

No. 13-298

IN THE
Supreme Court of the United States

ALICE CORPORATION PTY. LTD.,
Petitioner,

v.

CLS BANK INTERNATIONAL AND CLS SERVICES LTD.,
Respondent.

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

REPLY IN SUPPORT OF PETITION

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REPLY IN SUPPORT OF PETITION

As the petition showed, there is universal agreement among academics, industry, the bench, and bar that this Court needs to review and set standards for determining the patent-eligibility of computer-implemented inventions. The urgency of that need has only become more painfully obvious in recent months. The Federal Circuit continues to issue irreconcilable panel opinions, with individual judges continuing to advance their personal views concerning the application of section 101 to computer-implemented inventions. *See* p. 3-4, *infra*. District courts and the PTO continue to operate in the dark. *See* p. 6-7, *infra*. And, as CLS points out, cases whose resolution turns on the question presented here continue to stack up, BIO 27-28, raising the prospect of yet more inconsistent, panel-dependent decisions by the Federal Circuit. The situation is intolerable, and only immediate review by this Court can bring meaningful clarity.

It is therefore unsurprising that some three dozen *amici* have, in eleven separate briefs, urged this Court to review the question presented here. What is particularly notable is that most of those *amici* have specifically urged the Court to grant review in *this* case, rather than the three similar cases in which petitions are pending or anticipated. *See, e.g.*, NYIPLA Br. 16-17 (“It is not insignificant that the Federal Circuit hand picked this case to address the patent-eligibility of computer-implemented inventions.”); *accord* Trading Technologies Br. 21-22; IEEE Br. 24; Patent Law Students Br. 20. Most notable of all, *even CLS* agrees that this case is an excellent vehicle for the Court to address the patent-eligibility of computer-implemented inventions. BIO 33 (“if the

Court decides not to await further percolation in the Federal Circuit, it should grant the petition for a writ of certiorari in this case”).

CLS’s recognition that this case offers the Court a valuable opportunity to tackle the issue belies its contentions that certiorari is unwarranted, either because review now “seems premature,” BIO 30, or because the judgment below is “correct,” *id.* at 1. CLS’s suggestion that through “further percolation” the Federal Circuit might “sett[le] its own internal divisions,” *id.* at 1, 25, cannot be reconciled with that court’s continuing stream of inconsistent, panel-dependent decisions. And, as the *amici* demonstrate, to prolong the current intolerable uncertainty while the supposed “percolation” occurred would impose substantial costs on innovators and industry. See p. 5-6, *infra*. Additionally, although CLS devotes the majority of its Brief in Opposition to arguing the merits, its arguments are both largely irrelevant to whether certiorari should be granted and fundamentally wrong. In short, the Brief in Opposition merely confirms that certiorari should be granted.

I. THIS COURT’S PROMPT REVIEW IS NEEDED TO PROVIDE CLARITY ON AN ISSUE OF GREAT IMPORTANCE.

CLS cannot dispute the importance of the question presented. Nor can CLS dispute that the “members of the en banc court” below “issued six separate opinions, none of which commanded a majority,” BIO 9, demonstrating that “the Federal Circuit is ‘hopelessly fractured’” on the question of patent-eligibility of computer-implemented inventions, *id.* at 25. At the same time, CLS concedes that this Court’s review of the question may well be warranted “in due course,” *id.* at 30, and that this case offers a “clean

vehicle” for that review with no “confounding issues,” *id.* at 33-34. That should be the end of the story.

Nonetheless, CLS asks the Court to deny the petition. In CLS’s words, “[t]o the extent there are some differences in the rationales set forth in the various opinions, they will be—and already are being—sorted out by the Federal Circuit itself.” BIO 24. Accordingly, CLS states, “it seems premature” to grant certiorari at this time. *Id.* at 30. CLS’s artful phrasing cannot obscure either the irreconcilable division in the Federal Circuit or the urgent need for guidance from this Court.

CLS attempts to paint a rosy picture of the decision below, stating that “[a]lthough the Federal Circuit split evenly as to *one* statutory class of claims asserted here, a clear majority of the judges agreed that Alice’s media and method claims were ineligible and a clear majority agreed that those claims must stand or fall together with the system claims.” BIO 24. The statement is accurate, as far as it goes, but CLS omits to mention (1) that the majority of judges who concluded that all claims should be treated alike *disagreed* as to how they should be treated, and (2) that while particular outcomes garnered a majority below, *no majority* of judges could agree on any single rationale.

