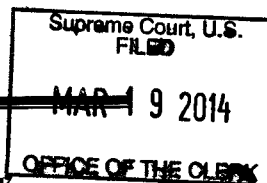No. 13-298

IN THE

Supreme Court of the United States

ALICE CORPORATION PTY. LTD.,

Petitioner,

v.

CLS BANK INTERNATIONAL AND CLS SERVICES LTD.,

Respondents.

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

REPLY BRIEF

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REPLY BRIEF

While both CLS and the Government ask the Court to affirm, their briefs are otherwise polar opposites.

CLS agrees with Alice that the abstract ideas exception is narrow, and that "just like laws of nature and natural phenomena," abstract ideas are not patent-eligible because "'they are the basic tools of scientific and technological work.'" Resp. Br. 15 (quoting *Gottschalk* v. *Benson*, 409 U.S. 63, 67-68 (1972)). While it quibbles with Alice's reading of the exception, CLS's principal argument turns on the facts—namely, the scope of the asserted claims. On CLS's telling—which fails to address the actual claim language—Alice's claims "recite the fundamental economic practice of intermediated settlement or escrow," and therefore "purport to monopolize 'a fundamental economic practice' of 'protecting against risk.'" *Id.* at 1, 11 (quoting *Bilski* v. *Kappos*, 130 S. Ct. 3218, 3231 (2010)). None of the limitations actually recited in the claims—which CLS dismisses as "details"—makes any difference, CLS contends, because each has been previously "used in financial intermediation." *Id.* at 30, 41. CLS further urges the Court to ignore the claims' computer-implementation requirements because a computer supposedly is not necessary to the invention, and argues that the case does not even implicate the "patentability of 'software.'" *Id.* at 11 n.1, 35-40.

Directly contradicting CLS, the Government acknowledges that the claims "include a relatively detailed set of steps, and therefore do not preempt all uses of third-party intermediaries to mitigate settlement risks." U.S. Br. 7. It also agrees with Alice, unlike CLS, that the claimed invention "relies for its efficacy" on a computer. *Id.* at 8. Nonetheless, the

Government asks the Court to declare the claims ineligible using a new and expansive—and unprecedented—version of the abstract ideas exception. Its version would extinguish all business method patents (contrary to the Court's holding in *Bilski*), and would adopt a special rule for computer-implemented inventions, requiring that computer-focused limitations (and only computer-focused limitations) be ignored unless they represent an undefined "advancement in computing technology." *Id.* at 16. Thus, while CLS contends that this case does not concern software patents, the Government asks the Court to announce sweeping new policy that would render virtually all software ineligible for a patent. *Id.* at 6-7, 16-17, 25-26, 28-32.

Although CLS's and the Government's arguments are irreconcilable, they share a common flaw: both ignore the controlling text. CLS disregards the text of the patent claims, relying instead on a caricature of the claims in an attempt to shoehorn them into the abstract ideas exception. That effort is inconsistent with a host of precedents establishing that claims must be read as a whole and according to their express terms. The Government, meanwhile, disregards the text of § 101, proposing a dramatic expansion of a judicial *exception* to that text that would render the exception inconsistent with the statute. That effort, too, conflicts with a host of precedents. Because both CLS and the Government advance arguments that have no textual anchor, it is unsurprising that both are blown wildly off course. Similarly unsurprising, neither can reconcile its position with *Diamond* v. *Diehr*, 450 U.S. 175 (1981), this Court's most recent statement on the patent-eligibility analysis for computer-implemented inventions.

The proper approach, as Alice explained, is spelled out in this Court's § 101 precedent, including *Diehr*, *Bilski*, and *Mayo Collaborative Services* v. *Prometheus Labs.*, 132 S. Ct. 1289 (2012): The abstract ideas exception is limited to fundamental truths, which exist apart from any human action, and which are therefore properly excluded from § 101 because they are not "new." Pet. Br. 21-29. This Court's precedents further establish that only claims that expressly recite a fundamental truth on their face may be deemed ineligible as abstract ideas, and the novelty of the claimed invention (or any individual limitation) is irrelevant. *Id.* at 29-35. Applying these principles to Alice's actual claims demonstrates that those claims define eligible subject matter under § 101.

