

No. 2011-1301

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IN THE UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT

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**CLS BANK INTERATIONAL,**

*Plaintiff-Appellee,*

AND

**CLS SERVICES, LTD.,**

*Counterclaim-Defendant Appellee,*

v.

**ALICE CORPORATION PTY. LTD.,**

*Defendant-Appellant.*

Appeal from the United States District Court for the  
District of Columbia, No. 07-CV-0974

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***AMICI CURIAE* INTERNET RETAILERS' BRIEF IN SUPPORT  
OF NEITHER PARTY**

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Dated: November 30, 2012

## CERTIFICATE OF INTEREST

Counsel for *amici curiae* Internet Retailers certify the following:

1. The full name of every party or *amicus* represented by me is:  
  
Crutchfield Corporation  
L. L. Bean, Inc.  
Newegg Inc.  
Overstock.com Inc.  
Presidio International, Inc. d/b/a A/X Armani Exchange
2. The name of the real party in interest (if the party named in the caption is not the real party in interest) represented by me is:  
  
Not applicable.
3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the party or *amici curiae* represented by me are:  
  
Presidio International, Inc. is a wholly-owned subsidiary of Leisure Holdings, Inc., which is a wholly-owned subsidiary of Presidio Holdings Limited, which is held 50% by Como Holdings, Inc. and 50% by Giorgio Armani Holding SpA. Presidio is the parent company of Presidio Retail, Inc., Presidio Retail Canada, Inc., Presidio.com, and Presidio de Detail, Inc. Finally, Presidio Holdings Limited is the parent company of Presidio (Hong Kong) Limited (which is in turn the parent company of Presidio (China) Limited), Presidio Production Limited, and Presidio Japan K.K.
4. The names of all law firms and the partners or associates that appeared for the party or *amici* now represented by this firm in the trial court or agency or are expected to appear in this court are:

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## STATEMENT OF INTEREST OF *AMICI CURIAE*

The Internet Retailers—A/X Armani Exchange (New York, NY; *Internet Retailer 2012 Top 500 Guide*, No. 293); Crutchfield Corp. (Charlottesville, VA; *Internet Retailer 2012 Top 500 Guide* No. 123); L. L. Bean, Inc. (Freeport, ME; *Internet Retailer 2012 Top 500 Guide*, No. 18); Newegg Inc. (City of Industry, CA; *Internet Retailer 2012 Top 500 Guide*, No. 13); and Overstock.com Inc. (Salt Lake City, UT; *Internet Retailer 2012 Top 500 Guide*, No. 27)—reflect the diversity of the United States retail industry in 2012.\* They sell a wide range of products—from fashion-wear to electronics—from locations throughout the country. Some have dozens of retail stores (Armani Exchange); others none (Newegg). Some made (and continue to make) their names with their print catalogs (L. L. Bean; Crutchfield); others sell only on-line (Newegg; Overstock.com). One bond these companies *do* share is their success in online sales, reflected in their high standing among America's leading e-commerce firms.

The Internet Retailers' success in establishing successful online retail operations has not, however, changed who they are: retailers whose primary business is selling goods, not designing websites or writing source code. Notwithstanding that fact, the Internet Retailers have found themselves repeatedly responding to patent infringement claims asserted not against products they design, make, or sell, but against the retail websites through which they market and sell those products.

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\* Pursuant to Federal Circuit Rule 29(c), Federal Rule of Appellate Procedure 29(a), and this Court's October 9, 2012, Order, *Amici Curiae* Internet Retailers file this brief by leave of Court.

Moreover, these claims are often asserted, whether in licensing correspondence or a patent infringement complaint, against basic building-blocks of those websites, without regard to what code or algorithm performs those functions. More and more, the Internet Retailers are being asked to defend lawsuits under (or to take licenses to) patents asserted against computerized versions of retailing concepts that have been around for ages—the display of catalog-style images and text *on a web page*; the ability to interact with a live customer service representative *over the Internet*; the ability to flip back to previously viewed product pages *on a website*—without any regard to the myriad of ways in which those ideas are actually implemented, the details that differentiate one website from another.

The Internet Retailers are turning to their in-house or outside counsel time and again to ask whether a patent-owner is really claiming to have a patent to broad domains of basic online retail activity. As a practical matter, the answer too often is that it depends on how much time and money a retailer is willing to spend litigating an asserted patent through claim construction to judgment and up on appeal to this Court. The high level of uncertainty regarding the proper scope of patent claims asserted against retail websites, combined with the high costs that must be incurred to achieve certainty, make it virtually impossible for the Internet Retailers to properly value each case brought against them, and so make it correspondingly tempting to ignore the merits of the asserted claims and evaluate whether litigation is worth defending based solely on the costs of defense. The Internet Retailers' interest in this

case is, as a result, intensely practical. They seek a rule of law that will not only comport with Supreme Court precedent, but yield quicker, better, and less expensive outcomes.

