CLS Bank v Alice en banc Oral Argument Transcript Draft

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CLS v Alice Oral Arguments Audio Recording

Written Transcript

Arguments of Mark Perry, Representing the Accused Infringer

Mark Perry:

"Chief Judge Rader may it please the court. The Supreme Court has told us that to transform an unpatentable principle into a patent eligible application, "one must do more than simply state the principal while adding the words 'apply it.'" The question in this case … the core question in this case we submit is whether one may tranform an unpatentable principle into a patent elgiblel applicaitno by simply stating the principle – an abstract idea, while adding the words "compute it." The answer to that question is no. ANd we know that form the Benson case. The Supreme Court has already told us, in precisely thesecirucmstances that reciting an abstract idea, on a compuer is not sufficient. As the Mayo case summarize Benson in a quote that is equally dispositive of …

Beck, Gills and Mikrut indicate the questioning begins with Judge Newman

"Mr. Perry that's easy, but how do you know what's an abstract idea?"

Perry

"Your Honor, there may be many kinds of abstract ideas. In this case we would submit that it's easy. A method that can be performed entirely in the human mind or with the aid of merely a penson and paper is an abstract idea. This court said this in the Cybersource case. The Supreme Court said that in the Benson case. The Supreme Court reiterated that in the Flook case. The PTO agrees with that standard. The manual seciton 2106 says that abstract and purely mental mean the same thing. And the PTO in this very case made that determination as to these claims. When the 510 patent was being prosecuted your Honor, the claims were rejected by the PTO under Section 101 as abstract ideas. This appears at page A874 of the appendix. And what the

PTO said was that without a computer they are abstract ideas. Alice amended the claims to add electronic adjustment, a computer, and on that basis they were granted. So we know two things from the PTO's own action here. First, these claims these claims these patents claim only abstract ideas, an second the only thing the PTO relied on in granting them was the addition fo a computer. However

Moore?

"Counsel you said these claims contain only abstract ideas. Right. You mean just the one patent you are referring to or all the patents?"

Perry

"Your Honor all the patents have the same thing .. they are"

Dutra Indicates This Is Moore

"OK. Well why don't we look, because.. gosh we are close to deciding validiity claim by claim, why don't we actually look at a claim . How bout we start with claim 26 of the 375 patent. It begins 'A data processing system to enable the exchange of obligations between partis. the systems comproisiung a communications controller, a first pary device coupled with said communication controller, a data storage unit having information stored there .. and it gives you a couple of subparts about what kind of information. A computer coupled to said data storage unit, said communications controller that's configured to do the following - that doesn't just sound like somebody saying a method with maybe a computer – I mean there are four separate different physical tangible components of a system articulated …

Mr. Perry

"Your Honor, you're right, there's a computer, a hardrive, and a telephone. All of which

Judge Moore

"Actually no, we know that's not right because we have the specifications of the patent.. which aaa if you look at columns 7 and 8 span 2 full columns of exasperative detail about how for example .. 'the processing unit 20 comprises 3 interlinked data processers, such as the sun 670mp manufactured by Sun Microsystems, each processing unit runs operational systems software such as sun microsystems os 4.1.2 as well as applications software. The applications software is shown in the flow charts accompanying this patent ie figures 8 through 16 and figures 18 through 40 which contain detailed flow charts that would certainly satisfy anybody's predilections regarding an algorithm disclosure for sofware purposes …. Perry "your honor" .. this is so far from just a computer doing an abstract idea .. I can't even imagine how you can characterize it as such."

Mr. Perry

“Judge Moore, I respectfully disagree. The Sun Sparc ware station described there which is just an off the shelf computer in 1993 – and it says any computer, it doesn’t specify the sun system it says any computer. The algorithms for th.. excuse me the flow charts that are described.. the only ones that Alice says have anything to do with these claims, and I’m looking at the 479 patent the same figures .. is figures 33 34 35 36 and 37 your Honors. These flow charts.. and if I could point for is a good example is figure 36..

Judge Moore (at 5:25)

How is sun microsystems an abstract idea? How si a computer .. I walk over, and here I am carrying with me a ginormous system. It has four tangible components, four separate machines accompanying this system. How is that an abstract idea?

Mr. Perry

Your honor, the question is not tangibility. The computer is clearly tangible. What the Mayo Court said on this very subject. Mayo explained, and this is a quote

Judge Moore

Really because I don’t remember any system claims in Mayo, am I mistaken?

Mr. Perry

Your honor Benson was effectively a systems claim because the court made it clear that it ran only on a digital computer. And what Mayo said characterizing Benson, this is direct quote. Quote: “Benson held ‘That simply implementing a mathematical principle on a physical machine, namely a computer, was not a patentable application of that principlel , so yes there is s sun sparc work station being described in the spec, but it is first a generic computer, simply putting a such as, and second the replication of a computer

Juge Moore

OK, one more question if you don’t mind. So if I go to PTO at.. today, and I want to patent a 386 old fashioned Dell PC. I walk up and here I am with you know my patent claim drected to the Dell 386 component by component all of the .. hope that doesn’t reflect on my question.

General Laughter

Mr. Perry

A super bowl moment your honor.

More laughter including other justices.

Judge Moore

Well lets hope I don't go the way of the poor Ravens after that light went out. But anyway.. laughter … ah So,

Mr. Perry

They won in the end

Judge Moore

OK ??? the Ravens just to be clear… more laughter

ahh so lets now walk up to the pto and I want to patent a 386 computer… and is the pto likely under.. we're not talking software.. is the pto likely under that circumstance to say gosh no I'm sorry thats an abstract idea.. 101 rejection

Mr. Perry

of course not your honor

Judge Moore

So why would adding software a ie limiting the functinality of that ocmputer suddlenly ocnvert that computer into an abstract idea

Mr. Perry

Because your Honor these claims.., and it is the claims that control not the specification do not recite any specific computer, a Dell 386 or any other nor any specific hardware or softare, they say electronic adjustments. that can be done on a calculator. that can be done on a adding machine.

Judge Moore

That word does not appear on the claim that I was talking about

Mr. Perry

that appears on all of the claims on the 510′ patent which are the ones the appliant amended over the section 101 objection . that was the addition that the patent the pto allowed as being soley sufficient to overcome the abstract idea .. electronic adjustment . ? adding machine your Honor.

Judge Lourie

Mr Perry, isn't there a .. is it you're view that there's a distinction between a claim .. a free standing claim to a computer qua computer and dealing with a method claim which is what we

have here, and whether a system and a computer claim appended to the methodl claim ah drafted to avoid the problems of the method claim are patent eligible?

Mr. Perry

Yes Judge Lourie, let me illustrate that by a simple example. In the diagnostic method in mayo. if the patentee had recited "a system configured too" diagn… you know correlate and diagnose and so forth, that claim would have been no more patent eligible we submit than the claim the supreme court in fact invalidated. The addition of a generic system an undiscribed undisclosed unclaimed system doesn't add anything to a method claim. So in a patent like this we have to start with the method claim. To answer your question and Judge Moore's, I think there are other kinds of patents in which what is being claimed is the computing device or even the programming of a computing device. Alappat, even though the language is wrong the outcome

Judge Lourie

Here we start with the method?

