03.

## II. PROCEEDINGS BELOW

### A. The Invention.

Alice, which is half-owned by National Australia Bank Limited, was founded in the 1990s by Ian Shepherd, the inventor of the patents-in-suit. In the early 1990s, Mr. Shepherd, previously Managing Partner of the Melbourne, Australia, office of McKinsey & Company Inc., conceived of and later built a computerized system for creating and exchanging financial instruments such as derivatives.<sup>2</sup> Alice applied for and obtained patents, four of which are at issue in this case,<sup>3</sup> Pet. App. 2a,

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<sup>2</sup> In general terms, a derivative is a financial instrument whose value is based on the value of an underlying asset, index, or security. See, e.g., *Analytical Surveys, Inc. v. Tonga Partners, L.P.*, 684 F.3d 36, 48 (2d Cir. 2012), *cert. denied*, 133 S. Ct. 1805 (2013). Commodity futures contracts, options, and swaps are examples of derivatives. See Timothy E. Lynch, *Derivatives: A Twenty-First Century Understanding*, 43 Loy. U. Chi. L.J. 1, 20-21 (2011).

<sup>3</sup> U.S. Patent Nos. 5,970,479 (“the ’479 patent”), 6,912,510 (“the ’510 patent”), 7,149,720 (“the ’720 patent”), and 7,725,375 (“the ’375 patent”).

covering aspects of Mr. Shepherd’s invention, known in the patents as the INVENTCO system. One aspect of the INVENTCO system, which is recited in the asserted claims,<sup>4</sup> relates to a specific computer system and computerized process for the execution of a previously agreed-upon exchange, known as “settlement.” *Id.* at 42a-43a.

Typically, when parties agree to exchange particular financial assets or instruments—such as, for example, currencies—their agreement to make the exchange occurs prior to, and separate from, the actual exchange itself. Thus, for example, while parties may agree on Monday to trade a certain number of dollars for a certain number of euros, the actual exchange will not occur until sometime later, typically several days. This later execution of the parties’ previously agreed-upon trade is referred to as settlement. A major risk in this sort of transaction is that one party will perform and send its portion of the exchange at the time for settlement, but the other party will not. Pet. App. 42a-43a.

Mr. Shepherd’s invention addresses this problem by using a specially programmed computer to perform settlements in a particular way that mitigates or eliminates the risk that one party to an exchange will perform without the other doing so. In the invention, a computer system electronically maintains accounts for each party (described in the claims as “first” and “third” accounts). These accounts correspond to, but are independent from, “real-world” exchange accounts (described as “second” and “fourth” accounts in the claims) at an exchange institution or institutions (such as a central bank, in the case of currency trades). Pet. App. 71a-72a (’375 patent, claim 26).

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<sup>4</sup> JA365-67, 528-30, 688-89, 849-51.

Upon receiving a transaction from the user, and after ensuring that there is adequate value in each party's account, the computer (in real time) adjusts the accounts it maintains so as to effect the exchange in those accounts. *Id.* at 72a. If either party's account lacks adequate value, the computer will not effect the exchange. Finally, sometime thereafter (for example, at the end of the day), the computer automatically generates an instruction to the exchange institution or institutions to carry out the transaction in their "real-world" accounts. *Id.* For example, in the case of currency settlements, the system might generate and send instructions to the U.S. Federal Reserve Bank and the European Central Bank to move dollars and euros to the parties' accounts maintained with those central banks.

The asserted claims include system, computer-readable media, and method claims. Claim 26 of the '375 patent is typical of Alice's system claims. Pet. App. 71a-72a. That claim recites:

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

a communications controller,

a first party device, coupled to said communications controller,

a data storage unit having stored therein

(a) information about a first account for a first party, independent from a second account maintained by a first exchange institution, and

(b) information about a third account for a second party, independent from a fourth



account maintained by a second exchange institution; and

a computer, coupled to said data storage unit and said communications controller, that is configured to

(a) receive a transaction from said first party device via said communications controller;

(b) electronically adjust said first account and said third account in order to effect an exchange obligation arising from said transaction between said first party and said second party after ensuring that said first party and/or said second party have adequate value in said first account and/or said third account, respectively; and

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

*Id.* at 71a-72a (emphases omitted). In other words, the claim recites a computer and other hardware, as well as the structural configuration of that hardware, specifically programmed to solve, in a particular way, the complex problem of settlement risk to which the invention is directed. *Id.* Thus, the computer in claim 26 is configured to receive transactions from the parties to an exchange, to adjust electronically the accounts maintained by the computer, and to generate instructions to the exchange institutions to

implement the exchange in the separate accounts maintained by those institutions. *Id.* The common specification that underlies all of the patents, including the '375 patent, contains flowcharts that provide algorithm support for the specific programming to implement functions recited in the claims. *Id.* at 74a-75a (reproducing an example flowchart, Fig. 16 from the '375 patent).

