

2011-1301

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UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

CLS BANK INTERNATIONAL,

*Plaintiff-Appellee,*

and

CLS SERVICES LTD.,

*Counterclaim-Defendant  
Appellee,*

v.

ALICE CORPORATION PTY. LTD.,

*Defendant-Appellant.*

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On Appeal from the United States District Court for the District of Columbia in  
Case No. 07-CV-0974, Judge Rosemary M. Collyer

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**BRIEF OF *AMICUS CURIAE* GOOGLE INC., HEWLETT-PACKARD CO.,  
RED HAT, INC., AND TWITTER INC. IN SUPPORT OF PETITIONERS**

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## CERTIFICATE OF INTEREST

Counsel for *amici* certifies the following:

1. The full names of every party represented by me are Google Inc., Hewlett-Packard Co., Red Hat, Inc., and Twitter Inc.
2. The names of the real parties in interest represented by me are Google Inc., Hewlett-Packard Co., Red Hat, Inc., and Twitter Inc.
3. No parent corporations or publicly held companies own 10 percent or more of the stock of Google Inc., Hewlett-Packard Co., or Twitter Inc. Red Hat, Inc. has no parent corporation. More than 10% of Red Hat's common stock is held by both Fidelity Management and Research Company and T. Rowe Price Associates, Inc. (a subsidiary of publicly held corporation T. Rowe Price Group, Inc.).
4. The names of all law firms and the partners or associates that appeared for the parties now represented by me in the trial court or are expected to appear in this Court are:

King & Spalding LLP: Daryl L. Joseffer; Adam M. Conrad

This 5th day of September, 2012.

  
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Daryl L. Joseffer

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PROOF OF SERVICE

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## STATEMENT OF INTEREST<sup>1</sup>

*Amici* are four innovative, high-technology companies that are leaders in a variety of fields, including online advertising, commerce, collaboration, social networking, open source software, computing, and related products and services. Their products are used by everyday citizens, Wall Street investment firms, hundreds of Fortune 500 companies, and the United States government. Having obtained a number of patents based on their own extensive research and development efforts, and having also had to defend against claims of patent infringement, *amici* support a strong patent system that rewards rather than impedes innovation.

All parties consent to the filing of this brief.

## INTRODUCTION

The scope of patent-eligible subject matter under 35 U.S.C. § 101 is one of the most important patent-law issues today. *En banc* review of the question is now imperative because of the unbridgeable rift that opened in this Court's case law following *Bilski*, and that has continued to grow since *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 132 S. Ct. 1289 (2012).

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<sup>1</sup> No counsel for any party authored this brief in whole or in part, and no person or entity, other than *amici* and their counsel, made a monetary contribution intended to fund the preparation or submission of this brief.

Because the petition for rehearing *en banc* thoroughly covers those points, this *amicus* brief focuses on two specific topics. *First*, the Supreme Court’s test for patent eligibility is not hard to apply in cases like this one, making the majority’s criticism of that test unwarranted. *Mayo* laid down four guideposts for determining whether a patent claims significantly more than an abstract idea, and is thus patent-eligible. The asserted patents, and others like them, flunk all of those guideposts because they claim an abstract idea when used on a computer or over the Internet, without more. Significantly, the asserted patents contain no limitations related to *how* the software or hardware accomplishes the claimed function. They simply divide the abstract idea of financial intermediation into its component parts, thereby claiming the idea itself. At least for high-tech companies like *amici*, the greatest source of uncertainty today is not *Mayo*; it is whether any given panel of this Court will apply the *Mayo* standard and guideposts.

*Second*, the issue of patent eligibility is critically important in the high-tech context. The biotech patent claims rejected in *Mayo* and other cases reflected valuable discoveries. In contrast, a disturbing number of high-tech patents amount to no more than describing an abstract idea at a high level of generality and saying to perform it on a computer or over the Internet—without providing any of the specifics that transform abstract ideas into patentable inventions. Such patents leave to others the truly inventive work of developing applications of the idea. Far

from promoting innovation, they impair it by granting exclusive rights over the abstract idea itself.