Mr. Perry

Here we start with the method because here the patentee started with the method. These patents, the four patents

I believe this is Judge Moore

I thought we started with the claims.

Mr. Perry

You're honor the first patent that issued

Judge Moore

Don't we go claim by claim

The first patent that issues with the 479 which is soley the method patent. All the rest were continuations. They filed terminal disclaimers

I believe this is Judge Lourie

But nevertheless different patents have different claims and they each have to be considered do they not?

Mr. Perry

Absolutely they do your honor but here we would start. We submit the starting place is the method claim because where the patentee started was the method claim.

Judge Lourie

Let me ask a question with respect to the method claim .. it. In the district court and on appeal last time and I understand again in your en banc briefs you were am agreeing that at least for purposes of section 101 claims 33 and 34 of the 479 patent are the same as the other method claims – all computer implemented .

Mr. Perry

That's correct you're honor.

Judge Lourie

Now, let me understand the extent of your agreement here. Are you agreeing that we should treat those claims as computer implemented solely for purposes of of this issue 101? Or for all purposes in the case? And I ask you that because if we should reverse on patent eligibility based upon that concession, amm will the case go back, will the district court construe those claims and what happens if the district court construes those claims and says well no there is no computer implementation step here. What happens then? Do you reassert the 101 argument?

Mr. Perry (11:00)

Your honor we have conceded for al purposes in this case that the that the claim 33 and 34 of the 479 patent ??erted there are assumed to require a computer that was the district courts holding, we haven't challenged that.

Judge Lourie

So this is for all purposes

Mr. Perry

There's an important second part of your question though

I believe this is Judge Moore

Can I folllow up on that because you said assume to require a computer but as I read what the district court said she uses the word assuming a very broad construction I think she meant narrow construction when you thinn k about but she said you conceded that the term shadow credit and debit record and transaction all recite an electronic implementation amm on a computer or some other electronic device and then she later pointed out that even at the markman stage you said lets assume we have to have all of these activiteis implemented through a system on a compuer.

Mr. Perry

That's correct you're honor. Because the 510 patent. And this goes to judge moore's point. There was a series of cointunation patens and the later ones do claim electorinci adjustment ?? computer system so we don't dispute their coputeoru eim;leioejrtemt there is an importane second point though which is the bensons claims were computer implemented. In fact justic benson wrote for the unanimous court there they only worked on a computer but they could be done by pencil and paper

Judge Lourie

Well lets let me follow up on my question which with respect to the claim 68 of the 702 patent and thats the data processing system claim. What if that claim instead of recieint a data processing system recited a data procesisng circiut and then went on to claim a storage unit and then isntead of the limtiation a computer coupled to the storage unit that is configued to do this that an the other it said a hard wired electrical circuit configured to do this that and the other. would there be any question whatsoever of 101 patent eligibility?

Mr. Perry

I think at that level of abstraction at that level of generic description there would be because what is being claimed there

Judge Lourie

It would the claim a circuit with a specific hard wired device?

Mr. Perry

Unles the device is claimed or at least disclosed neither of which we have here of course

Judge Lourie

No but my hypothetical proposes is that the hardwired .. that the limitations are in hardwired electrical form

Mr. Perry

Your honor whether its hardwired or softwired I agree with Alappat to the extent that it makes no difference whether the circuits are physically wired or instructed by software that is irrelevant for patent eligibility. what matters here

Judge Lourie

That was going to be my follow up

Mr. Perry

I'll grant you that one your Honor

Judge Lourie

Because I don't think there is a principal difference

Mr. Perry

I agree with you

Judge Lourie

and what we have in both cases is you have you have something more than simply a token computer tagged onto an abstract idea. As Judge Moore pointed out there are specific limitations as to the way this method is performed in the system and using the software to accomplish a practical result.

Mr. Perry

Your Honor I absolutely agree that there are comptuer system claims computer software claims circuitry claims all of which are patent eligible we haven't challenged any of those. We have made the point over and over again in neither Alice

Judge Moore

What do you mean you haven't challenged any of those? The claim I just read to you is a computer system claim that articulates four pieces of hardware and the specification discloses at least 15 different things that could be used in each of those four pieces of hardware

Mr. Perry

Judge Moore I just disagree with that characterization

Judge Moore

How is that not a systems claim

Mr. Perry

That is a method claim dressed up in a generic system. It says use any computer any telephone any hard drive. And then look at the programming claims, look at figure 36 . this isn't a logic flow. This is a parody of a logic flow. This cannot allow a person skilled in the art to program this computer. This is simply says do we have multi-lateral netting available? Put it in

the black box and see what comes out. The black box is never claimed. The black box is never described.

Judge Moore

Well lets pull up the claim that I told you about. This is the flow chart for it. Lets look at figure 12 of the 375 patent. I've never seen a flow chart in any software case that's any more detailed than this. It's ??? and thoughtful and

Mr. Perry

Judge Moore that drawing has nothing to do with these claims. Alice doesn't say that has anything to do with these claims. They Alice doesn't say that this has anything to do with these claims. there's a whole bunch of other claims that aren't asserted here

Judge Moore

This claim is asserted .. the one I pulled. I had my law clerk check four times. Make sure it was asserted before I pulled it.

Mr. Perry

I'm sure you're law clerk is right.

Judge Moore

After four times he sure as heck better be.

Laughter

Mr. Perry

It certainly is not one of the drawings that Alice has pointed to in any of its briefings in this case. So I will I will apologize for my misstatement in that respect. Let me add this point however. The PTO didn't look at this as a software claim. The PTO looked at this as a method claim because the resolution was on the method. And Alice is defending it as a method claim. that's for a good reason. The government makes the point, quote, this is in the brief at page 9, "that Mayo has changed the law from what it used to be. when these patents were enacted, the recitation of a computer, any computer Judge Moore was enough. that's the basis on which PTO granted these claims. And the government now takes the position. The United States government, quote: "the recitation in a claim that a system is computerized, can no longer serve as a virtually dispositive indicator of patent eligibility. Although that approach has the benefit of simplicity and ease of administration it is no longer viable after Bilski and Mayo.

According to Dutra, This Is Judge O'Malley

Did Mayo overturn Alappat then?

Mr. Perry

Your Honor, Alappat's outcome I think is correct. I think there is some reasoning in Alappat, certainly the useful concrete and tangible result standard has been rejected. But the the process and apparatus described in Alappat – that is the rasterizer optimized for the smooth oscilloscope presentation I think like the Research Corp patent looks a lot more like a methodl for an improvement in computer technology that under the Benson-Flook-Diehr line of cases would pass muster. So I don't think it did overrule Alappat's outcome. I think the reasoning in Alappat has not survived. And this court in Bilski of course recognizes the reasoning of Alappat has not survived but the outcome probably does. But this is not Alappat, and its a useful distinction between this case and Alappat and Research Corp for example where a computer is necessary . And I'd like to this point Judge Moore and Judge Linn. Alice's expert that they like to talk about a lot – they never tell you about this quote that's on page 1012. He says quote "in an abstract sense it is possible to perform the business method of doing these things, that is maintaining accounts, adjusting accounts, and providing a ???? without a computer. In fact, if you'd done this 100 years ago, which of course we have to look at, you would have done it in a non-electronic manner using various pre-computing tools such as an abacus or hand written ledgers.