Claim 33 of the '479 patent is typical of the method claims that cover the computerized process Mr. Shepherd invented. Pet. App. 26a-27a. That claim recites a method for mitigating settlement risk, as the claimed computer system does, through the use of electronic “shadow credit record[s]” and “shadow debit record[s]” held by a “supervisory institution.” *Id.* The electronic shadow records reflect the balances in the transacting parties’ real-world accounts held at “exchange institutions,” and are updated in real time by the supervisory institution as transactions are entered, permitting only those transactions for which the parties’ updated shadow records indicate sufficient resources to satisfy their mutual obligations. *Id.* at 27a. At the end of the day, the supervisory institution instructs the exchange institutions to irrevocably exchange credits and debits in the parties’ real-world accounts to effect the agreed-upon and permitted transactions. *Id.*<sup>5</sup> It is undisputed that all of the recited method claims require implementation by a computer. *Id.* at 28a.

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<sup>5</sup> Claim 39 of the '375 patent, a representative computer-readable medium claim, recites “a computer readable storage medium having computer readable program code embodied in the medium for use by a party to exchange an obligation between a first party and a second party” in a manner similar to the method recited in claim 33 of the '479 patent. Pet. App. 32a (emphasis omitted).

## B. Lower Court Proceedings.

In May 2007, CLS Bank International and CLS Services Ltd. (collectively, “CLS Bank”) sued Alice in federal court, pursuant to 28 U.S.C. §§ 1331 and 1338(a), for a declaratory judgment that the asserted claims are invalid, unenforceable, or otherwise not infringed. Alice counterclaimed, alleging that CLS Bank infringed various claims. The parties filed cross-motions for summary judgment on whether the asserted claims define patent-eligible subject matter under section 101. The court granted CLS Bank’s motion and denied Alice’s, holding that none of the asserted claims defines patent-eligible subject matter. Pet. App. 172a-238a.

A divided panel of the Federal Circuit reversed. The panel majority (Judges Linn and O’Malley) held that the asserted claims “cover the practical application of a business concept in a specific way, which requires computer implemented steps.” Pet. App. 159a. Although the asserted claims “fall within different statutory categories”—*i.e.*, system, process, and manufacture claims—the majority reached the same conclusion regarding all of the claims. *Id.* at 154a. Judge Prost dissented.

The Federal Circuit granted CLS Bank’s petition for en banc rehearing. Pet. App. 240a. The court instructed the parties to submit additional briefs addressing the following questions:

- a. What test should the court adopt to determine whether a computer-implemented invention is a patent ineligible “abstract idea”; and when, if ever, does the presence of a computer in a claim lend patent eligibility to an otherwise patent-ineligible idea?

b. In assessing patent eligibility under 35 U.S.C. § 101 of a computer-implemented invention, should it matter whether the invention is claimed as a method, system, or storage medium; and should such claims at times be considered equivalent for § 101 purposes?

*Id.* The court invited amicus participation, *id.* at 241a, and 25 briefs were submitted on behalf of 47 amici.

### C. En Banc Decision.

The en banc court produced a one-paragraph per curiam opinion, five concurring and dissenting opinions, and “additional reflections” by Chief Judge Rader. Pet. App. 1a-131a. Seven of the ten participating judges voted to affirm the district court’s decision that the asserted method and computer-readable media claims were not directed to eligible subject matter, but there was no majority as to the proper reasoning to apply. As for the system claims, there was no majority as to reasoning or result, and the judgment was affirmed by an equally divided court.

1. Writing for himself and Judges Dyk, Prost, Reyna, and Wallach, Judge Lourie concurred in the decision to affirm, taking the position that none of the asserted claims was directed to eligible subject matter. Acknowledging that “the patent-eligibility test has proven quite difficult to apply,” Judge Lourie sought to propose an “analysis [that] should apply in determining whether a computer-implemented claim recites patent-eligible subject matter.” Pet. App. 10a, 19a.

The first question, Judge Lourie wrote, is whether the invention fits within one of section 101’s four classes of eligible subject matter. If so, the court must

assess whether “the claim pose[s] any risk of preempting an abstract idea[.]” Pet. App. 20a. If there is such a risk, it is then “important ... to identify and define whatever fundamental concept appears wrapped up in the claim.” *Id.* Indeed, Judge Lourie reiterated, “one cannot meaningfully evaluate whether a claim preempts an abstract idea until the idea supposedly at risk of preemption has been unambiguously identified.” *Id.* The next step is to examine “the balance of the claim.” Pet. App. 20a-21a. According to Judge Lourie, the question in reviewing “the balance of the claim” is whether it reflects an “inventive concept”<sup>6</sup>—*i.e.*, “human contribution [that] represent[s] more than a trivial appendix to the underlying abstract idea.” *Id.* at 22a.

Judge Lourie next applied his analytical framework to Alice’s asserted claims, beginning with the method claims. First, he stated that “[t]he methods claimed here draw on the abstract idea of reducing settlement risk by effecting trades through a third-party intermediary (here, the supervisory institution) empowered to verify that both parties can fulfill their obligations before allowing the exchange—*i.e.*, a form of escrow.” Pet. App. 28a. He then reviewed the remaining claim limitations one by one, concluding that “none of [them] adds anything of substance to the claim.” *Id.* at 29a. In particular, as to the requirement for computer implementation, he stated that “simply appending generic computer functionality to lend speed or efficiency to the performance of an otherwise abstract concept does not meaningfully

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<sup>6</sup> Judge Lourie recognized that, despite his use of the term “inventive,” questions of novelty are “of no relevance in determining whether the subject matter of a claim falls within the § 101 categories.” Pet. App. 21a-22a (quoting *Diehr*, 450 U.S. at 188-89).

limit claim scope for purposes of patent eligibility.” *Id.* More broadly, he explained, “[a]t its most basic, a computer is just a calculator capable of performing mental steps faster than a human could. Unless the claims require a computer to perform operations that are not merely accelerated calculations, a computer does not itself confer patent eligibility.” *Id.* at 30a. The computer-readable medium claim was subject to essentially the same analysis because it was drawn “to the underlying method” set forth in the process claims. *Id.* at 33a-34a.