I. CLS'S POSITION RESTS ON MULTIPLE DISTORTIONS OF THE FACTS, THE LAW, AND ALICE'S ARGUMENTS.

A. This Court's Cases Provide For A Limited Abstract Ideas Exception Consistent With Section 101.

CLS agrees with Alice's explanation (Pet. Br. 20-23) of the purpose and statutory role of the abstract ideas exception. Indeed, CLS asserts that "abstract ideas are not patentable because—just like laws of nature and natural phenomena—'they are the basic tools of scientific and technological work.'" Resp. Br. 15 (quoting *Benson*, 409 U.S. at 67-68); see also *id.* at 16 (acknowledging that the exception is "'consistent with the statutory text'") (quoting *Bilski*, 130 S. Ct. at 3229 (plurality opinion)). CLS also does not dispute Alice's showing (Pet. Br. 27-29) that disembodied concepts (unlike fundamental truths) do not give rise to this same concern and therefore do not implicate the abstract ideas *exception*, but are ineligible

because they do not fit within the four categories of § 101.[1] See Resp. Br. 18 n.4.

Nonetheless, CLS disputes the conclusion that the abstract ideas exception is limited to fundamental truths. See Resp. Br. 19. CLS does this by constructing a straw man, mischaracterizing Alice's argument to be that "ineligible abstract ideas are *limited* to mathematical formulas." *Id.* at 21. Alice *actually* argued—quoting this Court—that the abstract ideas exception extends to "'mathematical formulas *and the like.*'" Pet. Br. 16 (quoting *Mayo*, 132 S. Ct. at 1303) (emphasis added). And that is exactly what this Court's cases establish: the abstract ideas exception extends only to concepts akin to a law of nature or mathematical formula, in the sense that they describe a preexisting principle or relationship that holds true apart from any human action. *Id.* at 21-27 (citing cases).

CLS attacks another straw man when it contends that under Alice's view of "abstract ideas," claim 1 in *Bilski* would have been eligible, because hedging did not "'preexist[]' humankind." Resp. Br. 20 (alteration in original); see also U.S. Br. 22 (making a similar point concerning baseball statistics and sabermetric analysis). CLS misunderstands both Alice's argument and this Court's cases. It is true that hedging (and baseball statistics) did not "preexist humankind," but that is not the relevant question, and that is not Alice's argument. See Pet. Br. 22. Indeed, the law of nature at issue in *Mayo*—the correlation between metabolite levels in human blood and drug efficacy in

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[1] Certain *amici* assert that Alice argues that disembodied concepts are patent-eligible. ACLU Br. 21; Google Br. 15-16. To the contrary, disembodied concepts are *in*eligible because they "do not fit within the four categories of § 101." Pet. Br. 28, 46.

treatment of humans—did not "preexist humankind." The relevant question in identifying an abstract idea under this Court's cases is whether the principle in question holds true "apart from any human action." *Mayo*, 132 S. Ct. at 1297.

And that is plainly true of the abstract idea in Bilski's claims. As the Court explained, Bilski's claim 1 recited a logical truism—*i.e.*, risk from one fixed price transaction can be avoided by engaging in an offsetting transaction at another fixed price. See *Bilski*, 130 S. Ct. at 3223, 3231; Pet. Br. 26. The *Bilski* claim therefore merely "explain[ed]" a relationship between two numbers (the fixed price in one set of transactions and the fixed price in a second set)—a relationship that preexisted Bilski's attempt to patent the idea and that exists independent of human action. 130 S. Ct. at 3223, 3231. Indeed, the Court took pains to make clear that the method of claim 1 recited this relationship between numbers, because the Court reiterated that claim 1 was "reduced to a mathematical formula in claim 4," *id.*, and as CLS rightly observes, "[m]athematical formulas express or explain *relationships*," Resp. Br. 22.[2]

Just like the relationship between blood metabolite levels and drug efficacy in *Mayo*, the numerical relationship between two fixed prices in Bilski's claims holds true regardless of any human action.[3]

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[2] CLS contends that Bilski's claim 4 "did not reduce the entire method [of claim 1] to a mathematical formula." Resp. Br. 19-20. The Court disagreed. 130 S. Ct. at 3223, 3231.