Judge Lourie???

So you're talking about a method. And our anchor is the abstract exception of the Supreme Court. And we can go to mental steps from abstraction, mental steps surely are abstract. But then we go to keeping records and we we we go into a filing cabinet and we write things down. Those aren't mental steps. How do you progress from mental steps to these fairly trivial – we're not talking about prior art here either.

Mr. Perry

Your Honor. It is fairly trivial. It is double entry bookkeping which every accountant can do is all they've claimed. And they don't claim any number of transactions. The claim would read on a two party single trade. So you don't need a pencil and paper or a ledger or an abacus or a caclulator to do that, I remember

Judge Linn

But Mr. Perry its that not correct to distill the claim to that to simply a double entry accounting. This claims have specific limitations. What is done, in what order to accomplish what result. You can't ignore that.

Mr. Perry

Your Honor, the claims recite credit and debit accounts, chronological bookkeeping, and end of day netting. That is all they recite.

Judge Linn

No that's not all they recite. That's a if you want to read the claim we can read it. Limitation by limitation Judge Moore already did that with respect to one claim.

Mr. Perry

Your honor, let me if I could

Judge Linn (19:37)

Every claim and every patent can be distilled down to some essential summary if you want but that's not the way we assess either patent eligibility or patentability

Perry

Judge Linn let me point you then not to my words but to the patent holders words. Its in the specifcation its in the same column that judge moore referred early in the 375 in the 497 in column 24 and 25 they say the method has two steps this is alice's summary of its own method for the world in its disclosure. Hs two steps it is a two stage process They say I quote first by debiting and crediting on a real time basis the relevant records shadow records and second by periodically effecting payment. OK. All that is being talked about in a bilateral transaction the intermediary debits and credits the accounts during the day and makes a net payment at the end of the day.

Judge Linn embedded n your question if I may be presumptuous, in the courts panel opinion that you wrote, you say there are many other ways to do that that is to keep accounts and write them. We challenge that proposition in the en banc petition and Alice has come back and admitted they only know of one other way to do it, and they cited a very interesting article, the schaller dissertation, which is quote in their brief, which says that for multi party multi lateral multi national currency settlements which is what we are involved with here there are only two ways known to the world to do it.

Real time gross settlement which is what the fed wire does. Every trade is immediately enteredf and closed. And thats the way central banks typically do it operating in the same time. Or net settlement, which means you net em up during the day and settle at the end of the trading period. The G-20 met in 1989 and decided those are the two options and decided that net settlement is better for multinational currencies because the time zone difference in which all the members operate. It also reduces credit risk. Those are the only two ways to do what is involved here OK. They don't dispute that. Look at page 40 of their brief that is the other alternative that they take.

So we talk about pre-emption they are talking about net settlement and I would challenge Mr. Pearlman when he gets up here, my friend, there is no way to do a net settlement accounting without a shadow credit record. This is simple double entry bookkeeping. When you've all bought a house I assume, if you have a HUD1 statement, that's a shadow debit and credit record, you've got the taxes and the utilities and everything and it comes out to a bottom line and the

money flows one way or the other the escrow agent holds it thatw what being claimed in this patent .

It is abstract, it is simple, it is not complicated, and it is pre-emptive. And adding bolting on a general purpose computer undescribed any computer running any hard drive and any telephone without software to actually do it, and this is important your Honors . There are companies in this coutnry and others that spend tremendous amounts of resources, money, time, assets, to develop real things. And it takes its hard, the shallard dissertation that is quoted in their brief says that just building the CLS Bank system costs 200 million dollars before it started going, instead of a Mckinsey consultant writing a business plan and now bringing it to this court and asking for royalties which is what they are doing.

You know I can have a great idea, a self driving car, but Google is investing 1 billion dollars to bring it to reality, and if they do, they will probably get a patet on it, but the person who just wrote down the idea and brought it to the PTO shouldn't. And one thing that Bilski and Mayo do, and they are am ah divisive opinions, I understand that, I understand that there are differences of view on that. But one underlying point made by the Supreme Court there is that there is an innovation and a creativity requirement that rewards actual invention. And we submit that these patents don't display invention, they display ideas.

Judge Moore???

Isn't 102 and 103 the thing thats supposed to take care of the thing you are describing now?

Mr. Perry

Absolutely your honor and if we ever got past 101 here Alice's got all kinds of problems on obviouness on enablement and on everything else. That is a logical way to look at the patent act. I've actually written briefs making that point myself. However, the Soliciter General made that argument to the Supreme Court in Mayo, and for better or for worse, but they told us what to do, they rejected that, they said no, we're not going to rely on 103, 102, 112, we're going to have to apply 101 at the threshold, and screen out those patents that are purely abstract, and this is a purely abstract patent.

Judge Linn??

Mr. Perry

Judge Moore ????

Did the Suprememem Court really say you have to apply 101 before you can apply 102 103 or did it simply say that because the surpeme court has created judicial exceptions to how what is otherwise patenable under 101 102 103 that it has to have independent life.

Mr. Perry

Your honor they didn't say exactly as the timing although in every 101 case the supreme court has ever decided and almost every one this court has ever decided it has been the first issue in the case for good reason. Because its a legal question that can be decided on the claims and the spec and the few amount of dictionaries or treatises. It doesn't require all the evidence and the expensive machinery of patent litigation. If the patent clears then the litigation starts, if the patent doesn't clear, game over we move on. So it makes sense…

Chief Judge Rader

??? wish to keep some of that rebutal time.

Mr. Perry

I appreciate the reminder. Thank you Chief Judge Rader.

Arguments of Nathan Kelley, Deputy Solicitor, PTO

Chief Judge Rader

Mr. Kelly. I think we'll hear next from Mr. Kelly. Then we'll hear from you and then we'll have our rebuttal.

Mr. Kelly

Good morning Chief Judge Rader may it please the court. The United States appreciates the opportunity to present its views here this morning.

In arriving arriving at our views, am we've looked to the past first and we've looked to our efforts as an agency and this courts's efforts even to create a bright line test that can be used in all cases and we go from the useful concrete and tangible test that we had about a decade ago to the machine or transformation test that we had several years ago and we looked from those tests to the supreme court's guidance and we've come away from that with a clear understanding that a bright line test is not workable in this situation.

Judge Moore????

Is that the only clear understanding you came away with? Laughter in court.

Mr. Kelly.

No! No your Honor its not ah we've come to another understanding which is that we cannot look to the draftsman's art to take a claim and push it into the eligibility circle. That we have to dig into the claims themselves. The fact that a claim simply recites computer along with an abstract idea is not going to make that claim patentable as structure, whether you write it in a process claim, or whether you write it as a systems claim. But

Judge Moore??

But isn't a function of the claims construction?

Mr. Kelly

It is a function of claim construction but it is not the only thing that needs to be done in order to assess the 101 question. Yes the claim has to be construed. We have to know what the claim means. We have know if the computer is there and how its connected to the other elements. But then we think we have to ask an additional quesiton. How is the computer working in the claimed invention? Is it inseparable from the claimed ah abstract idea if there is one there or is it just simply added on to the claim? Can the two things be pulled apart?