### SUMMARY OF ARGUMENT

The Internet Retailers write not to back a winner or loser in this particular case, but to advocate that this Court adopt a clear rule of easy *and early* application: whether drafted as method, system, or storage medium claims, references to computer implementation, however phrased, cannot by themselves render abstract ideas patent-eligible. Computer- or Internet-implemented patent claims, like any patent claims, should be evaluated based on the inventive concept they embody; computer- or Internet-implementation should be evaluated based on the extent to which the specific kind of implementation recited in the patent claims is central to that inventive concept. If the underlying concept is an abstract idea (catalog-style product displays) the addition of a reference to computer- or Internet-implementation (catalog-style product displays on a website) cannot make that abstract idea concrete. Computer- or Internet-implementation is neither different from nor more special than other forms of idea-implementation. Computer-implementation only bears on the patent eligibility question if it contributes meaningfully to narrow the scope of the claimed invention to a single, concrete application of an abstract idea for a novel and specific purpose, in the same manner in which a mathematical formula can be used narrowly to define a novel and specific industrial process new to the field. *See Diamond v. Diehr*,

450 U.S. 175, 192–93 (1981). The narrowing required is from “simply appending conventional steps specified at a high level of generality, to...abstract ideas,” *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1292 (2012) (ellipsis added) to articulating never-before-seen approaches at a granular level—not the genus of catalog-style product displays, but (assuming all other validity tests are met), *e.g.*, source code defining a new species that does so. For the reasons laid out below, the adoption of such a clear rule would not only satisfy the requirements of the patent laws, it would increase the quality of computer-implemented patents issuing from the United States Patent and Trademark Office (“Patent Office”); increase the ease and certainty with which issued patents could be evaluated in litigation; and reduce the time and cost required to litigate such patents on their merits.

## ARGUMENT

### I. THE COURT SHOULD ADOPT A RULE OF EASY AND *EARLY* APPLICATION: APPLICANTS CANNOT “ADD-COMPUTER-AND-PATENT.”

Section 101 of Title 35 of the United States Code (“Section 101”) is the statutory sea-wall Congress erected to prevent the patent system from being overwhelmed by tidal forces threatening to erase the boundaries between the patent-eligible and ineligible. In interpreting Section 101, the Supreme Court has concluded that its role in the patent system is both logically prior to and substantively separate from other doctrines of validity, such as anticipation, obviousness, indefiniteness, or written description. *See Prometheus*, 132 S. Ct. at 1303–04. Patent eligibility is logically

prior to other considerations of patent validity because Section 101 “imposes a threshold condition. “[N]o patent is available for a discovery, however useful, novel, and nonobvious, unless it falls within one of the express categories of patentable subject matter.” *Bilski v. Kappos*, 130 S. Ct. 3218, 3236 (2010) (Stevens, J., concurring in the judgment) (quoting *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 483 (1974)) (brackets in opinion); *see also Bilski*, 130 S. Ct. at 3225 (agreeing that Section 101 is a “threshold test”). The role of patent eligibility is substantively separate from the other doctrines of validity because it guards against a different and broader danger than they do: the danger of over-expansive patent rights, both within the claims of individual patents and within the context of broader fields of invention. *See Prometheus*, 132 S. Ct. at 1301 (Section 101 protects against the “danger that the grant of patents that tie up the[] use [of laws of nature] will inhibit future invention premised upon them.”) (brackets added); *see also MySpace, Inc. v. GraphOn Corp.*, 672 F.3d 1250, 1268 (Fed. Cir. 2012) (Mayer, J., dissenting) (use of other validity doctrines has “proved woefully inadequate in preventing a deluge of very poor quality patents.”). This concern is especially salient in the context of computer-implemented patents. *See MySpace*, 672 F.3d at 1268 (Mayer, J., dissenting) (“[T]here is no evidence that relying on §§ 102, 103, or 112 will solve the problem [of poor quality business method and software patents.]”) (quoting Gerald N. Magliocca, “Patenting the Curve Ball: Business Methods and Industry Norms,” 2009 *BYU L. Rev.* 875, 900 (2009)) (brackets in opinion). “That is, there are cases where we can easily tell the invention is not about

systems or computers; it is merely an abstract idea clothed as something more tangible.” *CLS Bank Int’l v. Alice Corp. Pty. Ltd.*, 685 F.3d 1341, 1360 (Fed Cir. 2012) (Prost, J., dissenting). In such cases, the courts can and should act to eliminate such inventions from the scope of patent protection quickly and decisively.