[3] The same is true of OPS (on-base percentage plus slugging percentage). *See* U.S. Br. 22. A process reciting the steps of adding one number (on-base percentage) to another (slugging percentage) to equal a third (OPS) recites a mathematical formula—*i.e.*, a relationship between numbers—that exists

The Court thus declared "the concept of hedging, described in claim 1 and reduced to a mathematical formula in claim 4" to be "an unpatentable abstract idea just like the algorithms at issue in *Benson* and *Flook*." *Bilski*, 130 S. Ct. at 3231.

CLS makes no effort to explain what its apparently broader definition of "abstract ideas" would comprise. Nor does it explain how any broader definition could be reconciled with § 101. CLS instead asks this Court to offer no further guidance concerning the meaning of "abstract ideas,"[4] and to perpetuate the confusion that produced the fractured non-decision below. Resp. Br. *i*, 14.

Instead of proposing a solution, CLS contends, without further explanation, that if Bilski's "method of mitigating risk is a 'fundamental truth,' then so too is the principle that the risk of one party's non-payment at settlement can be mitigated by designating an intermediary to ensure mutual compliance before directing the transfer of entitlement," which CLS claims is "the basic concept that Alice's claims address." *Id.* at 23. First, CLS's *ipse dixit* makes no sense: How can the principle CLS articulates hold true "apart from human action," as *Mayo* requires, if it requires human action (*i.e.*, designating an intermediary, ensuring mutual compliance, and directing a transfer)? But, ultimately, the Court need not reach any conclusion on that score, because this "basic concept" that Alice's claims supposedly

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apart from any human action, even though human action generates the particular values plugged into the formula.

[4] CLS suggests that this Court has deemed it inappropriate to "'define further' the scope of [the abstract ideas] exception." Resp. Br. 14 (quoting *Bilski*, 130 S. Ct. at 3231). This is a misquotation. The Court actually declined to "define further" the statutory term "'process.'" 130 S. Ct. at 3231 (quoting § 101).

"address" is nowhere recited in Alice's claims. And it is the actual claim language—not a litigant's self-serving caricature—that controls the § 101 analysis.

B. The § 101 Analysis Must Focus On The Claims As Written And As A Whole.

It is beyond dispute that claim language must be read as written and as a whole. Indeed, the point is firmly established in this Court's cases and is reiterated by numerous *amici*.[5] Nonetheless, CLS ignores this fundamental principle.

1. The Claims Do Not Recite "The Concept Of Intermediated Settlement Or Escrow."

CLS's driving premise is that the asserted claims "recite" what CLS describes as "the basic economic concept of intermediated settlement or escrow," a supposed abstract idea. *E.g.*, Resp. Br. 1, 9. Indeed, so crucial is this point to CLS that it repeats the assertion no fewer than 10 times, *id.* at *i*, 1, 2, 9, 11, 24, 25, 48, 56—and even claims, falsely, that "Alice does not deny that the asserted claims recite the concept of an intermediated settlement arrangement," *id.* at 25.[6] Not once, however, does CLS cite any claim language that actually "recites" the "concept" of "intermediated settlement or escrow." And there is none.

When this Court has identified an abstract idea or natural law in a patent claim, the abstract idea or natural law was *actually recited on the face of the*

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[5] *E.g.*, Advanced Biological Labs. Br. 29-30; AIPLA Br. 19; Michel Br. 6; Microsoft Br. 30.

[6] *But see* Pet. Br. 47 ("Alice did not purport to claim 'the concept of reducing settlement risk by facilitating a trade through third-party intermediation ....'").

claim. In *Mayo*, the claims expressly recited laws of nature—"namely, relationships between concentrations of certain metabolites in the blood and the likelihood that a dosage of a thiopurine drug will prove ineffective or cause harm." 132 S. Ct. at 1296. In *Bilski*, the claims expressly recited the relationship between two fixed prices that was "reduced to a mathematical formula" in claim 4. 130 S. Ct. at 3223, 3231. And in *Diehr*, the claims expressly recited the Arrhenius equation, an abstract idea expressed in the claims as "v=CZ+x." 450 U.S. at 179 n.5. In none of these cases—nor in any other case—has this Court countenanced CLS's approach of ignoring the actual claim language and constructing a caricature of the claims using general terms found nowhere in them. To the contrary, in *Diehr*, the Court expressly disapproved any analysis that does not focus upon the claim as written and "as a whole." *Id.* at 188.

There is no recitation of any "basic concept of financial intermediation or escrow" in Alice's claims. What Alice's claims actually recite is systems, methods, and media specifically configured to solve, in a particular way, the complex problem of settlement risk. See Pet. Br. 6-10. None of the claims purports to cover the "concept" of either intermediated settlement or escrow.