Judge Lourie next concluded that the computer system claims were also indistinguishable from the method claims. Although the system claims recited “physical objects,” namely computer hardware, Judge Lourie opined that those objects were described “in generic, functional terms,” as equipment capable of “carry[ing] out the otherwise abstract methods recited” in the method claims. Pet. App. 36a-39a. Although Judge Lourie recognized that “a computer *per se*” is “surely [a] patent-eligible machin[e],” in his view that was not true of Alice’s claimed computer system. *Id.* at 41a. Instead, Judge Lourie stated, the claimed system was better described as “abstract methods coupled with computers adapted to perform those methods.” *Id.*

2. Chief Judge Rader wrote an opinion dissenting in part and concurring in part, which was joined by Judges Linn, Moore, and O’Malley.<sup>7</sup> Chief Judge Rader “beg[a]n with the text of the statute.” Pet. App. 45a. He noted the breadth of section 101, and that it “both uses expansive categories and modifies them with the word ‘any.’” *Id.* at 46a. He also noted that

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<sup>7</sup> As explained below, Part VI of Chief Judge Rader’s opinion was joined only by Judge Moore. Pet. App. 41a.

when the statute was amended in 1952, it was made even more sweeping—by, among other things, expanding the definition of “invention” in section 100(a) to mean “invention or discovery”—so that patent eligibility would extend to “anything that is under the sun that is made by man.” *Id.* at 48a. Moreover, the 1952 amendment also moved “any need for an ‘invention’ or ‘inventiveness’ measure” out of the test for patent-eligibility, replacing it with the “objective test for ‘obviousness’ in Section 103.” *Id.* at 50a.

Chief Judge Rader next observed that the exceptions to patent-eligibility that this Court has identified focus on whether “the asserted claim *as a whole*” covers “merely an abstract idea.” Pet. App. 53a-54a. Reviewing the claim “*as a whole*” is essential, because “[a]ny claim can be stripped down, simplified, generalized, or paraphrased to remove all of its concrete limitations, until at its core, something that could be characterized as an abstract idea is revealed.” *Id.* at 54a. In determining whether a claim, as a whole, covers merely an abstract idea, the relevant inquiry is whether the claim “includes *meaningful* limitations restricting it to an application.” *Id.* at 57a. A claim that “covers all practical applications of an abstract idea,” or that “contains only insignificant or token pre- or post-solution activity” “is not meaningfully limited.” *Id.* at 58a-60a. As applied to a computer-implemented claim, the meaningful-limitation inquiry asks “whether the claims tie the otherwise abstract idea to a *specific way* of doing something with a computer, or a *specific computer* for doing something; if so, they likely will be patent eligible, unlike claims directed to *nothing more than the idea* of doing something on a computer.” *Id.* at 62a. Finally, Chief Judge Rader

observed that like all “judge-made exceptions to properly enacted statutes,” the exception for abstract ideas should be “narrowly construed” in order to avoid “improper narrowing” of the scope of section 101. *Id.* at 66a.

Applying his analytical framework to the asserted claims, beginning with the system claims, Chief Judge Rader stated at the outset that “[c]omputers are ‘machines.’” Pet. App. 69a. Citing this Court’s observation in *Bilski* that a method claim’s reliance on a machine is a “useful and important clue” to patent-eligibility, 130 S. Ct. at 3227, Chief Judge Rader observed that “[i]f tying a method to a machine can be an important indication of patent-eligibility, it would seem that a claim embodying the *machine itself*, with all its structural and functional limitations, would rarely, if ever, be an abstract idea.” Pet. App. 70a. Looking to claim 26 of the ’375 patent, one of the representative computer system claims, Chief Judge Rader observed that the claim “covers the use of a computer and other hardware specifically programmed to solve a complex problem.” *Id.* at 73a. In addition to the hardware recited in the claim, the specification “discloses at least thirty-two figures which provide detailed algorithms for the software with which this hardware is to be programmed,” and “explains implementation of the recited special purpose computer system[s].” *Id.* Moreover, the claimed system is not coextensive with the “abstract concept” of escrow generally: “[t]he recited steps are not inherent in the process of using an escrow,” and “someone can use an escrow arrangement in many other applications, without computer systems, and even with computers but in other ways without infringing the claims.” *Id.* at 77a-78a.