Judge Moore

What I don't understand Mr. Kelly is when you have a systtem claim that is nothing but hardware and its articulated.. four different pieces of hardware.. and then you have a specification which spans two columns of detail and includes flow charts for how the software will operate. How can that ever be an abstract idea?

Mr. Kelly

Your honor, the Supreme Court was clear in Mayo that just because a claim recites something that may not be a law of nature, does not mean its a claim to a law of nature. The fact that Mayo claim had a step that we see in many many eligible inventions of administering something to a patient did not take that claim and put it into the eligibility circle.

Judge Moore

Well because there it was insignificant activity that accompanied a method claim. But when the claim is to a system itself, and all four elements are detailed descriptions of hardware it seems hard to me to say oh well thats just an insignificant part of this claim. But the claim is to a computer.

Mr. Kelly

Well if the claim is truly to a system and thats how the claim is construed and there are further findings that the system is what is happening in the claims then I think I agree with you your honor. The problem is yrou honor if you take an abstract idea and simply write a system however detailed you want to write that system at the end of the day if the system is just there to add on to the idea for the pruposes of making it eligible we think that the supreme court has clearly stated that that is not enough. You have to look deeper into the claim. to see if the system and the steps are inseparable. Like this court has said in cases like Research Corp or Serf(?). Can the ideas in the claim be separated from the system, separated from the GPS structure, separated from the computer that put the display up. And standing alone that is the idea behind the claim. Or, is the

recitiation in the claims alone what they are trying to seek a patent on and the computer is simply there as an implementation detail.

Judge Newman

OK Mr. Kelly. At what stage of the goverments decision is the decision made as to whether it is in fact a abstraction. You tell us we don't look at the form of the claim anymore. We just look at the concept. But do we also look as to how much detail or flesh or whatever is attached to the concept? This is what has trouble me from the beginning. There is a point in which one moves from the abstract to the concrete and I appreciate your comment and I agree that thats ther is no bright line . perhaps it depends on the subject matter. Perhaps it depends on the state of the art and the prior art. But where does 101 fit in because it does seem as if your saying that if it fails 103 its probably an abstract idea because its too broad. And that I don't think is where you want to go with this reasoning. And yet that seems to be what I hear…

Mr. Kelly

Well there's two issues in your question that I think your Honor. First, is where in the course of a proceeding or where in the analysis of a patent is 101 the 101 analysis have to take place. And we dont think the 101 analysis has to come before the 102 analysis. Indeed the way patent office has to approach these things is in a way that makes prosecution as compact as possible and we would hope to make every rejection at once at the same step. The other part of your question perhaps your honor is how do we separate out the particular details in the claim from the other rule that we suggested which is that the form of the claim does not matter

Judge Newman

Wel and maybe you don't need to based on your answer to the first question – don't bother with 101 until you see whether you have patentable subject matter

Mr. Kelly

Well we thinnk a district court shoudl be able to if they have a clear 102 issue in front of them reach that issue which might be much simpler to reach than the 101 issue. But we don't think the 102 analysis is a proxy for the 101 analysis. What we think should be done when the 101 analysis is looked at is the claims should first be construed, and then after the claim is construed there's a deper step. Theres a step of deciding to what extent does the hardware does the computer do all the other limitations in the claim become an inseparable whole to the rest of the claim that could be considered an abstract idea. And if it is inseparable then you have an eligible invention. But if in cases like Dealer Track, excuse me Fort Properties, Bancorp, Cybersource where whats happening is that you have a stand alone idea in the claim, not just a abstract claim but a claim to an abstract idea, and the computer is added simply for the purposes of getting job done, or because you have to have a computer because everybody in the field uses a computer

I think this is Judge Linn

You think a computer has to do more than simply be a calculator in a eligible process.

Kelly

Am I think that is a fair way of looking at it. What we've suggested in our steps we've suggested a multi-factor test that includea a number of different things that I fact finder can look at. We've suggested three of these factors weigh in favor of eligibility. Those factors would be where the steps make the computer work better as a computer. Where the computer does…

Judge Linn ??

Because it calculates faster, computes faster?

Kelly

Well… that's an interesting question your honor. If you had an algorithm that actually made the computer work better. If you figured out for example certain steps might be higher energy steps than others and interlace your high energy steps with your lower energy steps so the computer would use less energy and be more efficient I think would be an eligible to improve the processing of a computer. But if your invention is a particular mathematical formula that yoru going to implement with a calculator, then clearly no. Thats what Mayo

Comments on the Patenlyo blog lead me to believe this is Judge Moore (33:09)

No all the time or no just right now? Because certainly the first person that came up with the calculator was able to get a patent on it. The calculator itself wasn't an abstract idear right?

Mr. Kelly

Correct. And

Judge Moore

Even though all it was doing was additiona initially . It didn't even do subtraction the first calculator.

Mr. Kelly

Ok…. laughter in court – ammm I accept that

Judge Moore

Now the second calculator person comes along the guy at MIT that opens up the back of the calculator and says hey with a simple amount of reprogramming I could make this thing do subtraction now. Well subtraction is an abstract concept, clearly, but he just built a machine, just

a small variation in an existing machine, but he just made a machine that can do subtraction. Is that an abstract idea, that machine?

Mr. Kelly

It would depend on the facts of the case and the claim as written. As you've posed it it might very well be eligible. If someone can figure out how to make the computer do something that it could not do before

Judge Moore

But isn't that what every new software program does? Every new softwar program reconfigures the computer take off the back, pull out the chips that are not necessary, that is the heart of Judge Rich's special purpose computer in Alappat. Do you reject that?

Mr. Kelly

We do not reject the totality of what Alappat said. But we do think that you need to look deeper in that case. The Alappat case there was some very special things going on in that case and under the facts of that case that may very well have been eligible. What we do reject is the ntion that simply adding a general purpose computer plus software such that you have now a special purpose computer or if you want to implement it in hardware, in hardware, that alone makes it eligible, regardless of the details of the computer, regardless of how well computer works.

Judge Moore (34:56)

Did you just say that a general computer plus software would never be eligible for patent protection? So what you've effectively just told us is that software patents are DEAD.

Mr. Kelly

I did not say that your honor.

Judge Moore

Actually you did, if we had a transcriber they'd repeat it back.

Mr. Kelly

Your honor, general laughter .. well if I did, forgive me. What I should have articulated better perhaps is that adding a stand along generla purpose computer to a abstract idea is not going to give you an eligible claim.

Unknown – an Elderly Male Judge (35:26)

Is the distinction between amm a computer being token post solution implementation or whether a computer is part of the solution?

Kelly

Yes your honor, that's how we've looked at these cases that post solution activity the genericness of the computer the sort of place onto the idea doesn't render the idea patentable but certainly if you have an algorithm, if you have an idea, that when you implement together makes an inseparable whole that can very easily make something eligible.

Unknown Male Judge – I think a different one (35:59)

Would it be fair to say that in the subtraction example someone could not get a claim to a quote machine that does subtraction, but that if you have a particular way of programming the computer so that it does the subtraction that may be patentable.