Empirical evidence, discussed in greater detail, below suggests that the patent system has been swamped with lower-quality, computer-implemented patents that are, their relative lack of quality notwithstanding, many times more likely to be asserted in litigation than other classes of patents. In such a context, the courts should shoulder the responsibility of deciding the patent eligibility question directly. They can do so through the straightforward (and early) application of the basic “prohibition against patenting abstract ideas,” thereby ensuring that this principle is not “circumvented by attempting to limit the use of the formula [or method or system] to a particular technological environment’ or adding ‘insignificant postsolution activity.’” *Bilski*, 130 S. Ct. at 3230 (quoting *Diehr*, 450 U.S. at 191–92) (brackets added).

In agreeing to hear this case *en banc*, this Court posed two questions to the parties and *amici*: (1) What test should the Court use to decide whether a computer-implemented invention is patent-*ineligible*, and when (if ever) the presence of a computer in a claim lends eligibility to an abstract idea? and (2) Does it matter for those purposes whether the claim is a method, system, or storage medium claim? *CLS Bank Int’l v. Alice Corp. Pty. Ltd.*, 2012 WL 4784336, \*1 (Fed. Cir. Oct. 9, 2012). The Internet Retailers urge the Court to conclude that reference to computer-

implementation alone cannot lend patent-eligibility to an abstract idea. The mere presence in a claim—whether directed to a method, system, or storage medium—of a “computer” or “the Internet” does nothing to concretize an abstract idea. The idea of displaying photographs of products for sale adjacent to text describing those products (a/k/a a catalog) is not made less abstract by reference to implementation “on a computer” any more than it would be rendered less abstract by reference to it being implemented “on paper.” Computer implementation must add something more, and more specific, before it can be considered relevant to resolving the patent-eligibility question. In this regard, computer-implementation is neither a different nor special mode of implementation entitled to greater judicial deference than others.

In *Prometheus*, the Supreme Court heeded the warning of its own precedents against interpreting patent laws so as to allow patent eligibility or ineligibility to turn on the “draftsman’s art.” 132 S. Ct. at 1294 (quoting *Parker v. Flook*, 437 U.S. 584, 593 (1978)). In full, the Court in *Flook* cautioned against

mak[ing] the determination of patentable subject matter depend simply on the draftsman's art [which] would ill serve the principles underlying the prohibition against patents for “*ideas*” or phenomena of nature. The rule that the discovery of a law of nature cannot be patented rests, not on the notion that natural phenomena are not processes, but rather on the more fundamental understanding that they are not the kind of “discoveries” that the statute was enacted to protect.

437 U.S. at 593 (brackets and emphasis added). As the italicized word makes clear, that warning applies with equal measure to the eligibility of abstract “ideas” at issue in this case as the “phenomena of nature” at issue in *Prometheus*. Rather than looking for

“magic words” that the applicant can incant (“on a computer” or “over the Internet”) to render an invention eligible, the Court must look to the “inventive concept” underlying the invention, *i.e.*, what the inventor actually invented as opposed to the form of words in which he clothed that invention. If blind reference to computer-implementation engendered eligibility, that would privilege “the draftsman’s art” over the inventor’s ingenuity: an ineligible claim to a catalog-style product display would become eligible simply by being recast as a computerized catalog-style display. If, however, a patent claim discloses a specific manner of computer implementation of a broader idea (the code for applying a specific algorithm, say), and that manner of computer implementation lies at the heart of the inventive concept of the patent, a detailed description of that species of computer-implemented concept would be germane to the patent-eligibility of that claim.