In a part of his opinion joined only by Judge Moore, Chief Judge Rader concluded that the method and computer-readable medium claims are not directed to eligible subject matter. He opined that the method claims “describe[] the general and theoretical concept of using a neutral intermediary in exchange transactions to reduce risk that one party will not honor the deal,” and concluded that each of the steps in the claimed method was “an inherent part” of such an escrow arrangement. Pet. App. 82a. The claims’ reference to computer implementation was “not, by itself, enough.” *Id.* at 84a. Thus, Chief Judge Rader stated, “like Judge Lourie, we [Chief Judge Rader and Judge Moore] would hold the method claims in this case are not eligible under Section 101, but would do so for different reasons than he articulates.” *Id.*

3. Judge Moore filed an additional opinion dissenting in part, which was joined by Chief Judge Rader and Judges Linn and O’Malley. Judge Moore underscored both the importance of the issue before the court and the flaws in Judge Lourie’s analysis. As to the first point, Judge Moore observed that “lumping together the asserted method, media, and system claims” and “[h]olding that all of these claims are directed to no more than an abstract idea gives staggering breadth to what is meant to be a narrow judicial exception.” Pet. App. 85a. In fact, Judge Moore wrote, “if all of these claims, including the system claims, are not patent-eligible, this case is the death of hundreds of thousands of patents, including all business method, financial system, and software patents as well as many computer implemented and telecommunications patents.” *Id.* at 86a. Adopting Judge Lourie’s reasoning “would decimate the electronics and software industries.” *Id.* at 86a n.1.

As to the second point, Judge Lourie erred, Judge Moore explained, by misreading this Court's precedents. Judge Lourie failed to recognize the indication in *Bilski* that "a method claim's recitation of machine limitations is a 'useful and important clue' that the claim is patent-eligible." Pet. App. 88a. Echoing Chief Judge Rader, Judge Moore explained that "if meaningfully tying a method to a machine can be an important indication of patent-eligibility, how can a claim to the *machine itself*, with all its structural and functional limitations, *not* be patent-eligible?" *Id.* Judge Lourie also misapplied the "inventive concept" language that this Court used in *Mayo* to "imbue[] the § 101 inquiry with a time-dependency that is more appropriately the province of §§ 102 and 103.... [Section] 101 is not a moving target—claims should not become abstract simply through the passage of time." *Id.* at 90a.

4. Judge Newman wrote a separate opinion concurring in part and dissenting in part. She agreed that the claims must stand or fall together, but opined that all were directed to eligible subject matter. Pet. App. 113a. She emphasized that the Federal Circuit's inability to provide definite guidance as to the meaning of section 101 will "simply ... add to the unreliability and cost of the system of patents as an incentive for innovation." *Id.* at 100a. The result of the Federal Circuit's impasse "is that any successful innovation is likely to be challenged in opportunistic litigation, whose result will depend on the random selection of the panel." *Id.*

5. Judge Linn, joined by Judge O'Malley, wrote an opinion concluding, as they had when they made up the panel majority, that all of Alice's claims are patent-eligible, because all are "grounded by the same meaningful limitations." Pet. App. 113a-14a.

Judge Lourie’s analysis was flawed, Judge Linn explained, because it “strip[ped] the claims of their detail and limitations” in direct contravention of this Court’s instruction in *Diehr* that section 101 be applied to the claims as a whole, an error that resulted in a “paraphrased abstraction of the claims” that “preordained[ed]” Judge Lourie’s conclusion that they were not patent-eligible. *Id.* at 121a. Chief Judge Rader, in contrast, had properly analyzed the computer system claims, but erred as to the method and computer-readable medium claims because he failed to recognize, as the record made clear and CLS Bank had stipulated, that *all* of the claims require electronic implementation on a computer. *Id.* at 118a-19a. Once the method and medium claims are properly understood to require all of the computer-implemented limitations of the system claims, they neither are abstract, nor do they preempt all commercial uses or applications of the supposed abstract idea of using an intermediary to facilitate financial transactions. *Id.* at 124a.

6. Finally, Chief Judge Rader offered further views in a statement denominated “Additional Reflections.” He bemoaned the departure in section 101 jurisprudence from the text of the statute, and the lack of clarity that the departure has caused. Pet. App. 127a-30a. In particular,

to inject the patentability test of “inventiveness” into the separate statutory concept of subject matter eligibility makes this doctrine again “the plaything of the judges who, as they became initiated into its mysteries, delighted to devise and expound their own ideas of what it meant; some very lovely prose resulting.”

*Id.* at 130a (quoting Giles S. Rich, *Principles of Patentability*, 28 Geo. Wash. L. Rev. 393, 404 (1960)).

**REASONS FOR GRANTING THE PETITION****I. NO CLEAR STANDARD EXISTS, AND THE FEDERAL CIRCUIT IS ADMITTEDLY AND HOPELESSLY FRACTURED.**

Although this Court has examined section 101 on several occasions in recent years, it has not addressed the application of section 101 to a computer-implemented invention in more than three decades. And it has never examined the application of section 101 in the context of computer-based systems or software. In the time since *Diehr*, *Benson*, and *Flook*, both dramatic changes in information technology and evolution in this Court's reading of section 101—particularly in *Bilski* and *Mayo*—have given rise to tremendous uncertainty as to the application of section 101 to computer-implemented inventions.<sup>8</sup> Given the importance of computers and software to our nation's economy, the time is ripe for the Court to address these issues.