Kelly

Amm exactly your honor. And I see that I'm out of time but I may add

Rader

Please

Ammm yes and we can dsitill an abstract idea from almost any invention and we can look to the first half of the nineteenth century to see that. Morse when he invented the telegraph claimed it in a variety of ways and one of the ways he claimed it was as an abstract idea. The idea of using electromotor force to create characters at a distance. The fact that there is an abstract idea behind the invention does not asnwer the elibibiliy question at all. What answers the question is the claim whats claimed and how the claim parts work together as a whole

Chief Judge Rader

Thank you Mr. Kelly

Arguments of Adam Perlman for the Patentee

Chief Judge Rader

Mr. Pearlman

You may proceed

Mr. Perlman (37:19)

Thank you your honor, may it please the court. I think at least as to one aspect of the case, the fundamental disconnect between myself and Mr. Perry is the level of generality with which he reads our claims. We have not claimed the idea that the district court identified of using an intermediary to exchange obligations. We have not claimed the idea of using a computer as the intermediary, nor have we claimed every way of using a computer as a neutral intermediary.

Older Male Judge (37:49)

Mr. Pearlman lets start with basics. You won at the panel level, ahh and the majority opinion said that well method system and media claims fall within different statutory categories, the form of the claim does not matter and labeled not determinative. do you agree that in this case that three forms of claims they all fall together

Mr. Pearlman

I hope they all rise….

Older Male Judge (

Rise or… laughter in court … fall together .. rise or fall together.

Mr. Perlman

But I do not agree with that as to the systems claims. And let me explain why if I could. The statute says that machines are patent eligible and the definitnion of a machine under the statute, under the supreme court and this court's case law, is a concrete thing consisting of parts..

Older Male Judge

But do you think there is a difference between – as I asked before – a free standing computer or machine claim and one attached to a method claim where it is clear that the machine is simply a reconfiguration of the method claim which may or may not fall. That there is a difference between that and a free standing computer claim examined on its own merits.

Mr. Perlman

For purposes of 101 and the abstract idea exception I do not believe there is any distinction between those two. Let me give you an example that illuminates my reasoning which is similar to what Judge Moore brought up earlier. If I were to claim a computer coupled to a data storage unit full stop and assume I was the first. There is no debate that is a machine and that is not simply an abstract idea and no one in this case has articulated a basis under which that could be an abstract idea. It cannot be, in our view, that if I further limti that claim by specifying what the computer does, that it becomes an abstract idea. As we look at it.

Judge Wallach

You toss it over the side of the balcony ahh to use the force of gravity. You've just articulated, you've further limited it by adding another aspect to it, your using gravity.

Mr. Perlman

I'm sorry. The question is if I claimed a computer and tossed it over the balcony, and the claim is to the machine itself, its a claim to the machine,

Judge Wallach

Its a claim to gravity.

Mr. Perlman

Its not claiming the gravity. I mean thats sort of an interesting machine claim but its really claiming the process of tossing the machine … laughter

So I guess I'm struggling a little with it so I apologize, but I do not think you can claim the idea of gravity. But I think it is important to note in this case we haven't claimed any idea remotely like gravity, what we've claimed is one particular way of using computer to exchange obligations.

Older Judge – different? (40:57)

Turn to page 40, of your red brief. Your mr. perry said there are only two ways. In your brief you say there are multiple other ways. ahh.. so what are the .. what's the third one? Since you've got multiple others

Mr. Perlman

Let me clarify. We put two in our brief. The same exchange institutions don't use shadow accounts and just your directly make the exchange, the differing exchange institution where the computer instantaneously checks and just oeprates in the real world accounts not the shadow accounts. The shallard dissertation is actually a ?? see also ?? where CLS considers three different ways of doing it, which were not those two ways, there were they had a way of essentially harnmessing the payment systems that different exchange institutions use amd you set up the computer to say when side 1 of this transaction is set to go it doesn't go until side 2 of the same transaction ?? ??ets it go and you sort of control it at the payment level. They reject

Older Judge (42:07)

Why can't you have a human being standing at those levels. I mean under the current way to conduct international exchanges there's ways to determine whether payment has been sent through the wires or not and theres ways to determine whether the payment has been received at the bank and theres ways to determine whether a document has been signed and delivered. And

that can be done by human beings standing there and looking did he push the button ??? call and say yes.

Mr. Perlman

Right.. and I think you're making my point that we we have not claimed the abstract idea of using a middle man, we've claimed one particular computerized way.

Same Older Judge

You've claimed a method by which to conduct international exchange transactions that minimizes the risk.

Mr. Pearlman

We've not claimed the idea of doing that though. We've claimed one particular implementation.

Same Older Judge

That's the method. The method is conducting international exchange transactions.

Mr. Perlman

I disagree with you. The method is setting up computerized computer maintained shadow accounts which are not the real world accounts for the exchange, adjusting those accounts, so doing the exchange only in the shadow accounts not in the real world accounts,

Same Older Judge

The end result is you're effecting an exchange.

Mr. Perlman

The end result is affecting an exchange but the method is not to the is not claiming the exchange only, its claiming the way of doing the exchange.

Same Older Judge

The way of doing it. And if I can effect an international exchange that I claim minimizes risk by posting individuals at certain points how is that idea any different from the idea that you're seeking a patent for?

Mr. Pearlman

Well one you would not fall within our claim. We're not claiming that idea, and it may be your honor.

Older Judge

The idea

Mr. Pearlman

I understand that. And your honor I guess what I would say is that it may be that the method that you have envisioned and the method that we have patented and the numerous other methods known and unknown out there all come from the same kernal of an idea that you are some sort of an intermediary or some sort of processing place to make sure that these transactions go through. But the prohibition on claiming abstract ideas is on claiming the idea of doing it not a particular way of doing it. So we may, if I am understanding your question the ah method that you are positing may well emanate from the same underlying concept but its not the same thing that we have claimed.

Looking At Dutra, This Appears To Be Judge Reyna

But you agree don't you that a human being without a computer could do these same steps. Maybe less efficiently but the steps could be done right?

Mr. Pearlman

I I don't agree with that your honor.

Judge Reyna

That's what your expert ??

Mr. Perlman

No. What our expert said is as an abstract level the idea of having accounts, adjusting accounts, and giving an instruction can of course be done without a computer. That isn't what we've claimed.

Judge Reyna

Why can't this be done by a human being. Without a computer.

Mr. Perlman

Why can't.. Well putting aside that our claimed method is built for a computer implementation and requires a computer. If you wanted if the question is is it impossible to do something like this with ledger entries or something, with humans.. without a computer, of course it is possible to do that, but the law is not. unless its impossible to do something like the claim without a computer a particular computer implementation of it must be abstract.

Different Male Judge (45:16)

Claim 33 of the 479′ patent is method of exchanging obligations it does not cite a computer I believe…

Mr. Perlman

It does not expressly your honor but its express recitations of shadow credit records and shadow debit records under this specification makes clear that those are electronic data files which is why the district court for purposes of its decision and the panel for purposes of its decision both assumed it requires computer implementation and that's in fact a correct assumption in the entirety of this specification.