The Government's brief makes this clear. While CLS mischaracterizes the claims as having "breathtaking sweep," Resp. Br. 31, the Government recognizes that the claims "include a relatively detailed set of steps and therefore *do not preempt all uses of third-party intermediaries to mitigate settlement risks*." U.S. Br. 7 (emphasis added). The claims are, according to the Government, "relatively detailed, and therefore *narrow in their preemptive*

scope." Id. at 28 (emphasis added); see also *id.* at 27-28 & n.6.

CLS's mischaracterization is further demonstrated by its own inconsistencies concerning what the claims "recite," swerving between the concepts of "intermediated settlement," "escrow," or both—even though the two are not interchangeable (and even though neither appears on the face of the claims). See Pet. Br. 47-48. CLS acknowledges that Alice's claims "'do not *prescribe* that the electronic intermediary (or any other third party) receives any money or property,'" as required in actual escrow. Resp. Br. 29 (quoting Pet. Br. 47). This does not undermine its analysis, CLS argues, because "Alice's claims do not *preclude* the receipt of money or property and thus would cover such activity." *Id.* That is no way to read patent claims. The claims also do not "preclude" putting money on an airplane and transferring it that way—but that does not mean that they "cover" that activity. A settlement system must use *all* the elements of Alice's claims to be covered by those claims, and if some other system involves transfers of collateral (as in actual escrow) or air shipment of cash without the limitations of Alice's claims, it is not covered. If the claims actually "recited" any of the concepts CLS alleges, the way to demonstrate that would be by *quoting the claim language.*

Claim language must be taken seriously, for it plays the critical role of defining the "limits of the monopoly asserted" and informing the public "which features may be safely used or manufactured without a license and which may not." *Permutit Co.* v. *Graver Corp.*, 284 U.S. 52, 60 (1931); Pet. Br. 29-31. The § 101 analysis that CLS advocates—based not on the claims *as written*, but on a litigant's self-interested characterization of the "heart" or "gist" of a claim—

would flout this fundamental principle. Moreover, it would ensure that § 101 analyses will turn not on the claims, but on the gut feeling of individual judges based on made-for-litigation caricatures. See IBM Br. 19-20 ("anytime a court begins its analysis by looking for an abstract idea, it is surely going to find one").

2. Even If The Asserted Claims Could Be Read To Recite An Abstract Idea, They Claim At Most A Specific Application.

Ultimately, CLS must acknowledge that its caricatures of the claims ignore their actual limitations. CLS concedes that "a 'differently designed system'" to avoid settlement risk "could avoid direct infringement." Resp. Br. 30 (quoting Pet. Br. 49). This concession is determinative, for it makes clear that, even if the claims could be read to contain the supposed abstract idea of intermediated settlement, they do not preempt all practical uses of that idea. See *Diehr*, 450 U.S. at 187 (process claim that recites an abstract idea is eligible if it seeks "only to foreclose from others the use of [the abstract idea] in conjunction with all of the other steps in their claimed process").

CLS argues that "a patent need not foreclose every conceivable application of an abstract idea to be ineligible." Resp. Br. 30. "After all," it contends, "there were many ways of hedging risk not claimed by Bilski[, b]ut that did not stop the Court from declaring each of his claims ineligible." *Id.* Again, CLS disagrees with the Court's opinion in *Bilski*, which held that allowing Bilski's claims "would preempt use of [risk-hedging] in all fields ...." 130 S. Ct. at 3231.

CLS also cites *Mayo* for the proposition that "[e]ven a narrow law of nature or abstract idea is ineligible because patenting such principles still 'inhibit[s] future' development." Resp. Br. 30 (alteration in original) (quoting *Mayo*, 132 S. Ct. at 1303). But CLS twists *Mayo*'s holding—and accepting CLS's argument would effectively erase *Diehr* from the U.S. Reports. *Mayo* held that claims that would preempt *all practical uses* of a natural law are ineligible, even if the law is "narrow" in scope. 132 S. Ct. at 1303. *Diehr* holds that, although a claim to all practical uses of an abstract idea is ineligible, a claim to only *one* practical application of the idea is eligible. 450 U.S. at 187-88. The two cases are thus directed to different, but fully consistent, principles. This difference, which CLS seeks to obscure, has particular force here—where, as CLS concedes (Resp. Br. 30), Alice has not purported to claim all practical applications of the idea of intermediated settlement. See also U.S. Br. 7 (the claims "do not preempt all uses of third-party intermediaries to mitigate settlement risks"). Thus, whether intermediated settlement is a broad or narrow abstract idea (if it is an abstract idea at all), Alice has claimed at most a specific practical application of it, as permitted under *Diehr*.