The Court need look no further than the Federal Circuit's inability to make a decision concerning the computer system claims, and the hundreds of pages of opinions proposing approaches on which a majority of the court could not agree, to recognize the

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<sup>8</sup> This Court's opinion in *Myriad* was issued after the decision below and was not considered by the en banc Federal Circuit. However, *Myriad* addressed a different judicial exception to patent-eligibility (natural phenomena) applied to an entirely different industry (gene sequencing). See 133 S. Ct. at 2111-13. Accordingly, *Myriad* would not likely have changed the outcome or reasoning offered here. Indeed, as described at p. 23-24, *infra*, precisely the same dispute that prevented consensus in this case similarly fractured the Federal Circuit's decision in *Ultra-commercial, Inc. v. Hulu, Inc.*, 2013 WL 3111303 (Fed. Cir. June 21, 2013), *petition for cert. filed*, No. 13-255 (Aug. 23, 2013), issued *after Myriad* was handed down.

enormous confusion that exists. The opinions are replete with observations that the application of section 101 to computer-implemented inventions remains plagued with uncertainties that have caused and will continue to cause confusion in the courts and before the Patent and Trademark Office, as well as harm to innovation in the information technology field and beyond. Pet. App. 10a (“the patent-eligibility test has proven quite difficult to apply”) (Lourie, J.); *id.* at 85a (“the current interpretation of § 101, and in particular the abstract idea exception, is causing a free fall in the patent system”) (Moore, J.); *id.* at 87a (“Our court is irreconcilably fractured ....”) (Moore, J.); *id.* at 100a (“we have propounded at least three incompatible standards, devoid of consensus, serving simply to add to the unreliability and cost of the system of patents as an incentive for innovation”) (Newman, J.); *id.* at 129a (“The intervening commotion [since *Diehr* and other decisions] leaves us with little, if any, agreement amongst us even though the statute has not changed a syllable.”) (Rader, C.J.).

The decision here is no isolated incident. Since this Court’s decision in *Bilski*, the Federal Circuit has repeatedly employed different, and inconsistent, tests to evaluate computer-implemented inventions. Compare, e.g., *Research Corp. Techs., Inc. v. Microsoft Corp.*, 627 F.3d 859, 868 (Fed. Cir. 2010) (computer-implemented invention is ineligible subject matter only where abstractness “exhibit[s] itself so manifestly as to override the broad statutory categories of eligible subject matter and the statutory context that directs primary attention on the patentability criteria of the rest of the Patent Act”), and *Ultramercial, LLC v. Hulu, LLC*, 657 F.3d 1323, 1330 (Fed. Cir. 2011) (“as a practical application of the general concept of advertising as currency and an improvement to prior

art technology, the claimed invention is not ‘so manifestly abstract as to override the statutory language of section 101.’”), *vacated*, 132 S. Ct. 2431 (2012), with *Bancorp Servs., LLC v. Sun Life Assurance Co. of Can. (U.S.)*, 687 F.3d 1266, 1278 (Fed. Cir. 2012) (“To salvage an otherwise patent-ineligible process, a computer must be *integral* to the claimed invention, facilitating the process in a way that a person making calculations or computations could not.”) (emphasis added), and *Cybersource Corp. v. Retail Decisions, Inc.*, 654 F.3d 1366, 1375 (Fed. Cir. 2011) (asking whether computer-focused limitation “impose[d] a sufficiently meaningful limit on the claim’s scope” and whether the computer “play[ed] a significant part in permitting the claimed method to be performed.”). As the Federal Circuit observed in 2012, “[o]ur opinions spend page after page revisiting our cases and those of the Supreme Court, and still we continue to disagree vigorously over what is or is not patentable subject matter.” *MySpace, Inc. v. GraphOn Corp.*, 672 F.3d 1250, 1259 (Fed. Cir. 2012) (citing *Dealertrack, Inc. v. Huber*, 674 F.3d 1315 (Fed. Cir. 2012) (Plager, J., dissenting-in-part); *Classen Immunotherapies, Inc. v. Biogen IDEC*, 659 F.3d 1057 (Fed. Cir. 2011) (Moore, J.; dissenting); *Ass’n for Molecular Pathology v. U.S. Patent & Trademark Office*, 653 F.3d 1329 (Fed. Cir. 2011) (concurring opinion by Moore, J., dissenting opinion by Bryson, J.); *In re Ferguson*, 558 F.3d 1359 (Fed. Cir. 2009) (Newman, J., concurring)).

The Judges of the Federal Circuit have found the application of section 101 to be so uncertain that some have recommended that courts strive to steer clear of section 101’s “murky morass” altogether, *MySpace*, 672 F.3d at 1260, notwithstanding section 101’s status as a “threshold test,” *Bilski*, 130 S. Ct. at

3225. In *MySpace*, Judge Plager writing for the majority suggested that “courts could avoid the swamp of verbiage that is § 101 by exercising their inherent power to control the processes of litigation, and insist that litigants initially address patent invalidity issues in terms of the conditions of patentability defenses as the statute provides, specifically §§ 102, 103, and 112.” 672 F.3d at 1260 (citation omitted). If courts were to do so, “it would be unnecessary to enter the murky morass that is § 101 jurisprudence.” *Id.*; see also Dennis Crouch & Robert P. Merges, *Operating Efficiently Post-Bilski by Ordering Patent Doctrine Decision-Marking*, 25 Berkeley Tech. L.J. 1673, 1674, 1678 (2010) (suggesting, in light of the “bedeviling lack of guidance over what patent applicants and patentees can expect when § 101 is applied to a specific patent claim,” that patent-eligibility “be considered only when doing so is absolutely necessary”).