## ARGUMENT

### **I. MAYO SETS FORTH GUIDEPOSTS FOR DETERMINING WHETHER A PATENT CLAIMS ONLY AN ABSTRACT IDEA.**

The limits on patentable subject matter are substantive, not formalistic. As a result, they may not be evaded by clever drafting. In addition to an abstract idea, a claim must also “contain other elements or a combination of elements, sometimes referred to as an ‘inventive concept,’ sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the” unpatentable subject matter. *Mayo*, 132 U.S. at 1294.

The Supreme Court identified four guideposts for making that determination: (1) adding steps that are conventional or obvious is insufficient to confer patentable subject matter, *see id.* at 1294, 1298, 1299; (2) adding steps that are so general and non-specific that they do not significantly limit the claim’s scope is insufficient, *see id.* at 1300, 1302; (3) limiting an idea to a particular technological environment is insufficient, *see id.* at 1294, 1297; and (4) claims that fail the machine-or-transformation test are likewise dubious, *see id.* at 1296, 1303. These criteria, taken together, are designed to ensure that a patent’s relative contribution justifies the extent to which it forecloses the field. *See id.* at 1301-02; *O’Reilly v. Morse*, 56 U.S. (15 How.) 62, 113 (1853).

The majority, however, chose a different path. After opining that Section 101 jurisprudence has given rise to uncertainty that poses “a serious problem” (Op. 12-13), the majority sought to reduce that uncertainty by curtailing the *Mayo* standard, as the dissent explained. Diss. 3. The majority went so far as to treat Section 101 as a disfavored requirement, *persona non grata* in the law, by holding that a court may invalidate a patent under Section 101 only if it is “wholly convinced” that the patent’s subject matter is abstract, which in turn must be “manifestly evident.” Op. 20, 21 & n.3. Under *Mayo*, however, any heightened burden runs the other way: a patent claim must include “significantly more” than an abstract idea, in order to give “practical assurance” that the claim is *not* overbroad. *Mayo*, 132 S. Ct. at 1297. Congress did not place Section 101 at the beginning of the Patent Act because it is all but irrelevant. As *Mayo* confirms, that threshold requirement performs an important “screening” function. *Id.* at 1303.

The Supreme Court’s decision to articulate a flexible standard, as opposed to a bright-line rule, is no reason to reject its test in favor of a stricter one. The Supreme Court’s decision is binding. And the law is full of standards, which become more concrete when applied in light of articulated guideposts or factors. The four guideposts here are no less administrable than countless other multi-factor tests, such as this Court’s eight-factor test for determining whether required experimentation is “undue” for purposes of the enablement requirement. *See*

*Streck, Inc. v. Research & Diagnostic Sys., Inc.*, 665 F.3d 1269, 1288 (Fed. Cir. 2012).

This case proves the point, because the asserted patents fail *all* of the guideposts. Under the first guidepost, which goes to the heart of the Supreme Court’s standard, a claim must contain “an inventive concept” apart from an abstract idea or natural law. *Mayo*, 133 S. Ct. at 1294. The majority disagreed with the Supreme Court on this point, stating that “[i]t should be self-evident that each of these four statutory provisions—§§ 101, 102, 103, and 112—serves a different purpose and plays a distinctly different role.” Op. 12. But considering inventiveness in the Section 101 analysis is legally required by *Mayo*, and is also essential in cases like this one, to avoid a divide-and-conquer strategy. Otherwise, a patent claim (such as the *Mayo* claims) might survive Section 101 on the ground that it recites prior-art patentable subject matter in addition to an abstract idea, but then also survive Sections 102 and 103 on the ground that the unpatentable subject matter itself was inventive, even though nothing else was. *See Mayo*, 133 S. Ct. at 1304. *Mayo* confirms that such claims do not warrant patent protection because their only contribution to human knowledge is an abstract idea or natural law.