Finally, CLS asks the Court to ignore the concrete limitations recited in Alice's claims by contending that each one is "[c]onventional," and therefore "add[s] no inventive concept to the abstract idea of intermediated settlement." Resp. Br. 32. CLS walks through each step of Alice's claimed method in isolation, and identifies purported prior art as to each. *Id.* at 40-46. According to CLS, this "methodology" was prescribed in *Mayo*. *Id.* at 33. CLS is

wrong and, again, accepting its argument would require overruling *Diehr*.

Contrary to CLS, *Diehr* declared that novelty "*is of no relevance*" to the § 101 determination. 450 U.S. at 188-89 (emphasis added). CLS tries to avoid this statement by mischaracterizing *Diehr* as resting on a supposed finding of an "inventive contribution" in the form of "new use of a 'thermocouple.'" Resp. Br. 37 (quoting 450 U.S. at 178 & n.3). But no part of the analysis in *Diehr* depended on "new use of a 'thermocouple,'" which was not even mentioned in the claims. This Court cannot read a novelty requirement into § 101 without overruling *Diehr*.

CLS's position is also inconsistent with *Mayo*. *Mayo* explains that "the § 101 patent-eligibility inquiry and ... novelty inquiry *might sometimes* overlap." 132 S. Ct. at 1304 (emphasis added). But under CLS's approach, they must always overlap, because "inventive concept" means "novelty." This position finds no support in *Mayo*, which as Alice explained (Pet. Br. 33-35), used "inventive concept" to mean steps beyond those necessary to *any* use of the natural law. Nor is it supported by the century and a half of case law that preceded *Mayo*.

C. The Computer-Related Elements In Alice's Claims Cannot Be Ignored.

CLS acknowledges that "a programmed computer is a 'machine,'" and that Alice's claims, which are directed to computer-implemented inventions, are "formally drawn to statutory subject matter." Resp. Br. 38. Numerous *amici* underscore the point that computers are tangible machines that function in the physical world like any other machine. *E.g.*, Microsoft Br. 4 (advances in software technology "are the heirs

to their mechanical forbears").[7] CLS therefore does not advocate for an approach to § 101 that would simply discount computer-implementation limitations. See Resp. Br. 37-38. However, CLS strives to minimize the significance of computer-implementation in Alice's claims with three arguments, all of them wrong.

First, CLS argues Alice's claimed method could be performed without a computer. *Id.* at 53. That is false.[8] Apart from the fact that the claim language *requires* that a computer be used in a specified way, the computer is central to the claimed inventions. Among other things, a non-computer-based implementation would not guarantee that the exchange occurs on the shadow records *simultaneously*—as required to effectively eliminate settlement risk. See Pet. Br. 48-50. Alice's invention thus uses a computer to eliminate settlement risk in a manner that materially improves on what came before. See U.S. Br. 8 (describing Alice's invention as "an improvement" that "relies for its efficacy" on use of a computer).

Second, CLS contends that the computer in Alice's claims should be ignored because it is "used conventionally." Resp. Br. 35, 39, 51-52. That position cannot be squared with 35 U.S.C. § 100(b), which provides that a patent-eligible "process" "includes a new use of a known ... machine," such as through software that configures a general-purpose computer to perform new functions, albeit by use of "conven-

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[7] *See also, e.g.,* IEEE Br. 6-7, 13-14; IBM Br. 14; BSA Br. 13-14.

[8] CLS again misrepresents the testimony of Alice's expert, Resp. Br. 53, which Alice has previously addressed, Cert. Reply 9-10 n.2.

tional" computer operations. Nor can it be squared with the Court's statement in *Bilski* that use of a machine is "an important and useful clue" to patent-eligibility, without any differentiation between conventional and unconventional uses. 130 S. Ct. at 3226. In fact, Bilski's ineligible claims did not recite use of a computer (or any other machine) at all. *Id.* at 3223-24. Moreover, CLS's argument is inconsistent with *Diehr*, and is refuted by multiple *amici*. *E.g.*, IBM Br. 4; Microsoft Br. 6-8.