And since the decision below, the judges of the Federal Circuit have continued to apply their individual approaches, giving rise to entirely panel-dependent decisions. In *Ultramercial, Inc. v. Hulu, LLC*, 722 F.3d 1335 (Fed. Cir. 2013), Chief Judge Rader garnered a panel majority for his interpretation of section 101, while Judge Lourie wrote separately, stating, “I believe that we should ... track the plurality opinion of five judges from this court in *CLS Bank International v. Alice Corp.*” *Id.* at 1354

(Lourie, J., concurring). Three months later, in *Accenture Global Services, GmbH v. Guidewire Software, Inc.*, 728 F.3d 1336 (Fed. Cir. 2013), Judge Lourie garnered a panel majority for his reading of section 101, while Chief Judge Rader dissented, stating, “the court relies significantly on the framework proposed by the plurality opinion in *CLS Bank Int’l v. Alice Corp.* However, no part of *CLS Bank*, including the plurality opinion, carries the weight of precedent.” *Id.* at 1346-47 (Rader, C.J., dissenting) (citation omitted).¹

CLS calls the Federal Circuit’s lurching from one reading of section 101 to another “case-by-case evolution.” BIO 29. The problem, however, is that while each case comes out differently, there has been no “evolution” toward a consensus. Indeed, confusion has reigned in the Federal Circuit since this Court’s decision in *Bilski v. Kappos*, 130 S. Ct. 3218 (2010). Pet. 21-24 (describing post-*Bilski* case law); *see also* Mark A. Lemley et al., *Life After Bilski*, 63 Stanford L. Rev. 1315, 1316-17 (2011) (describing “the post-*Bilski* confusion”). That confusion has only continued since the intervening decisions in *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 132 S. Ct. 1289 (2012), and *Ass’n for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107 (2013), and the

¹ *Bancorp Servs., LLC v. Sun Life Assurance Co. of Can. (U.S.)*, 687 F.3d 1266 (Fed. Cir. 2012), in which a petition for certiorari was filed on November 8, 2013 (No. 13-584), offers further evidence of the Federal Circuit’s inability to resolve the inconsistent approaches to patent eligibility. After holding Bancorp’s petition for rehearing for more than a year while it decided this case, the Federal Circuit summarily denied the petition, leaving in place a panel decision that simply adopts one of the conflicting approaches presented in the en banc decision in this case. *See Bancorp*, No. 2011-1467 (Fed. Cir. June 13, 2013) (order denying rehearing).

addition of Judges O'Malley, Reyna, and Wallach to the Federal Circuit after *Bilski* was decided has done nothing to remedy the problem. There is thus no basis for CLS's speculation that the more recent addition of Judges Taranto, Chen, and Hughes to the court will magically make the current muddle disappear. *See* BIO 25.

Nor is there any reason to believe this Court's review on the merits will benefit from further "percolation." The appendix contains 171 pages of opinions on the issue presented. There are several other panel opinions on the subject, and the Court no doubt will have the benefit of dozens of briefs carefully examining every facet of the problems raised by the decision below. Whatever value percolation may have in other contexts, this coffee is fully brewed and ready to be consumed.

And, as the numerous *amici* have made clear, the confusion caused by the utter lack of consensus in the Federal Circuit has real, palpable effects each day that it is allowed to persist, which means that the continued "percolation" CLS advocates, even were it not entirely fanciful, would carry an unacceptably high price. *E.g.*, Accenture Br. 10 ("The impasse over § 101 at the Federal Circuit has created an intolerable environment for inventors and innovative companies developing new computer systems and software."); Trading Technologies Br. 16-17 ("The current confusion will have many negative impacts on business, including unpredictability at the USPTO regarding which patents it will not allow based on Section 101, unpredictability in litigation (including litigation involving patents that issued many years ago), unpredictability in new and old licensing transactions and the inability of businesses to efficiently allocate resources to research and develop-

ment.”). As the *amici* explain, as long as this disarray continues, every patent involving a computer-related invention—and, as Judge Moore noted below, there are hundreds of thousands (Pet. App. 86a n.1)—will be subject to potential section 101 attack, imposing intolerable burdens on district courts and stifling innovation by all but the most determined and well-financed inventors.