Considering inventiveness as part of the Section 101 inquiry also makes the result *more* clear and predictable by laying down an enforceable standard. As the dissent noted, for example, it is often the case that a patent will describe additional

claim elements as well-understood, routine, or conventional—leaving no doubt that the true target of the patent is the abstract idea or natural law itself. *See* Diss. 10-11. In some other cases, there can be no serious dispute on that point, as *Bilski*, *Mayo*, *Funk Brothers*, and *Morse* help to demonstrate. Focusing on inventiveness also alleviates the need to make unpredictable, *ad hoc* judgments under prior case law about whether a claim step is “token” and should thus be disregarded for this purpose. *Cf. In re Bilski*, 545 F.3d 943, 956 (Fed. Cir. 2008) (en banc).

In this case, as the dissent explained, none of the claim steps appears to be the least bit inventive, either singly or in combination with the others. Diss. 5-6. This is not a matter of “ignoring claim limitations” or rewriting claims, as the majority suggested. Op. 23. It is a simple question of considering all of the claim limitations in order to determine whether any of them, alone or in combination, contains anything inventive apart from the abstract idea.

Any doubt about the correct result in this case is resolved by the claims’ high level of generality, which deprives them of any significant limitations apart from the abstract idea itself. The majority stated that “it is difficult to conclude that the computer limitations here do not play a significant part in the performance of the invention.” Op. 26. That misses the point. In *any* computer-implemented method, a computer is significant in the sense that it is necessary. But that is not the question, and not all computer-implemented methods are patent-eligible.

Instead, the question is whether the steps sufficiently limit the claim to “provide practical assurance that the process is more than a drafting effort designed to monopolize the law of nature” or abstract idea. *Mayo*, 132 S. Ct. at 1297. The asserted claims are not so limited because they simply divide the abstract and ancient idea of financial mediation into its constituent parts, without adding anything else apart from a requirement that the idea be implemented on a computer. *See* Diss. 5-6. The claims contain no limitations related to how the software or hardware accomplishes the financial mediation function. Nor do they set forth any programming techniques or hardware. Instead, they claim the abstract idea itself on a computer.

That computer limitation is insufficient because, as the majority recognized, limiting an abstract idea to a particular technological environment, such as a computerized environment, does not transform the abstract idea into a patentable application. Absent additional, significant limitations, the idea remains abstract within that environment. *See Mayo*, 132 S. Ct. at 1297; *Bilski v. Kappos*, 130 S. Ct. 3218, 3231 (2010); *Parker v. Flook*, 437 U.S. 584, 586 (1978); *Gottschalk v. Benson*, 409 U.S. 63, 64-65 (1972). The ubiquity of computers in modern life and commerce makes that point all the more important in software cases.

Finally, the machine-or-transformation test remains a “useful and important clue” in separating abstract ideas from patentable applications. *Bilski*, 130 S. Ct. at

3227. The asserted claims do not satisfy that test for reasons explained above: they do not specify any particular machine (any generic computer could suffice); and their additional steps are “token” or “insignificant” for this purpose because they add nothing inventive to the abstract idea. *See Bancorp Servs., L.L.C. v. Sun Life Assurance Co. of Canada (U.S.)*, 687 F.3d 1266 (Fed. Cir. 2012).

In sum, consistently applying the *Mayo* test would reduce uncertainty, at least with respect to software inventions. The greater cause of uncertainty is the division within this Court’s panel decisions.

## **II. ENFORCEMENT OF SECTION 101 IS CRITICALLY IMPORTANT TO THE HIGH-TECH INDUSTRY.**

The prohibition on patenting abstract ideas is very important in the high-tech sector. While it is easy to think of abstract ideas about what a computer or website should do, the difficult, valuable, and often groundbreaking part of online innovation comes next: designing, analyzing, building, and deploying the interface, software, and hardware to implement that idea in a way that is useful in daily life. Simply put, ideas are much easier to come by than working implementations.