Third, CLS erroneously contends—in a footnote—that "[t]he patentability of 'software' is not presented in this case," because Alice's patents supposedly "do not explain how to configure a computer to perform the claimed methods." Resp. Br. 11 n.1 (emphasis omitted); see also Microsoft Br. 3; BSA Br. 2. But the claims set out in detail specific functions to be performed by a computer, and the specification includes supporting flowcharts. See, *e.g.*, JA383-84 (claim 33 of the '479 patent), 1023, 1031-35; see also U.S. Br. 7 (stating that the asserted claims "include a relatively detailed set of steps"). According to the PTO, that is sufficient to disclose not only *what* the recited computer should do, but *how* to do it: "[w]riting computer programming code for software to perform specific functions is normally within the skill of the art once those functions have been adequately disclosed." *Manual of Patent Examining Procedure* § 2161.01(I), at 2100-178 (rev. Aug. 2012).[9]

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[9] If the disclosure in a software patent fails adequately to instruct those of ordinary skill how to write a program to carry out the claimed method, claims may be invalid on *enablement* grounds, but not for lack of subject-matter eligibility. *See* 35 U.S.C. § 112(a).

As Alice's opening brief establishes—and neither CLS nor its *amici* refute—this manner of claiming software is not only common, but encouraged by the PTO. Pet. Br. 9-10 (citing *MPEP* § 2161.01(I), at 2100-178; *Examination Guidelines for Computer-Related Inventions*, 61 Fed. Reg. 7478, 7486 (Feb. 28, 1996) ("Applicants should be encouraged to functionally define the steps the computer will perform rather than simply reciting source or object code instructions.")). In fact, CLS's *amicus* Microsoft, in its brief in *Bilski*, correctly explained that "'software patents' generally do not actually describe software at all, but rather the process performed by a programmed computer." Microsoft Br. in *Bilski*, 13. Moreover, CLS's own patent and many of the "software patents" identified as eligible exemplars claim computer-implemented inventions in the same terms as Alice's claims. See U.S. Patent No. 8,473,401 (owned by CLS) (reciting computer components "configured to" perform various risk-intermediation functions); U.S. Patent No. 5,761,689 (cited at Microsoft Br. 10) (reciting generic computer components with "program instructions causing the computer to" perform various steps for autocorrection); U.S. Patent No. 6,405,225, cl. 16 (cited at Microsoft Br. 10) (similar); U.S. Patent No. 7,996,793, cl. 14 (cited at BSA Br. 27) (similar).

And the Court need not take Alice's word on this point. The Government asks the Court to use this case to announce a new eligibility test that is specifically and exclusively directed to computer-implemented inventions. U.S. Br. 25-33. Numerous *amici* have likewise recognized that Alice's claims are typical of software inventions, and that this case will define the law of software patentability going

forward.[10] In the words of Judge Moore, "let's be clear: 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 ... software patents." Pet. App. 85a.

II. THE COURT SHOULD REJECT THE GOVERNMENT'S COUNTER-TEXTUAL INTERPRETATION OF THE ABSTRACT IDEAS EXCEPTION.

A. The Government Seeks An Abstract Ideas Exception Inconsistent With The Statute And Precedent.

The Government recognizes that Alice's claims "do not preempt all uses of third-party intermediaries to mitigate settlement risks." U.S. Br. 7. It further recognizes that the claims require a computer, *id.* at 7; that all are literally drawn to statutory subject matter of processes, machines, and manufactures, *id.* at 8, 33; and that the claimed invention is, in sum, an improvement in business risk management that "relies for its efficacy" on a general-purpose computer configured in a particular way, *id.* at 8. This would seem to be the end of the matter under *Diehr*—the claims "do not seek to pre-empt the use" of any abstract idea as previously understood by the Court. 450 U.S. at 187.

But that is not the end of the matter. The Government would have this Court redefine the abstract ideas exception to extend to all methods and systems "which manipulate abstract concepts and relationships such as business risk, legal liability, financial transactions, and contractual obligations," or which

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[10] *See, e.g.,* IBM Br. 10; Trading Technologies Br. 1; Google Br. 26; CCIA Br. 10.