Of course, no competent lawyer would advise an alleged infringer not to raise a section 101 defense, and district courts presumably will follow this Court’s admonition that section 101 is a “threshold” test and at least some will apply section 101 formulations adopted by particular Federal Circuit panels that will potentially sweep protracted and complicated patent litigation off their dockets. It is fanciful to think that a district court will find wading into the “morass” of section 101 more daunting than the analysis of complicated technology that is often required by sections 102, 103, and 112.

And the conflict over the meaning of section 101 has continued, even in the short time since the decision below. One month after the en banc ruling—and eight days after this Court’s decision in *Myriad*—the same debate played out again in *Ultramercial*,

*LLC v. Hulu, LLC*, 2013 WL 3111303 (Fed. Cir. June 21, 2013). There, Chief Judge Rader, writing for the panel majority, offered much the same analysis of section 101 as that recounted in his opinion in this case. Compare Pet. App. 45a-52a, with *Ultramercial*, 2013 WL 3111303, at \*4-13. For his part, Judge Lourie submitted an opinion concurring in the judgment in which he reiterated the same views offered in *his* opinion below. *Ultramercial*, 2013 WL 3111303, at \*17-18 (“I write separately because I believe that we should concisely and faithfully follow the Supreme Court’s most recent guidance regarding patent eligibility in *Mayo* ..., and should track the plurality opinion of five judges from this court in *CLS Bank International v. Alice Corp.*”) (citations omitted). Indeed, even the *Ultramercial* panel’s discussion of the *procedural* aspects of that case was affected by the lack of a governing standard for the application of section 101. *See id.* at \*3. The losing party in *Ultramercial* recently filed its own petition (No. 13-255) seeking review of the conflict stemming from the en banc decision in this case.

There is no prospect that this dispute or uncertainty will be resolved by the Federal Circuit. The court of appeals reheard this case en banc for the specific purpose of establishing a standard for assessing the patent-eligibility of computer-implemented inventions. See Pet. App. 240a. After hearing from the parties and from amici representing the full spectrum of the patent bar; the information technology, e-commerce, financial services, and other industries; and the United States, the court utterly failed to provide any meaningful guidance. See, *e.g.*, *id.* at 99a-100a (“The court, now rehearing this case en banc, hoped to ameliorate this uncertainty by providing objective standards for section 101 patent-



eligibility. Instead we have propounded at least three incompatible standards, devoid of consensus, serving simply to add to the unreliability and cost of the system of patents as an incentive for innovation.”) (Newman, J.). Indeed, Judge Moore’s opinion, joined by three other judges, all but begs this Court to intervene:

Our court is irreconcilably fractured over these system claims and there are many similar cases pending before our court and the district courts. It has been a very long time indeed since the Supreme Court has taken a case which contains patent eligible claims. This case presents the opportunity for the Supreme Court to distinguish between claims that *are* and *are not* directed to patentable subject matter.

*Id.* at 87a. The Court should respond to Judge Moore’s plea by reviewing this case.

## II. THE JUDGMENT BELOW CONFLICTS WITH THIS COURT’S PRECEDENTS.

The Court also should grant review to establish that the judgment below—and particularly the approach set forth in Judge Lourie’s plurality opinion, which the Federal Circuit has elsewhere applied in precedential decisions<sup>9</sup>—conflicts with this Court’s precedents. Indeed, the plurality’s approach cannot be reconciled with this Court’s opinion in *Diehr*, which was reaffirmed in both *Bilski*, 130 S. Ct. at 3229-30, and *Mayo*, 132 S. Ct. at 1298-99.

The first step in the plurality’s approach to section 101 is to “unambiguously identif[y]” the abstract idea that is supposedly preempted by a patent claim. Pet. App. 20a. Next, “the balance of the

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<sup>9</sup> *E.g.*, *Bancorp*, 687 F.3d 1266.

claim” is evaluated to determine whether any specific limitations are sufficiently “inventive”—*i.e.*, representative of a “human contribution” that is not “merely tangential, routine, well-understood, or conventional.” *Id.* at 20a-23a. But this Court expressly rejected such an approach in *Diehr*.

In *Diehr*, this Court considered the patent-eligibility of a process for curing synthetic rubber, which included in several of its steps the use of a mathematical algorithm and a programmed computer. 450 U.S. 175, 177-78 (1981). The Court explained that it is fundamentally inappropriate to separate out the supposed abstract idea—in that case, the algorithm—from the “balance of the claim.” *Id.* at 188-89. Instead, “claims must be considered as a whole. *It is inappropriate to dissect the claims into old and new elements and then to ignore the presence of the old elements in the analysis.*” *Id.* at 188 (emphasis added). Indeed, the petitioner in *Diehr* advocated an approach remarkably similar to the plurality’s, arguing that “if everything other than the algorithm is determined to be old in the art, then the claim cannot recite statutory subject matter.” *Id.* at 189 n.12. But this Court explicitly rejected that position, explaining that the analysis the petitioner proposed “would, if carried to its extreme, make all inventions unpatentable because all inventions can be reduced to underlying principles of nature which, once known, make their implementation obvious.” *Id.* The same is true of the approach taken by the plurality here. See Pet. App. 48a-49a (Rader, C.J.) (criticizing the plurality’s approach on this ground).