In the panel opinion in this case, both the majority opinion and the dissent separately acknowledged the principle that “[t]he mere implementation on a computer of an otherwise ineligible abstract idea will not render the asserted ‘invention’ patent eligible.” *CLS Bank*, 685 F.3d at 1351 (majority) (brackets added); *see id.* at 1357 (dissent). This statement appears to reflect the reasoning just described. But this case is not an instance in which different judges of the same court just happen to have disagreed about the result after having applied a legal principle on which they agree. Rather than applying the teachings of *Prometheus*—examining the inventive concept underlying the invention and inquiring whether and how a specific form of

computer–implementation defined by the patent is or is not central to that concept—the majority opinion adopted what amounts to a *de facto* rule of avoidance of the Section 101 issue altogether:

[T]his court holds that when—after taking all of the claim recitations into consideration—it is not manifestly evident that a claim is directed to a patent ineligible abstract idea, that claim must not be deemed for that reason to be inadequate under § 101...Unless the single most reasonable understanding is that the claim is directed to nothing more than a fundamental truth or a disembodied concept, with no limitations in the claim attaching that idea to a specific application, it is inappropriate to hold that the claim is directed to a patent ineligible ‘abstract idea’ under 35 U.S.C. § 101.

*Id.* at 1352 (brackets and ellipsis added). The inquiry the panel majority would have courts perform is not whether the inventive concept is directed at eligible subject matter. Rather, the panel majority would have courts ask whether they can rule out *all* readings of the claim in which it might be seen as directed at eligible subject matter. Instead of identifying what the patentee invented, then evaluating it under applicable legal standards, courts would be instructed to look at a range of inventions the patentee might have invented, given the language of the claims, and decide whether any one of those potential inventions might be deemed patent–eligible. Instead of providing needed clarity, this rule adds a needless layer of interpretive complexity, thereby discouraging the use of Section 101 to evaluate patent validity.

Under this “single most reasonable understanding” test, the majority concluded that the asserted claims in this case were patent–eligible because certain claim limitations “*can* be characterized as being integral to the method.” *CLS Bank*, 685 F.3d

at 1355 (emphasis added); *see also id.* (“[I]t is difficult to conclude that the computer limitations here do not play a significant part in the performance of the invention or that the claims are not limited to a very specific application of the concept of using an intermediary to help consummate exchanges between parties.”) (brackets added). By framing the test in this way, the majority avoided having to determine whether the claim limitations *are* integral to the method. *See id.* at 1357 (Prost, J., dissenting).

Rather than determining what the inventive concept *is*, the majority grounded its reasoning in what the inventive concept *might be*. In effect, its conclusion was that a claim need only have a colorably patent-eligible inventive concept, one that could be read into the claim without regard to whether the claim embodies an actual, patent-eligible inventive concept. This formulation flies in the face of the Supreme Court’s holding in *Prometheus*, and courts the dangers that opinion cautions against, allowing clever expression (“the draftsman’s art”) to substitute for clear articulation.

Of most immediate concern to the Internet Retailers, the practical effect of this formulation will be to teach district courts to do what some judges of this Court have been urging more explicitly—to avoid addressing patent eligibility questions. *MySpace*, 672 F.3d at 1261 (“Following the Supreme Court’s lead [in avoiding constitutional questions when possible], courts should avoid reaching for interpretations of broad provisions, such as § 101, when more specific statutes, such as §§ 102, 103, and 112, can decide the case.”) (brackets added); *DealerTrack, Inc. v. Huber*, 674 F.3d 1315, 1335 (Fed. Cir. 2012) (Plager, J., concurring-in-part and dissenting-in-part) (“I believe that

this court should exercise its inherent power to control the processes of litigation, and insist that litigants, and trial courts, initially address patent invalidity issues in infringement suits in terms of the defense provided in the statute: ‘conditions of patentability,’ specifically §§ 102 and 103, and in addition §§ 112 and 251, and not foray into the jurisprudential morass of § 101 unless absolutely necessary.’). If this Court further signals that Section 101 can and should generally be avoided under a “single most reasonable understanding” test, district courts will follow that lead and decline to address patent eligibility, although a potentially dispositive issue, early in a case. *See, e.g., CMG Fin. Servs., Inc. v. Pac. Trust Bank, FSB*, Case No. 2:11–cv–10344–PSG–MRW (C.D. Cal. Apr. 16, 2012) (“To avoid this swamp, the Federal Circuit has advised against deciding issues of abstractness in the early stages of litigation.”) (attached as Addendum, Exhibit A); *Research Affiliates, LLC v. WisdomTree Investments, Inc., et al.*, Case No. 8:11–cv–01846 (C.D. Cal. Apr. 26, 2012) (“courts are strongly encouraged to first resolve validity issues on those well–established grounds instead of on the broad, controversial Section 101 analysis.”) (attached as Addendum, Exhibit B).