The *amici*'s concerns are underscored by the numerous cases pending in the Federal Circuit that present issues implicated here, and that raise the prospect of further confusion and more panel-dependent outcomes. See BIO 27-28. The concerns are likewise underscored by the repeated pleas from district courts for clear guidance on patent-eligibility of computer-implemented inventions. See, e.g., *Planet Bingo, LLC v. VKGS, LLC*, 2013 WL 4427811, at *4 (W.D. Mich. Aug. 19, 2013) (“As a result of the Federal Circuit’s present fractured state, this Court is left in a quandary.”); *Zillow, Inc. v. Trulia, Inc.*, 2013 WL 5530573, at *2 (W.D. Wash. Oct. 7, 2013) (“Although the court had hoped that the Federal Circuit’s en banc decision in *CLS Bank* would provide guidance with respect to the present dispute, its hopes were not to be realized.”). And they are likewise underscored by the expressed uncertainty of the PTO, which acknowledged in its *amicus* brief below that “its longstanding approach to the eligibility of computer-implemented inventions is no longer sufficient,” Brief for the United States as Amicus Curiae 5-6, yet received no guidance on a new approach from the Federal Circuit’s decision, see Memorandum from Andrew H. Hirshfield, Deputy Commissioner for Patent Examination Policy, to Patent Examining Corps (May 13, 2013), *available at* http://www.uspto.gov/patents/law/exam/clsbank_2013

0513.pdf) (noting that “[g]iven the multiple divergent opinions, the USPTO is continuing to study the decision in *CLS Bank*”).

Finally, and incredibly, CLS equates the fracture in the Federal Circuit to a mere intracircuit split, stating that this Court “regularly denies review of issues that divide a court of appeals.” BIO 24. Of course, the Federal Circuit is the only appellate court to review patent cases, which means that no split between it and any of the regional circuits on an issue of patent law is possible—a fact CLS simply ignores as it cites denials of certiorari in cases presenting splits within regional circuits. *Id.* Indeed, there can be no deeper or more profound split on an issue of patent law than exists here: The judges of the Federal Circuit took this case en banc for the express purpose of resolving the patent-eligibility of computer-implemented inventions, but proved utterly unable to do so.

It is incumbent upon this Court to provide the guidance that the Federal Circuit could not. And, in CLS’s words, “a decision in this case would provide such guidance.” BIO 34.

II. THE DECISION BELOW WAS ERRONEOUS.

CLS devotes the bulk of its Brief in Opposition to arguing the merits, asserting that “the judgments below are correct.” BIO 1. Of course, even if that were true, that would not be a reason to deny certiorari. *See* Robert L. Stern et al., *Supreme Court Practice* § 4.17 (8th ed. 2002) (“[T]he fact that a case may have been rightly decided [is not] in itself enough to preclude certiorari.”) (quoting Justice Harlan, *Manning the Dikes*, 13 Record of N.Y.C. Bar Ass’n 541, 551 (1958)). Instead, the importance of the

issue presented, and the total absence of clear guidance from the Federal Circuit on that issue, require this Court's immediate attention. Even if the Court were to affirm, which it will not, the Court's opinion will unquestionably offer more clarity than the *per curiam* disposition and six conflicting opinions below have provided.

Space does not permit a full rebuttal on the merits—that is the purpose of the next round of briefing—but CLS's most obvious mistakes warrant brief mention. First, CLS is flatly wrong in arguing that the asserted claims “attempt to monopolize the core economic idea of intermediated settlement, or escrow,” and that the claims’ “steps of creating, adjusting, and reconciling the shadow records are just a way of *stating* the abstract idea of escrow.” BIO 1, 15. The dictionary definition of escrow is “a deed, a bond, money or a piece of property delivered to a third person to be delivered by him to the grantee only upon the fulfillment of a condition.” *Webster's Seventh New Collegiate Dictionary* 283 (1972). Nothing in the concept of escrow requires electronic shadow records, or the particular use of electronic shadow records, required by Alice's patent claims. Moreover, Alice's claims do not prescribe that the electronic intermediary (or any other third party) receives any money or property, and the only “deliveries” (which result from the generation of instructions to the exchange institution) required by Alice's claims occur to the accounts of the actual parties after the transaction has been effected. *See* Pet. 7-10 (summarizing the invention). Thus, Alice's invention is not even properly characterized as a form of escrow—much less an attempt to “monopolize” the entire concept.