The Court in *Diehr* also made clear that the section 101 analysis should not turn on the novelty of any individual claim limitations—or even the claim as a whole. As the Court explained, “[t]he ‘novelty’ of

any element or steps in a process, or even of the process itself, is *of no relevance* in determining whether the subject matter of a claim falls within the § 101 categories of possibly patentable subject matter.” *Diehr*, 450 U.S. at 188-89 (emphasis added). The plurality’s analysis, however, departs from this fundamental principle as well. Here, the plurality examined the limitations in the claimed methods to determine whether each was sufficiently “inventive” and not overly “well-understood” or “conventional.” Pet. App. 21a-24a, 29a-31a.

Finally, the plurality, along with most of the other judges on the en banc court, concluded that all of the asserted claims—system, media, and method—should be treated alike on the ground that “the asserted method and system claims require performance of the same basic process.” Pet. App. 39a. This conclusion, too, violates this Court’s instruction that each claim must be considered *as a whole*, not by stripping away all of its limitations to look solely at the “gist” of the invention. *Diehr*, 450 U.S. at 188-89 & n.12; *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 345 (1961) (“[T]here is no legally recognizable or protected ‘essential’ element, ‘gist’ or ‘heart’ of the invention ....”). Moreover, as Chief Judge Rader and Judge Moore explained, this approach disregards the instruction of this Court in *Bilski* that connecting a method to a machine, as the asserted claims expressly and concretely do, is indicative of patent-eligibility, 130 S. Ct. at 3227: “[I]f meaningfully tying a method to a machine can be an important indication of patent-eligibility, how can a claim to the *machine itself*, with all its structural and functional limitations, *not* be patent-eligible?” Pet. App. 88a; *id.* at 70a.

The Court should take this opportunity to confirm that the approach to section 101 outlined in *Diehr* and reaffirmed in *Bilski* and other cases, which requires considering patent claims as a whole, is the proper way to analyze patent-eligibility under section 101, and that the approach reflected in the decision below is erroneous. As the panel majority recognized, under the proper analysis, Alice’s asserted claims are directed to patent-eligible subject matter.

**III. PROMPT INTERVENTION BY THIS COURT IS NEEDED TO AVOID CONFUSION IN THE LAW AND HARM TO INNOVATION.**

Clear standards are essential in patent law. See, e.g., *Bilski*, 130 S. Ct. at 3231 (Stevens, J., concurring in the judgment) (“In the area of patents, it is especially important that the law remain stable and clear.”); *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 730-31 (2002). The absence of clear standards—particularly clear standards as to the definitional question of what constitutes patent-eligible subject matter—has dramatic implications for innovators, industry, and the broader economy.

The state of confusion that now exists concerning the patent-eligibility of computer-implemented inventions is no exception. As Judge Moore, writing for herself, Chief Judge Rader, and Judges Linn and O’Malley, put it: “the current interpretation of § 101, and in particular the abstract idea exception, is causing a free fall in the patent system.” Pet. App. 85a. The fractured decision below creates the stark prospect that a host of inventions will now be declared unpatentable: “[I]f all of these claims, including the system claims, are not patent-eligible, this case is the death of hundreds of thousands of

patents, including all business method, financial system, and software patents as well as many computer implemented and telecommunications patents.” *Id.* at 85a-86a. Indeed, as Judge Moore explained, “[i]f the reasoning of Judge Lourie’s opinion were adopted, it would decimate the electronics and software industries. There are of course, software, financial system, business method and telecom patents in other technology classes which would also be at risk.” *Id.* at 86a n.1.

The uncertainty itself imposes real costs on courts, litigants, innovators, and the broader economy. With uncertainty comes increased litigation, and “[t]he ascendance of section 101 as an independent source of litigation, separate from the merits of patentability, is a new uncertainty for inventors.” Pet. App. 99a (Newman, J.). The “deadlock” in the decision below means that “any successful innovation is likely to be challenged in opportunistic litigation, whose result will depend on the random selection of the panel.” *Id.* at 100a. As Judge Newman summarized:

Reliable application of legal principles underlies the economic incentive purpose of patent law, in turn implementing the benefits to the public of technology-based advances, and the benefits to the nation of industrial activity, employment, and economic growth. Today’s irresolution concerning section 101 affects not only this court and the trial courts, but also the PTO examiners and agency tribunals, and all who invent and invest in new technology. The uncertainty of administrative and judicial outcome and the high cost of resolution are a disincentive to both innovators and competitors.

*Id.* Clearer guidance on standards in this area of critical importance to the economy is essential, but

does not exist and cannot exist without this Court's intervention.