"organiz[e] human activity." U.S. Br. 15. Such claims supposedly "do not fall within patent law's traditional scope," which the Government claims is limited to "innovations in technology, science, or industry"—*i.e.*, "technological applications." *Id.* at 15-16.

The Government proposes this re-definition because it disagrees with *Bilski*. The Government argued there that "process," as used in § 101, "encompasses all technological and industrial processes, broadly conceived," but "does not extend patent-eligibility beyond those bounds, to methods of organizing human activity that are untethered to technology—*e.g.*, methods by which people conduct economic, social, or legal tasks." U.S. Br. in *Bilski*, 8. This Court rejected that argument: "Section 101 ... precludes the broad contention that the term 'process' categorically excludes business methods." *Bilski*, 130 S. Ct. at 3228.

The Government now contends that, "given the Court's holding in *Bilski* that the term 'process' in Section 101 is to be given its broad ordinary meaning, the abstract-ideas exception is the *only* available means of ensuring that patent law remains within its traditional bounds." U.S. Br. 9. Thus, undaunted by this Court's statutory interpretation, which Congress did not revisit when it amended the patent statute two years ago, the Government now presents *the very same* technological-arts argument rejected in *Bilski*, but with a different label. Because *Bilski* held that the statutory term "process" *includes* "non-technological" arts, the Government now argues that non-technological arts should nonetheless be *excluded* through a judicial exception.

This remarkable proposition deserves to be paused over. The Government argues for a broad definition of "abstract ideas," because what § 101 *actually* covers,

per *Bilski*, is more than the Government would like it to cover. See *id.* at 14 n.1 (emphasizing that "the longstanding rule against patenting laws of nature and the like" is "an *exception* to [§ 101's] literal coverage," not "an *interpretation* of Section 101"). Effectively, the Government is asking this Court to amend § 101 so that it conforms to the current policy preferences of the Executive Branch—what it refers to as the "traditional bounds" of patent law.

This approach is inconsistent with both § 101 and this Court's precedents. In *Bilski*, for example, the Court left no doubt that interpretation of § 101 is constrained by standard statutory construction principles. To be sure, the Court recognized that judicially created "exceptions are not required by the statutory text," but explained that they are "*consistent with* the notion that a patentable process be 'new and useful.'" 130 S. Ct. at 3225 (emphasis added) (quoting § 101). In other words, while the three exceptions are not required by the text, they reflect a longstanding judicial gloss that is fully consistent with the text, see, *e.g.*, *Bruesewitz* v. *Wyeth LLC*, 131 S. Ct. 1068, 1082 (2011), and do not liberate the judiciary to depart further from Congress's chosen language, *Bilski*, 130 S. Ct. at 3226. Here, because the Government's approach finds no support in precedent, and departs from the statutory text, it must be rejected.

Similar flaws undercut the Government's request that this Court announce a rule specific to computer-implemented inventions. See U.S. Br. 8. The Government asks this Court to hold that claims that use general-purpose computers to perform "standard computing functions" are ineligible. *Id.* at 9-10. Improvements in a computer's operation as a computer may be eligible, the Government says,

because "they represent non-abstract technological innovations that fall within the traditional scope of the patent laws," *id.* at 10, but where a claim uses a computer to perform a new function that does not represent an advancement in computing *per se*, it is not eligible.

Nothing in the statute or this Court's precedent supports the distinction the Government would draw. To the contrary, § 100(b) expressly provides that the statutory definition of "process" "includes a new use of a known ... machine"—such as new use of a known general-purpose computer through software that brings about new configurations of electronic circuits to perform new functions. Moreover, ignoring claim limitations requiring use of a computer is directly contrary to *Diehr*'s instruction that claims be considered "as a whole," and that it is "inappropriate to dissect the claims" and "ignore the presence" of individual elements. 450 U.S. at 188. Notably, the Government not only makes no effort to reconcile its approach with § 100(b) and *Diehr*, but includes no meaningful discussion of those authorities at all.

It is impossible to reconcile the Government's proposals with any concept of separation of powers, or statutory construction. It proposes a pure policy judgment completely untethered from the statutory text and the Court's precedent.

B. The Government's Approach Would Make Bad Policy.

Apart from directing its policy proposals to the wrong forum, the Government's redefinition of the abstract ideas exception is misguided.