Indeed, CLS's faulty analysis highlights the problem with approaching section 101 by first stripping a patent claim of its actual limitations to isolate some supposed abstract idea that lies at its core: The analysis risks becoming so thoroughly divorced from the actual invention that the way the invention as a whole functions is lost altogether, and the "abstract idea" left standing when the limitations are removed may or may not have anything to do with the actual invention. That is precisely the result this Court counseled against in *Diamond v. Diehr*, when it explained that "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." 450 U.S. 175, 188 (1981) (emphasis added).

CLS also argues that "Alice's method claims are conceptually indistinguishable from those this Court held ineligible in *Bilski*." BIO 12. That too is incorrect. Most obviously, unlike Alice's claims, the claims in *Bilski* did not require the use of a computer at all; the patentee in *Bilski* conceded that the claims were not limited to any kind of machine in order to implement the invention. See *Bilski*, 130 S. Ct. at 3223-24; *In re Bilski*, 545 F.3d 943, 962 (Fed. Cir. 2008) (en banc). Here, by contrast, it is undisputed that Alice's invention *does* require a computer. Pet. App. 28a; see also BIO 13-14.² Similarly, to support

² CLS blatantly misstates that Alice's expert "conceded" that "Alice's claims 'could be performed without use of a computer.'" BIO 13. In fact, however, Alice's expert opined that "[i]n an abstract sense, it is possible to perform the business methods of maintaining accounts, adjusting accounts, and providing an instruction without a computer or other hardware," but that the "*claimed* methods *must* be implemented electronically using

its contention that Alice’s patents concern only abstract ideas, CLS asserts that the Federal Circuit judges who referenced flowcharts and other detailed descriptions in the specifications misunderstood the patents. See Pet. App. 73a-75a (Rader, C.J.), 96a-98a (Moore, J.). According to CLS, “the flowcharts reproduced in the dissenting opinions” “do not refer to the *asserted* claims.” BIO 22; see also *id.* at 5 (“[m]ost of the specification, and the great majority of the drawings relates to ... *unasserted* claims.”). But CLS’s assertions have no support in the record,³ and CLS does not deny that, even as it reads the patents, they provide a wealth of detail directly pertaining to the asserted claims.

In addition to its meritless arguments concerning the facts, CLS also errs on the law when it conflates patent-eligibility and patentability. CLS repeatedly suggests that a decision in Alice’s favor would result in the issuance of improper patents and the foreclosure of innovation. See BIO 19 (“every abstract idea could be patented”); *id.* at 20 (“a person could lay claim to future innovations just by recording the *idea* for such innovations in a patent application”); *id.* at 21 (“patents should protect those who contribute, not those who merely describe”). But holding that, for example, a specific, tangible machine like the system claimed in Alice’s patents is *eligible* for patenting does not lead to the conclusion that the invention is entitled to patent protection. See *Bilski*, 130 S. Ct. at

some type of computer processor and memory.” JA1012–13 ¶¶ 40–41 (emphases added).

³ CLS cites one page of Alice’s en banc rehearing brief that supposedly “identified all of the drawings that pertain to the asserted claims,” BIO 22 (citing Alice Supp. C.A. Br. 31)—but nothing in the cited passage suggested that it was identifying *every* relevant drawing.

3225 (“Even if an invention qualifies as a process, machine, manufacture, or composition of matter, in order to receive the Patent Act’s protection the claimed invention must also satisfy” the statute’s additional requirements); *see also* Pet. 5. To the contrary, the only result would be a conclusion that a patent claim that includes hardware components is sufficiently non-abstract to cross the threshold bar of section 101. Indeed, this Court has warned against the very conflation that CLS commits, explaining that “[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.

CONCLUSION

For the foregoing reasons and those stated in the petition, the petition for a writ for certiorari should be granted.

Respectfully submitted,

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