According To Dutra This Appears To Be Judge O'Malley

Would we be free to now disagree with that. In other words we understand that the district court very expressly said that both sides told the district court assume computer implementation even assume that these particular shadow accounts debits credits and the actual transaction between the two is all computer implemented. If we were to read the claim and say you know that's not really a fair assumption. Since we review claims construction de novo could we reconstrue those claims at this point or are we bound by the parties stipulations?

Mr. Perlman

Oh thats a twister I wasn't expecting at the end. Courtroom laughter…. I think for the purposes of deciding the 101 issue, CLS has agreed to adopt this construction. Now, what I don't think makes any sense from a matter of efficiency is to assume it for purposes this decision, send it back to the district court, and then without giving any guidance of whether the result would be different if the assumption were incorrect. But I think the fundamental issue here is because the specification described the shadow records as electronic data files, if it did not require a computer we would need some sort of a additional markman proceeding to figure out what other machine it might require, because the definition of the shadow record in the specification is the electronic file.

Male Judge (47:13)

But suppose we were to construe that these claims as judge o'malley suggested as not requiring a machine would they pass muster under 101 or would they be invalid.

Mr. Perlman

In our view they would still not be claiming an abstract idea.

Same Male Judge

They would still be valid even without a machine.

Mr. Perlman

Wll it would be eligible. Whether it is valid of course has variety of further steps which we will get to on remand I hope. But it would not be claiming the abstract idea of using a neutral intermediary to exchange obligations which is what the district court identified. it would be a particular way of undertaking one of these transactions that could not be performed

Judge Dyk

Is there any way of doing the end of the day netting without infringing this claim? These claims?

Mr. Perlman

And by end of the day netting you mean getting one number representing the net result of each parties transaction over the course of the day?

Probably Judge Dyk

Yeah?

Mr. Perlman

Well there are inumerable ways for parties to exchange things with each other that wouldn't be covered by our claim.

From Dutra This Is Judge Dyk

Mr. Perry described two ways that the banking community has considered ah adjusting these transactions, and what I am asking you is I understand one of the days was end of the day netting, which is ah I understand it adopted as the international standard. Is there any way of doing that without infringing these claims?

Mr. Pearlman

I guess the direct answer to that question would be is that there is nothing in the record on that. But I would say that the two methods that Mr. Perry points out in this document actually there are three methods recited by the

Judge Dyk

Whats the answer to my question?

Mr. Pearlman

I guess your honor the difficulty I am having is we don't claim the concept of netting at the end of the day in the abstract and so I am certain there are ways to structure currency transactions

that don't use our precise configuration of shadow accounts and real world accounts because CLS identified

Judge Dyk

Are you able to identify any methods of doing this that wouldn't infringe your claims.

Mr. Pearlman

Sure. The first method in the Shaller dissertation.

Judge Dyk

No but you seem to be changing my hypothetical.

Mr. Pearlman

No no this is an answer to your hypothetical. That's one of the methods that the banking community looked at.

Judge Dyk

My understanding is that two methods one of them involves end of the day netting, correct?

Mr. Pearlman

But that's not no there's three methods. And

Another Male Judge (49:37)

Just accept that there is one method that involves end of the day netting.

Mr. Perlman

There is one, yes.

Male Judge (49:42)

Is it possible to perform that method without infringing your claims?

Mr. Perlman

Yes. Because that method is the first of the possibilities that CLS considered and they ultimately adopted the third and the third is the one that infringes our claim.

Judge Dyk

The international standard that exists now, the way that it is recommended to be done, is there any way of doing that without infringing your claims?

Mr. Perlman

I don't know the answer that question your honor but I would say that that should not determine whether in 1993 when we filed this patent application and laid out a particular computerized way to do this and before CLS ever came online and before the internatioanl standard was ever adopted is simply an abstract idea but the direct answer is I don't know the answer to your question.

Let me ammm go to amm the point that Mr. Perry made about the creativity requirement I think he called it for Mayo. Because I think we fundamentally disagree on what the Supremem court was saying in Mayo OK. As we read Mayo what the Supreme Court has said is when you have a claim that involves in some major way a law of nature or abstract idea you have to have other elements in the claim that suffice to show that the claim as a whole is to signicantly more than the abstract idea itself. And the question is not is each individual element or even all of those elements inventive in the sense that Mr. Perry is using it. But rather, do they have a significance to the claim as a whole such that you are not just simply claiming the law of nature itself.

I take that from the fact that the court in Mayo expressly quoted the provision of Diehr where the Supreme Court said even if all of the elements of the claim are well known and in common use it is still possible for a process combining them to be patentable. It seems to me that acceptance of that concept fatally undermines the argument that we see in CLS's opening brief and less so in the reply, that the relevant question here is is the computer conventional is it conventinoal to have an account, is it conventional to make adjustments to accounts.

Conventionality in Mayo of one of the steps was relevant because the patentee conceded that these were well known routine steps that necessarily would have tohave been done in order to use the law of nature, and so the fact that those steps were known was relevant to determine whether the claim was to significantly more than the abstract idea itself.

When you perform that analysis here are claim is to significantly more than just the abstract idea of using a neutral intermediary. We have a computer that requires special programming, not an off the shelf program as CLS suggested in their brief. We lay out in great detail in the specification how to go about configuring the computer. And Alappat says that creates a new machine configured by its programming rather than by its hardware. That serves to demonstrate that our method claims, our system claims, our media claims, are all to significantly more than the abstract idea itself. Which is why the district court erred in this case and the panel was correct in our view.

But let me say that even if one were to use a conventional computer in a claim, that is not analysis under 101. The question under 101 is have the pantentee applied the computer technology in some practical way such that it is not just a claim to an abstract idea but to a

application of that idea. The statute itself says that a new use of an existing machine is eligible. It is within the definition of a process under section 100 subsection b.

Male Judge (54:07)

So Benson was decided incorrectly?

Mr. Perlman

No sir. Benson was a claim to a mathematical formula that at most recited a shift register which is a storage device and what Benson fairly read is to say, which we agree with, is if your claim is to a mathematical formula merely tagging on and a computer will perform the calculation is not significantly different than claiming the abstract idea itself and it would fall. It fell under Benson and it would fall under are view. But our claim is not to some calculation or calculating some number. and the computer in our claim does not simply speed an underlying calculation. Our computerized method in our view is more effective than an analagous method without the electronic implementation such as with the ledger entries that we talked about earlier…

Judge Reyna?? (55:00)

?? more effective aren't you talking about that your method is designed to minimize risk ??? minimizing the risk that is inherent in these kinds of international aah exchanges

Mr. Perlman

We are minimizing that risk and we are providing other benefits

Judge Reyna?? (55:18)

That's really what you you you seeking to invent. A method that minimizes risk in international exchange transactions, correct?

Mr. Perlman

The goal of our invention is to minimize risk. But our invention is not the idea of minimizing risk.

Judge Reyna??? (55:33)

isn't it just an idea

Mr. Perlman

No sir.

Same Judge. Judge Reyna??

Lets go and minimize risk and I mighth have that idea and I can do it with human beings, and you might have that idea and went ahead and did it with machines. What's the difference?

Mr. Perlman

That's not what we have claimed. We have claimed one particular machine implemented way of doing the

Male Judge (55:51)?