The panel majority’s rule would gut Section 101’s legal force in the trial courts. *First*, it ignores the requirement, articulated by the Supreme Court, that a patent contain an inventive concept beyond the underlying abstract idea (or law of nature) as discussed. *Prometheus*, 132 S. Ct. at 1294. Thus, it would encourage the filing and issuance of patents the eligibility of which depends on the draftsman’s art. *Id.*

Attentive applicants could find forms of words that took their inventions past the recitation of a general purpose computer but only so far as the recitation of a computer implementation that *could* be understood on some reasonable interpretation to be potentially integral to the underlying invention without regard to whether it was actually integral.

*Second*, and of more practical import, such a rule would destroy Section's 101's effectiveness as a bulwark against classes of bad patents. As detailed in the next section, there are a higher percentage of low-quality, computer-implemented patents than low-quality patents in other fields of invention. And these patents are many times more likely to be litigated than other, more valuable patents. In this area of patent law, of all areas, the opportunity for early-case adjudication on the merits would benefit all concerned, saving court time and party resources.

Not only is Section 101 a threshold legal issue, it is a threshold test that can be performed at the outset of litigation, even before claim construction in some cases. *Ultramercial, LLC v. Hulu, LLC*, 657 F.3d 1323, 1325 (Fed. Cir. 2011), *vacated by WildTangent, Inc. v. Ultramercial, LLC*, 132 S. Ct. 2431 (2012) (“[C]laim construction may not always be necessary for a § 101 analysis.”) (brackets added); *Bancorp Servs., L.L.C. v. Sun Life Assur. Co. of Canada*, 687 F.3d 1266, 1273 (Fed. Cir. 2012) (“Although *Ultramercial* has since been vacated by the Supreme Court, we perceive no flaw in the notion that claim construction is not an inviolable prerequisite to a validity determination under § 101.”). Lower courts have found Section 101 an effective tool

in dispatching poor patents in rulings on early–case dispositive motions, whether motions to dismiss, for judgment on the pleadings, or for early summary judgment. *See OIP Techs., Inc. v. Amazon.com, Inc.*, 2012 WL 3985118, \*5 (N.D. Cal. Sep. 11, 2012) (granting motion to dismiss under Section 101 after “conclud[ing] that the procedural posture of this case does not render [the defendant’s] motion premature”) (brackets added); *SmartGene, Inc. v. Advanced Biological Labs., SA*, 852 F. Supp. 2d 42, 52 (D.D.C. 2012) (granting motion to dismiss noting, “[i]n this case, the section 101 analysis begins and ends the Court’s inquiry as it reveals that the patents–in–dispute are not patentable”); *Digitech Information Systems, Inc. v. BMW Financial Services NA, LLC*, \_\_\_ F. Supp. 2d \_\_\_, 2012 WL 1081084 (M.D. Fla. Mar. 30, 2012), *motion to reconsider denied*, 2012 WL 3105898 (M.D. Fla. July 30, 2012) (granting summary judgment motion under Section 101 over objection that motion was premature); *Glory Licensing LLC v. Toys ‘R’ Us, Inc.*, 2011 WL 1870591 (D.N.J. May 16, 2011) (granting motion to dismiss); *Graff/Ross Holdings LLP v. Fed’l Home Loan Mortg. Corp.*, 2010 WL 6274263 (D.D.C. Aug. 27, 2010) (granting motion to dismiss). The savings to the parties in money and the courts in time are self–evident. And those savings are more likely to be obtained in precisely those cases in which the patents are least likely to be valid or valuable, cases brought under low–quality patents. Judicious application of Section 101 is likely to winnow out the worst patents at the lowest cost.

The Supreme Court has pointed the way to a rule of easy application that, fortuitously, can also be made a rule of *early* application. The Internet Retailers submit

that this Court should hold as a matter of law that computer–implementation alone cannot render abstract ideas patent–eligible, without regard to whether what is claimed is a method, system, or storage medium. To ascertain whether a computer–implemented claim is patent eligible, a court should, as in all applications of Section 101, examine the claims and specification to determine whether the claim contains an inventive concept that is sufficiently concrete to ensure that the patent in practice amounts to something more well–defined than the abstract idea itself. In those “cases where [a court] can easily tell the invention is not about systems or computers,” “but merely an abstract idea clothed as something more tangible,” *CLS Bank*, 685 F.3d at 1360, a court should not only be permitted, but encouraged, to decide that dispositive question early in any litigation. The result will be litigation outcomes that are quicker, cheaper, and better, freeing up the courts to hear cases of greater merit and import.