The mere idea of financial intermediation with computers, or searching and finding information on an Internet website, is abstract. “At their limit,” such abstract patents “claim everything and contribute nothing.” Mark A. Lemley et al., *Life After Bilski*, 63 Stan. L. Rev. 1315, 1338 (2011). “By requiring that patent claims be limited to a specific set of practical applications of an idea, the abstract

ideas doctrine both makes the scope of the resulting patent clearer and leaves room for subsequent inventors to improve upon—and patent new applications of—the same basic principle.” *Id.* at 1317. That space for innovation is critical to *amici*, their industries, and consumers.

When threatened by lawsuits on this and similar patents, however, innovators face a choice of gambling on litigation or paying license fees for technology they already paid once to develop independently. Either path imposes significant costs that effectively tax innovation and drive up prices for consumers. *See, e.g.*, Federal Trade Comm’n, Report, *Evolving IP Marketplace* 8 (Mar. 2011), <http://www.ftc.gov/os/2011/03/110307patentreport.pdf>; Dep’t of Commerce, *Patent Reform: Unleashing Innovation, Promoting Economic Growth & Producing High-Paying Jobs* 5–6 (Apr. 13, 2010) (“DOC Report”), [http://www.commerce.gov/sites/default/files/documents/migrated/Patent\\_Reform-paper.pdf](http://www.commerce.gov/sites/default/files/documents/migrated/Patent_Reform-paper.pdf). The majority’s cabining of Section 101 also reduces the chances of dismissal at the threshold, making it more likely that defendants will face expensive discovery and other litigation costs concerning, among other things, the other requirements for patentability found in 35 U.S.C. §§ 102, 103, and 112. That increases the nuisance value of settlement and deters product development. *See Ass’n for Molecular Pathology v. PTO*, No. 2010-1406, slip op. at 19 (Fed. Cir. Aug. 16, 2012) (Bryson, J., concurring in part and dissenting in part).

This is a serious problem, as low-quality patents in the software and information technology industries have become a scourge that raises costs and places a drag on innovation. One study found that patents in these industries have produced net litigation costs far in excess of the net profits derived from the patents themselves. James Bessen & Michael J. Meurer, *Patent Failure* 15–16, 144 (2008); *see also* DOC Report at 5. Weak policing of Section 101 significantly increases these litigation costs: “Why are software patents more frequently litigated? In a word, abstraction.” *Patent Failure* at 22.

For those reasons, proper enforcement of Section 101 is especially important for high-tech industries. “[T]he underlying functional concern is a *relative* one: how much future innovation is foreclosed relative to the contribution of the inventor.” *Mayo*, 132 S. Ct. at 1303 (emphasis in original). In biotech cases like *Mayo*, the patentees appear to have made genuine and valuable discoveries, but their patents were still invalid under Section 101. The claims asserted here should fare no better. By claiming a familiar idea (financial intermediation) when done on a computer, without more, these patents deter innovation by adding nothing useful to human knowledge while preempting future development by others.

### **CONCLUSION**

This Court should grant the petition for rehearing *en banc*.

Respectfully submitted on this 5th day of September 2012.



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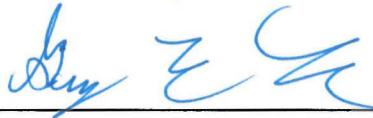
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**DECLARATION OF AUTHORITY**

I, Gary E. Lazar, hereby attest that (1) Daryl L. Joseffer is unavailable to sign the 'Brief of *Amici Curiae* Google Inc., Hewlett-Packard Co., Red Hat, Inc., and Twitter Inc. In Support Of Petitioner' and (2) I have actual authority to sign said Brief on behalf of Daryl L. Joseffer.

I declare under penalty of perjury that this declaration is true and correct.

This 5th day of September 2012



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Gary E. Lazar  
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**PROOF OF SERVICE**

This is to certify that I have this day served the foregoing “Brief of *Amici Curiae* Google Inc., Hewlett-Packard Co., Red Hat, Inc., and Twitter Inc. In Support of Petitioner” upon counsel by depositing two copies of the motion with UPS for delivery as follows:

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