But the claims are directed towards the result, isn't that result that you are seeking to minimize risk in international exchange transactions?

Mr. Perlman

The result that we are trying to achieve..

Male Judge ?

Yes.

Mr. Perlman

..yes. its the minimization of risk but thats not the claim

Male Judge (56:04)

If I have a similar idea and I go and post individuals around the countries isn't that the arent you haven't you just simply attached a computer to the idea your achieving the same result that I can achieve with human beings?

Mr. Perlman

No. Because what I have done is.. Let me try to do this a different way. If our claim were to a method of minimizing risk in exchange transactions using a computer, full stop. I would agree with you that all we have done is identified a concept and said and used the computer in the concept. But that is not what we have claimed. We have claimed one particular way of using a computer to exchange obligations in a certain way to achieve the goals you identified of minimizing risk. If, your honor, you were to post people around the country and do it in some different way you wouldn't infringe our claim. And nothing that we do in our claim precludes others from coming up with new methods of using computers to exchange obligations or using other methods not involving computers to exchange obligations. We have one particular way we believe to be advantageous, but the law wouldn't require for it to be non-abstract for me to be right that its advantageous, and that's all we have claimed. We haven't claimed the idea itself and that's what the prohibition is on.

Male Judge different (57:33)

So what were your other two ways?

Mr. Pearlman

Sure.

Male Judge Different Again (57:41)

You say you claimed 1 and 3.

Mr. Pearlman

I'm sorry?

Male Judge

You claimed 1 and 3.

Mr. Perlman

We , no we've claimed one way of performing these types of exchanges using a computer. the document that we decided which was just to evidence that there are multiple ways to do it had three different ways identified but there's nothing in the record to suggest that is the universe of all possible ways ever and I don't think the analysis turns here on whether because we came up with our idea and its the best idea that's how everybody does it.

But I can tell you what the other two options were in the paper we sited if that is the question. The first option was that the computer system interracts with the parties real world accounts, not shadow accounts as we have it, and setup to coordinate payments from the account such that your both go or only one goes by using the payment system.

The other way, that is in this dissertation that CLS published about its own history, is what the system does is tracks what each party is obligated to pay in to cover their net obligations over the course of the day, and theirs a deadline for them to pay that in. And if they pay in what they owe, then they get back from the system what are owed from other people. But if they don't pay in what they owe they don't get anything back, and..

So and the third model is the one that CLS ultimately adopted which infringes our claim, which is the settlment of transaction by transaction using the shadow records that we described

Male Judge (59:14)

There is no other way to do that without infringing your claims

Mr. Pearlman

There is no way to do our claims without infringing our claims… court laughter

Judge Dyk?

There is no other way to do that method that you described without infringing your claim

Mr. Perlman

To do CLS's particular method of settling trades infringes our claim. But there are multiple different ways to setup a system to exchange foreign currency. The fact that CLS chose the one it thought was most advantageous and that happens to be the one that infringes our patent, and so that's what everybody uses doesn't mean that we've claimed the abstract idea of settling foreign currency trades.

Judge Lourie? (59:51)

But didn't a fellow with the green eyeshades carry a set of shadow accounts in his mind while sitting at his little desk?

Mr. Perlman

No. Ahh I don't think that's correct. The shadow

Judge Lourie?

Shadow accounts are not new right?

Mr. Perlman

Shadow accounts are accounts which are electronic accounts

Judge Lourie?

Forget about the electronic part, shadow accounts are not new right?

Mr. Perlman

Well shadow accounts in our patent are electronic accounts in a particular method. Ledger entries which I take it are the thrust of the question are not new and we do not claim to have invented them. But what you have is shadow records, which are electronic records, for use in a particular computerized method, which is all we claimed and all we prevent anyone from doing, and I do think that there is a distinction between that the panel pointed out that I think that put this in terms that at least I found to be clear. The distinction is whether a claim is drawn to a specific way of doing something with a computer as opposed to nothing more than the idea of

doing that thing with a computer. And I think that is a critical distinction and I think that distinguishes a number of the cases that Mr. Perry has cited and I think it is what makes clear in this case that all of our claims – method, system and media,are not to an abstract idea but to a particular application.

Judge Moore

Let me take you back to the question that was posed with respect to the en banc. What do you think the test should be.. amm in this context?

Mr. Perlman

In our view, ammm the overarching test for any claim, is is the claim with all its limitations taken as a whole to significantly more than just an abstract idea. As applied to the computer context, the question as we see it is is the computer playing a significant role in permitting the claimed invention to be performed, or is the computer there simply to do a calculation faster, or simply there to print out a result.

And it seems to me its important when you look at that test not to indulge in what we saw in the reply brief which was the sort of focusing in too granularly on the fact that well of course computers store data, computers manipulate data, computers output a result. That's frankly all computers do, and Mr. Perry says aha your admitting that isn't enough and that therefore your computer isn't enough.

What we used is a computer in a method of exchanging obligations setup for use on a computer and a computer is central to that method it creates and maintains the shadow account, adjusts them only if particular criteria are met. Ahm does it in a particular order. Issues the instruction to complete the transaction. it is applying computer technology in a way that is beyond what we saw in the Bancorp case which was a claim to a series of mathematical computations and at the end you essentially had and the computer will do the calculation.

Judge Lourie? (1:03:12)

Its curious that you say the computer is central this is a very detailed claim that doesn't mention computer that surely is no accident ammm or inadvertant.

Mr. Perlman

Well.. the claim .. The claim requires a computer whether it says the word computer or not because the presence of the shadow records and given our specification theres no getting around that this claim requires a computer implementation whether its there or not. And I would say that if the word computer were in the claim Mr. Perry wouldn't be taking any different position.

Judge Moore

Well don't . I think that your last point isn't it made most strong with the fact he takes the same position on the system claims which clearly have a lot of tangible physical components to them. I guess my question to you is that isn't this a case like every patent case, where we ought to look claim by claim without making sweeping judgements based on either the broadest or the narrowest of your claims.

Mr. Perlman

I do agree with that.

Judge Lourie

So if we do that and you don't claim a computer then your asking us to assume a computer is utilized. Isn't that also asking us to assume whether its a general purpose computer or a specialized computer or a specially designed computer if you don't claim it.

Mr. Perlman

I don't think that's correct.. let me say the 510 method claim CLS agrees that they require the use a computer. As for the 479 claims thats clearly the correct construction. CLS agrees to it for the purposes of 101 analysis. But it seems to me that the question is not whether the word computer is in the claims, because this court engages in markman determinations every day. And the question is does the claim properly construed require the use of a computer, not is the computer ahh en hoc verbe in the claim.

I would on the specially programmed point, Ill make two points, you heard Mr. Perry claim that this is all off of the shelf stuff. You cannot go down to Best Buy and pickup a computer that does this. You have to specially program this computer our particular way to make it do this. And our specification lays out in great detail how to go about doing that programming. So under Alappat it is a specially programmed computer, it is

Judge Lourie? (1:05:25)

That's not part of the claim though.

Mr. Perlman

Well of course its part of the claim. Because the claim

Judge Lourie (1:05:29)

The particular way of programming the computer is part of the claim

Mr. Perlman

No no the claim says how

Same Male Judge

So it is not part of the claim, the particular way of programming the computer is not part of the claim. Right?