## **II. LITIGATION OF COMPUTER–IMPLEMENTED PATENTS IS GROWING, AND GROWING INCREASINGLY PROBLEMATIC.**

The Internet Retailers, like most pragmatic business enterprises, do not savor time spent on the finer points of patent doctrine. They feel the urgency for a clear rule of patent eligibility in the field of computer– or Internet–implemented patents because that issue directly impacts their businesses on a daily basis as new patent assertion letters and new patent infringement complaints accusing their retail websites reach their mailrooms and inboxes. The sense of urgency is real because the problem is large, and only growing.

Empirical studies demonstrate that a confluence of factors—the generally low quality of computer–implemented patents, the concentration of patent infringement litigation in a handful of overburdened district courts, the uncertainty of patent litigation outcomes, and the rising costs of patent infringement litigation—have combined to create an untenable situation. Computer–implemented patents are *more* likely to be litigated yet *less* likely to be valid. At the same time, lawsuits under computer–implemented patents are the *least* likely to reach claim construction, let alone judgment on the merits. In other words, external factors, chiefly expense and uncertainty, are leading accused infringers to settle the very cases that the merits suggest they ought to defend most vigorously. This case presents this Court with the opportunity to cut this Gordian knot. The alternative is a *status quo* in which, in the software field, it “would require many times more hours of legal research than all patent lawyers in the United States can bill in a year” for all potentially affected parties to adequately review all potentially asserted patents. Christina Mulligan & Timothy B. Lee, “Scaling the Patent System,” *N.Y.U. Annual Survey of Am. Law* (Mar. 6, 2012) (forthcoming) (available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2016968](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2016968)).

**The Weakness of Computer–Implemented Patents.** A 2008 estimate put the number of software patents at over 200,000. *See* James Bessen & Michael J. Meurer, *Patent Failure* 22 (2008). Of these, some 11,000 covered some aspect of the Internet. *Id.* at 8–9. We have no reason to suspect that the number has diminished. *See*

James Bessen, “A Generation of Software Patents,” 18 B.U.J. Sci. & Tech. L. 241, 252–53 & Fig. 1 (Summer 2012) (number of software patents granted per year continues to increase dramatically). Data on litigation outcomes suggest that computer–implemented patents are of lower quality compared with patents in other fields. *See* John R. Allison, Mark A. Lemley & Joshua Walker, “Patent Quality and Settlement Among Repeat Patent Litigants,” 99 Geo. L.J. 677, 680 (Mar. 2011) (software patent–owners overall win only 12.9% of their cases.). Even so, Internet patents in particular are between 7.5 and 9.5 times *more* likely to be litigated than patents in other fields. John R. Allison, Emerson H. Tiller & Samantha Zyontz, “Patent Litigation and the Internet,” 2012 Stan. Tech. L. Rev. 1, 6 (Feb. 14, 2012). Thus, the patents most likely to be litigated are the least likely to survive battle–testing.

**The Growth and Concentration of Patent Litigation.** At a time when Apple and Google are reportedly spending more on patent litigation than research and development, *see* <http://business.time.com/2012/11/12/patent-perestroika-what-apple-and-hics-landmark-pact-means-for-the-patent-wars/> (accessed on November 27, 2012), it may be an understatement to say that the growth of patent infringement litigation generally, and in the technology sector, has been explosive. *See* Bessen at 259 (“Clearly, the number of software patent lawsuits has continued to grow rapidly, meaning that the risk of litigation from software patents has necessarily increased.”). Measured by total number of defendants—which provides a more accurate measure

than cases, given the presence of large multi-defendant patent infringement litigation in some districts—the total number of patent infringement defendants increased six-fold between 1990 and 2010. Kyle Jensen, “Guest Post: Counting Defendants in Patent Litigation” (available at <http://www.patentlyo.com/patent/2010/10/guest-post-counting-defendants-in-patent-litigation.html>); *see also* James Pistorino, *Concentration of Patent Cases in Eastern District of Texas Increases in 2010*, 81 BNA’s Patent, Trademark & Copyright Journal 803 (Apr. 15, 2011). Growth in the litigation of software patents has kept, if not exceeded, this pace. *See* Bessen at 259 (measuring rapid growth of software litigation by number of lawsuits).