Even before the decision below, commentators heavily criticized the absence of clear standards for the application of section 101. See, e.g., Jonathan Masur, *Patent Inflation*, 121 Yale L.J. 470, 529 (2011) (explaining that when “[f]aced with uncertain law” as to the patent-eligibility of computer-implemented inventions, “[t]he PTO found itself pushing the legal frontier without a clear signal from the Federal Circuit”); Donald S. Chisum, *Weeds and Seeds in the Supreme Court’s Business Method Patent Decision: New Directions for Regulating Patent Scope*, 15 Lewis & Clark L. Rev. 11, 14 (2011) (“[T]he Section 101 abstract idea preemption inquiry can lead to subjectively-derived, arbitrary and unpredictable results.”); Mark A. Lemley et al., *Life After Bilski*, 63 Stan. L. Rev. 1315, 1325 (2011). Indeed, one district court delayed its ruling on a section 101 issue while the en banc decision here was pending, based on the hope—which proved futile—that “help [was] on the way” in the form of a definitive statement from the Federal Circuit. *Zillow v. Trulia*, 2013 WL 594300, at \*2 (W.D. Wash. Feb. 15, 2013). In the months since the decision, commentators have, in huge numbers,<sup>10</sup> decried the continued confused state of the law. See, e.g., Gene Quinn, *Federal Circuit Nightmare in CLS Bank v. Alice Corp.*, IPWatchdog (May 10, 2013), <http://www.ipwatchdog.com/2013/05/10/federal-circuit-nightmare-in-cls-bank-v-alice-corp/id=40230/> (“How is the Patent Office supposed to process this decision? How are patent examiners supposed to apply this monstrosity? How are patent practitioners

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<sup>10</sup> A Google search for the term “CLS Bank v. Alice” produces nearly 800,000 results.

supposed to write patent applications covering these important innovations.”); Edward Van Gieson, *A Strategy for Dealing with the CLS Bank Decision*, Law360 (May 30, 2013), [www.law360.com/articles/446251/a-strategy-for-dealing-with-the-cls-bank-decision](http://www.law360.com/articles/446251/a-strategy-for-dealing-with-the-cls-bank-decision) (“It may be some years before any clear and consistent framework is articulated.”).<sup>11</sup>

Industry participants have demonstrated the importance of prompt resolution of this issue, with 25 briefs filed in the Federal Circuit on behalf of 47 amici, including Google, Dell, Facebook, IBM, and Philips. Numerous amici specifically addressed the effect that unpredictability in this area of patent law has on the information technology industry and the broader economy. See, e.g., Brief of Amicus Curiae International Business Machines Corporation, at 3-4 (“Clarity and predictability in the patent law are imperative.... Certainty is especially critical in the information technology sector where computer-implemented inventions are commonplace.”); Brief of Amicus Curiae Intellectual Property Owners Association at 3 (“The issue of patent eligibility of computer-implemented inventions is crucially important to ... the broader U.S. economy.”); Brief of Amicus Curiae New York Intellectual Property Law

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<sup>11</sup> See also Robert A. Sachs, *CLS v. Alice: The Federal Circuit at a Jurisprudential Deadlock*, Bilski Blog (May 14, 2013), <http://www.bilskiblog.com/blog/2013/05/cls-v-alice-the-federal-circuit-at-a-jurisprudential-deadlock.html>; John Kong, *The Alice in Wonderland En Banc Decision by the Federal Circuit in CLS Bank v. Alice Corp.*, IPWatchdog (May 14, 2013), <http://www.ipwatchdog.com/2013/05/14/the-alice-in-wonderland-en-banc-decision-by-the-federal-circuit-in-cls-bank-v-alice-corp/id=40344/>; Nelson R. Capes, *CLS Bank v. Alice Corp.: a new hermeneutic of suspicion*, Lexology (June 12, 2013), <http://www.lexology.com/library/detail.aspx?g=be43dee6-08cf-4b1e-b56c-6d1b5f7f8f35>.

Association at 2 (“Recently, the jurisprudence on patent-eligibility has placed a cloud over many patents, particularly computer-implemented inventions.”).

Granting certiorari in this case will allow this Court in a timely way to resolve the uncertainty that is currently plaguing the district courts, the PTO, innovators, and industry. Indeed, this case presents the Court with a unique opportunity to examine whether claims to a variety of computer-implemented inventions—including method claims, computer-readable medium claims, and system claims—are directed to patent-eligible subject matter. While at some level of generality, claims that are directed to different statutory categories may cover similar inventions, claims that fall within different categories are not necessarily the same in scope. See, e.g., *In re Kollar*, 286 F.3d 1326, 1332 (Fed. Cir. 2002). Claims that are drawn to different statutory categories are directed to different inventions and ordinarily have different limitations. By granting review in this case, this Court will have the ability to advise the lower courts, the PTO, and innovators on how the assessment of a system claim, which recites specifically configured computer hardware, may differ from that of a method claim, which recites use of a computer to perform a specific operation. Because the patent claims at issue here cover the full range of computer-related inventions—computer systems, computer-implemented methods, and computer-readable media—this case will allow the Court to craft a comprehensive, rather than piecemeal, approach to computer-related inventions.



**CONCLUSION**

For the foregoing reasons, the petition for a writ for certiorari should be granted.

Respectfully submitted,

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|---------------------------|----------------------|
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