Mr. Perlman

The claim tells you how the computer has to be configured and the specification tells you how to go about doing that configuring.

Same Male Judge

You have to do the steps described in the claim apart from that theres no special programming, right?

Mr. Perlman

Well there's no source code in the claim that's correct. But it does describe the series of steps the computer has to be configured to do which is a particular series of steps. And certainly its not the case that if we have a specifidccation as detailed as we have with all the description we have and all the flow charts that we have and there's no evidence at all in the record by the way that that would be insufficient for a skilled artisan to use it to practice this claim that we have to write the entire specification into the claim. That would be a great departure from this court's usual approach to claim construction certainly and in this context.

Let me just make one final point because my time is winding down.. amm We saw in the reply brief the argument that the presumption of validity does not apply, and I just want to hit that at the end. the statute applies the presumption to all patents. And this court in Ahrythmia applied the presumption of validity to an eligibility determinaton under 101. The premise for the argument on the presumption was that section 101 was not a defense under section 282 of the statute. This court in Aristocrat and in Dealertac said 101 is a defense under 282 under the statute. And the ironic thing about this argument is that if section 101 were not a defense under section 282 in the statute CLS would not be able to ???? under the defense of this litigation. So it seems to us that particuarly because we have an issued patent, because we have presumption of validity, and we simply do not claim an abstract idea but a particular way of exchanging obligations the district court erred the panel was correct and the claim should be upheld under 101.

Chief Judge Rader

Thank you Mr. Perlman.

Rebuttal by Mark Perry For the Accused Infringer

Chief Judge Rader

Mr. Perry you have 5 and one half minutes

Mr. Perry

Thank you your honor. We have an issued patent, the United State government agrees was issued under the wrong standard. What you did not hear Mr. Kelly say is that these patents are eligible. I would submit that silence speaks volumes. That these patents are not eligible.

Female Judge – Moore?

But it's not your view that if we agree to acord an assumption of validity to these claims that you lose.

Mr. Perry

No your honor.

Female Judge

?????????????? respective so you would accept the burden for purposes of ????

Mr. Perry

You could look at it that either we have overcome the presumtpoin by showing the wrong standard applied or that validity is a different question than eligibility therefore the pressumption doesn't apply but we overcome it either way. We know…

Male Judge

Mr. Perry in your briefs you argued strenuously that the tests for determining when an computer implemented invention is more than an abstract idea depends on whether it contains some sort of an inventive concept, and I didn't hear you in your argument today mention the phrase inventive concept once. Have you abandoned that ????

Mr. Perry

Not at all your Honor.

Male Judge

I sort of thought you would say that. But in … General Laughter … But isn't inventiveness what sections 102 and 103 are all about?

Mr. Perry

Mayo. The Mayo court we think used inventive concept and the idea of significantly more than the abstract idea as synonyms and that's a line that goes back to Benson as well, we have

Male Judge

So maybe we should just focus on significantly more and not get confused by inventiveness

Mr. Perry

Exactly your honor. Because I think that and I have been talking I hope about significantly more. We know the method claims are an abstract idea the pto todl us that the pto rejected all the method claims as abstract ideas thats a8 74 . Here's what the pto said 'without including technology in the claims they are nothing more than an abstract idea." OK so we have a finding on that. Then they added electronic adjustments. That's the only thing they added to make them quote non abstract. We have the U.S. government telling us that simply reciting a computer a general purpose computer is not enough because judge lynn it does not add significantly more. In this context a computer is a neutral, as it was in Diehr actually. That if the process is eligible or not, if the computer doesn't subtract or it doesn't add its like a stock solution in chemistry. It's there on the shelf, you can pull it down and use it in your amm reaction but it doesn't add or subtract from patent eligibility. Now

Female Judge – Moore?

Mr. Perry, one of the problems that I've had from the very beginning here is that you keep saying if the claims don't site a computer and yet at the District Court you said ok lets assume the claims do recite not just a computer but a specific computer functionality. Why didn't you say why didn't you argue with the district court? Especially with respect to claim 33, why didn't you say that you know judge importing all those things from the spec is not a proper claim construction. Instead you invited the court to do that.

Mr. Perry

Because your honor a general purpose computer, any computer off the shelf running any program bolting that on to an ineligible method makes it eligible then the supreme court could not have decided Benson the way it did. Benson was very clear on this your honor.

Female Judge

But your not .. lets stick with what you asked the District Court.

Mr. Perry

We agree that these things run on computers.

Female Judge

You're not here now asking us to construe these claims as not requiring a computer.

Mr. Perry

Your honor, CLS bank settles 5 trillion in trades a day. Computers are a part of that for efficiency sake. However, merely claiming that a computer does a computational function that could be done by pencil and paper that their expert says doesn't change the analysis.

What Justice Douglas said 40 years ago remains true today. A computational device that does what you can do in head and hand faster doesn't lend anything to patent eligibility it doesn't subtract anything either, it is a neutral. And that is the computer that is recited here and that we know by the way from the prosecution history.

The bolt on and I have to come back to this. The hedging method in Bilski. The applicant respresented to the Supreme Court that it would run on a computer, it required complex weather calculations. That made no difference to the Supreme Court and I would submit to you that if we said a computer system configured to hedge energy transactions against weather futures the Surpreme Court would not have come out differently.

And I would come back to Mayo, which the Supreme Court rightly or wrongly said was invalid running on a computer had nothing to do with that would certainly a computer would have made the correlation and the assay more accurate and efficient, particularly if you are doing a large volume of transactions. Computers help with volume. But this is not a computer invention this is not a software invention

Female Judge

If they had disclosed the actual software in Bilski and claimed nothing but the actual code, the particular way they were executing hedging on the computer line by line code by code and clearly we don't see claims written this way but suppose that were the case.

Mr. Perry

Yes your honor.

Female Judge

Would it still be an abstract idea.

Mr. Perry

No your honor. I think you could write a hedging dot com program or perhaps a settlement dot com program these guys haven't written that program. There could be an actual programmed computer that does these things thats a different world thats research and devlopment technology thats Alappat the outcome of Alappat not the reasoning of Alappat, that's not this case your

honor. I absolutely agree with you that there are such things as software patents and hardware patents and systems claims these aren't they.

Female Judge

Not the ones you keep pointing at maybe not. Because you keep pointing at the method claims some of which don't even use the word computer. But the harder challenge for me as you clearly garnered today is the systems claims. And in particular some of these ones I'm telling you about the hard thing is both of you are adressing this is just an all or nothing propostion and I'm just old fashioned I think you go claim by claim

Mr. Perry

Your honor, if I may answer? Chief Judge Rader?

Chief Judge Rader

This will be your final comment.

Mr. Perry

Thank you your honor. It is a fair point. The method claims are far more obviously ineligible than the systems claims. My colleague rightly concedes that the media claim is the same as the method claim. Systems claims are harder. We acknowledge that. However, bolting on any computer without disclosed software programming or a logic flow that would allow a person skilled in art to program the computer – there is no computer that they have invented they are trolling for royalties. OK?

Chief Judge Rader

Thank you Mr. Perry.

Mr. Perry

Thank you your honor.