One driver of this growth is the rapid increase in non-practicing entity litigation. Given that the business of the non-practicing entity depends upon asserting patents against accused infringers in litigation, it is little wonder that the growth of a litigation-based industry would increase the volume of patent infringement litigation. In a recent study, researchers concluded that plaintiffs whose business is to extract money from patents through litigation and licensing, as opposed to developing products under those patents, accounted for 40% of all patent cases filed in 2011, up from the already significant figure of 22% in 2007. *See* Sara Jeruss, Robin Feldman & Joshua Walker, “The America Invents Act 500: Effects of Patent Monetization Entities on US Litigation,” at 5 & 43–57, *Duke Law & Tech. Review* (forthcoming) (available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2158455](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2158455)); *see also* James Bessen & Michael J. Meurer, “The Direct Costs from NPE Disputes” at 2,

Boston Univ. School of Law Working Paper No. 12–34 (June 28, 2012) (available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2091210](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2091210)) (non–practicing entity litigation affected 5,842 defendants in 2011).

During this period of growth in patent infringement litigation generally, there has been a corresponding contraction in the number of jurisdictions handling patent infringement lawsuits, which have become concentrated in a handful of districts. Measuring the concentration by the number of defendants per district, two jurisdictions have become the true home courts of patent litigation: the Eastern District of Texas with 3,163 active defendants in 2011; and the District of Delaware, with 2,458 active defendants in 2011. *See* James C. Pistorino & Susan J. Crane, *Eastern District of Texas Continues to Lead Until America Invents Act Is Signed* (2012) (available at [http://www.perkinscoie.com/files/upload/PL\\_12\\_03PistorinoArticle.pdf](http://www.perkinscoie.com/files/upload/PL_12_03PistorinoArticle.pdf)) at 3 & Figs. 1–2; *see also* Judicial Business of the United States Courts, Fiscal Year 2011, Tables C–1 and C–7 (available at <http://www.uscourts.gov/Statistics/JudicialBusiness.aspx#supTables>) (E.D. Tex.: 603 patent cases of 2,614 total cases pending as of September 30, 2011 ; D. Del: 586 patent cases of 1,549 total cases pending as of September 30, 2011). To put these numbers in perspective, these two judicial districts had 5,621 total patent infringement defendants in 2011, while the next *eight* districts combined had only 4,521 defendants among them. Pistorino & Crane at 3 & Figs. 1–2. Of those trailing eight, only the Central District of California had more than 1,000 patent defendants in 2011. *Id.*

The picture that results is of increasingly litigious patent-owners filing an increasing number of claims against an increasing number of accused infringers in a decreasing number of federal courts. Given the limited resources of this small number of high-volume courts, accused infringers in patent infringement actions filed in districts with overcrowded patent dockets face the prospect of several years of litigation before they can reasonably expect to receive a judgment on the merits of the underlying claims. *Cf.* Y. Leychkis, “Of Fire Ants and Claim Construction: an Empirical Study of the Meteoric Rise of the Eastern District of Texas as a Preeminent Forum for Patent Litigation,” 9 *Yale J.L. & Tech.* 193, 216 (2007) (comparing 10% summary judgment grant rate in the Eastern District of Texas with the 40% national average).

**Uncertain (and Expensive) Outcomes.** This Court does not need to be reminded that patent litigation is expensive, and growing more so. *See* Stijepko Tokic, “The Role of Consumers in Deterring Settlement Agreements Based on Invalid Patents: the Case of Non-Practicing Entities,” 2012 *Stan. Tech. L. Rev.* 2, 8 (Jan. 9, 2012) (highlighting upward trend in patent litigation costs). The median cost of litigating a patent case through trial is estimated to be \$650,000 where less than \$1 million is at risk; \$2.5 million where between \$1 and \$25 million is at risk; and \$5 million where there is more than \$25 million at risk. *See* American Intellectual Property Law Association, Report of the Economic Survey 2011. The discovery phase alone costs \$350,000 in the first category; \$1.5 million in the second category; and \$3

million in the third category. *See id.* Even if a dispositive motion could be filed and granted immediately after the close of discovery, accused infringers must pay handsomely for the privilege. And, under the fee-shifting statute, 35 U.S.C. § 285, the odds of recovering attorneys' fees for accused infringers are slim, because they must show by clear and convincing evidence that the patent-owner brought a frivolous claim, engaged in inequitable conduct, or engaged in litigation misconduct. *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, 687 F.3d 1300, 1308 (Fed. Cir. 2012).