First, the Government is wrong to assert that expansion of the abstract ideas exception is necessary to "police[] the appropriate bounds of patent law."

U.S. Br. 16. As the Government argued in *Mayo*, and also in this case below, § 101 is by design a "'coarse filter,'" and the PTO is better equipped to use the other limits on patentability—§§ 102, 103, and 112—than it is to implement § 101. U.S. Br. in *Mayo*, 11; U.S. Fed. Cir. Br. 20. While the Government now downplays the other statutory requirements, U.S. Br. 15, its protests are unconvincing. The other statutory sections—in particular §§ 103 and 112—have substantial force in policing computer-implemented inventions. See, *e.g.*, Pet. Br. 42-43 (citing, *inter alia*, Exec. Office of the President, *Patent Assertion and U.S. Innovation* 7-8, 13 (June 2013), *available at* http://www.whitehouse.gov/sites/default/files/docs/patent_report.pdf); IBM Br. 26-30.

Second, accepting the Government's computer-specific rule would have a devastating impact in the software industry. Under the Government's test, most computer-implemented inventions (*e.g.*, software) are ineligible for patenting, because the vast majority of software is designed for use on a computer performing "standard computing functions." U.S. Br. 9-10. And the list of ineligible claims would include not only computer-implemented inventions in the financial and business sectors, but would extend across industries. See, *e.g.*, Robin Cook & Eric Topol, *How Digital Medicine Will Soon Save Your Life*, Wall St. J. (Feb. 22, 2014), at A17 (describing a series of computer-implemented health care innovations, at least some of which the Government would reject). Computers are used to perform "standard computing functions" in a host of fields of human activity, without altering the operation of the computers as computers. Judge Moore's prediction that the plurality's approach would call into question hundreds of thousands of patents pales in comparison

to the harm the Government's approach would inflict. It would undercut innovation in industries that are vital not only to the economy, but to public health, industry, and science, as well.

III. THE COURT SHOULD ARTICULATE A CLEAR STANDARD FOR THE ABSTRACT IDEAS EXCEPTION CONSISTENT WITH THE TEXT OF § 101.

A clear standard for § 101 is needed. Pet. Br. 53-55. Section 101 is intended to be "only a threshold test," *Bilski*, 130 S. Ct. at 3225, yet the doctrine has "fail[ed] in the computer-implemented invention context." IBM Br. 14; see also Michel Br. 7 (the abstract ideas exception "sets out a dangerous road to travel").

Accepting CLS's approach will not provide this "needed guidance." U.S. Br. 9. Indeed, CLS makes no effort to articulate a clear standard, but instead seeks to recast the question presented as "Whether the courts below correctly concluded that all of the asserted claims are not patent-eligible." Resp. Br. *i*. That is not, of course, the question this Court agreed to consider—and not the question that the lower courts, the PTO, and the computer industry badly need this Court to answer.

Moreover, CLS would have the Court answer its restated question based on a distorted reading of Alice's claims and a distorted presentation of the facts. Thus, CLS engages in baseless attacks, declaring that Alice is "what is commonly known as a non-practicing entity or a patent-assertion entity," and that Alice "wants to use its patents to hold hostage a systemically important financial institution." *Id.* at 3, 55. In CLS's hyperbolic words, "For the price of a patent application, Alice is putting at risk

CLS's billion-dollar investment—and with it the largest financial market in the world." *Id.* at 55. CLS further speculates that "if these patents were to be resurrected, Alice could assert them against virtually every financial institution." *Id.* at 55-56.

None of this is true. Alice is not a "patent-assertion entity," but a company founded by Ian Shepherd, *the inventor* of the claimed systems, methods, and media. Alice has never sought an injunction barring CLS from using its own technological solution. And Alice has not asserted its patents against "virtually every financial institution," but only one—CLS—*after CLS sued it.*

In any event, none of CLS's assertions has any relevance to § 101. Indeed, it is telling that CLS views these supposed facts—and the facts it says show that individual claim limitations are "conventional," *id.* at 40-46—as having some bearing on the eligibility of Alice's claims. As CLS's argument makes clear, its approach would transform § 101 from a threshold legal test into a fact-intensive inquiry that will require extensive discovery, expert testimony, and all of the other burdens of litigation that CLS and its *amici* claim they want to prevent.

CONCLUSION

The Court should reverse the judgment below and remand the case for further proceedings.

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