Further, victory in patent litigation is likely to be fleeting. Empirical studies suggest that this Court has a high reversal rate on the (often) case dispositive issue of claim construction. *See* Ted L. Field, "Judicial Hyperactivity' in the Federal Circuit: an Empirical Study," 46 U.S.F. L. Rev. 721, 734-35 & Table 1 (Winter 2012) (collecting studies showing a claim construction reversal rate of between 33% and 44%); *see also* David L. Schwartz, "Courting Specialization: An Empirical Study of Claim Construction Comparing Patent Litigation Before Federal District Courts and the International Trade Commission," 50 Wm. & Mary L. Rev. 1699, 1708 (2009) ("[I]n almost every patent case claim construction is a dispositive issue.") (brackets added). Further, there is evidence to suggest that this Court has a higher reversal rate generally in patent cases than in non-patent cases within this Circuit and as compared with non-patent cases decided in other circuits. Field at 776. Even after winning an expensive trial, then, an accused infringer's odds on appeal may be little better than a coin flip.

Judge Young of the District of Massachusetts put the conundrum facing the litigants and trial courts this way:

In most cases the trial judge, with the “satisfaction that proceeds from the consciousness of duty faithfully performed,” General Robert E. Lee, Farewell Address to Army of Northern Virginia (Apr. 10, 1865), and a reversal rate among the several circuits ranging from two to fourteen percent, has the added satisfaction of knowing that he has probably resolved the parties’ dispute and that they can get on with their business. Not so here.

Here the parties have fought each other to a standstill and any “victory” is pyrrhic. Given the monetary stakes involved and a Federal Circuit reversal rate exceeding forty percent, this Court is no more than a way station—an intermediate irritating event—preliminary to the main bout in the Federal Circuit. Whatever the merits of such a system, it is undeniably slow and extraordinarily expensive. The most this Court can say is, “Good luck and Godspeed.”

*Aspex Eyewear, Inc. v. Altair Eyewear, Inc.*, 818 F. Supp. 2d 348, 365 n.8 (D. Mass. 2011).

This is the modern reality of patent litigation that faces the Internet Retailers. They find themselves routinely accused of infringing patents asserted against some aspect of their websites in lawsuits far removed from their places of business. Although the evidence suggests these patents are likely to be of questionable quality and validity, the Internet Retailers must decide in each case whether to invest the considerable resources in fighting these claims through trial and an appeal to this Court, resources they stand little chance of recouping at the bitter end of litigation. *Cf. Eon-Net LP v. Flagstar Bancorp*, 653 F.3d 1314, 1327 (Fed. Cir. 2011) (defendant spent over \$600,000 to litigate a case it could have settled for \$75,000 or less). The anecdotal evidence of the Internet Retailers’ experience lines up with the empirical evidence

cited above: the assertion of low-quality, computer-implemented patents is a problem that is both growing and growing worse, and which requires a decisive solution.

This case presents the Court with the opportunity not only to decide a disputed question of the law of patent eligibility, but to decide it in such a way that low-quality, computer-implemented patents can be quickly and efficiently dispatched early in litigation. The adoption of such a rule would not only clear up a murky area of the law, it would enable the district courts to rid themselves of their least valuable cases with the minimum expenditure of judicial effort and party time and money. The benefits would redound to all stakeholders in the system: the Patent Office, the courts, patent-owners, and accused infringers.

## CONCLUSION

For the reasons set forth above, the Internet Retailers respectfully request that this Court hold that references to computer-implementation, however phrased, cannot render abstract ideas patent-eligible.

Dated: November 30, 2012

Respectfully submitted,



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## CERTIFICATE OF SERVICE

Counsel for *amici curiae* Internet Retailers certifies that it this day sent an original and 30 copies of the foregoing materials by UPS Overnight Delivery to the United States Court of Appeals for the Federal Circuit, at the address as provided in the Federal Circuit Rules: Clerk of Court / United States Court of Appeals for the Federal Circuit / 717 Madison Place, NW / Washington, DC 20439.

I also certify that two bound copies of the foregoing materials were served this day via First Class Mail, postage prepaid, upon the following:

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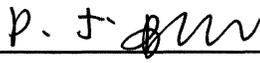
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## CERTIFICATE OF COMPLIANCE

Pursuant to Fed. R. App. P. 29(d), 32(a)(7)(B), and 32(a)(7)(C), and Federal Circuit Rule 32(b), counsel for the undersigned *Amici Curiae* certify that this *AMICI CURIAE* INTERNET RETAILERS' BRIEF IN SUPPORT OF NEITHER PARTY conforms with the type-volume limitation. According to the "Word Count" feature of Microsoft Word, this brief contains 5,871 words, excluding those portion specifically exempted by the aforementioned rules.

Pursuant to Fed. R. App. P. 32(a)(5), this brief has been prepared in a proportionally-spaced typeface using Microsoft Word Garamond font, size 14, justified.

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