No. 19-852

In the Supreme Court of the United States

MAXELL, LTD.,

Petitioner,

v.

FANDANGO MEDIA, LLC,

Respondent.

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

REPLY BRIEF FOR PETITIONER

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INTRODUCTION

Judges on the Federal Circuit, the Solicitor General, and practitioners all agree: This Court should revisit the framework for determining patent eligibility under 35 U.S.C. 101 and *Alice Corp.* v. *CLS Bank International*, 573 U.S. 208 (2014). The Federal Circuit has struggled to apply the *Alice* framework, and it has called on this Court to provide additional guidance. The Solicitor General has agreed that this Court's intervention is necessary. And the issue is important, because the standard for patent eligibility has significant consequences for technological innovation.

The Court has received, and will continue to receive, a steady stream of certiorari petitions raising the issue. Over a dozen petitions were filed in 2019 alone. Although the Court recently denied several of

those petitions, others remain pending. This Court should grant one of the pending petitions to clarify the *Alice* framework, and should hold this case pending its decision in the granted case and then vacate the decision below and remand this case to the Federal Circuit.

ARGUMENT

1. In *Alice Corp.* v. *CLS Bank International*, 573 U.S. 208 (2014), this Court set out a two-step framework for determining whether a patent's claims are eligible for patent protection under 35 U.S.C. 101. At step one, the court asks whether the claims are "directed to" a law of nature, natural phenomenon, or abstract idea. *Alice*, 573 U.S. at 217. If they are, at step two the court asks if the claims contain an "inventive concept." *Ibid.* If they do not, the claims are not patent-eligible.

Several judges on the Federal Circuit have written separate opinions expressing the view that that the *Alice* framework "has proven unworkable." *Interval Licensing LLC* v. *AOL, Inc.*, 896 F.3d 1335, 1355 (Fed. Cir. 2018) (Plager, J., concurring in part and dissenting in part). Judge Plager explained that the *Alice* framework "d[oes] not produce coherent, readily understandable, replicable, and demonstrably just outcomes." *Ibid.* He expressly called on this Court to revisit *Alice*. *Ibid.* Judge Lourie, jointed by Judge Newman, also called on this Court to intervene: "[T]he law needs clarification by higher authority * * * to work its way out of what so many in the innovation field consider are § 101 problems." *Berkheimer* v. *HP Inc.*, 890 F.3d 1369, 1374 (Fed. Cir. 2018) (Lourie, J., concurring in the denial of rehearing en banc), cert. denied, No. 18-415 (Jan. 13, 2020). And Judge Linn has remarked that the *Alice* framework "is indeterminate

and often leads to arbitrary results." *Smart Sys. Innovations, LLC* v. *Chicago Transit Auth.*, 873 F.3d 1364, 1377 (Fed. Cir. 2017) (Linn, J., concurring in part and dissenting in part).

The Solicitor General, for his part, has explained that both steps of the *Alice* framework have caused substantial "confusion" in the lower courts. U.S. *Amicus* Br. at 21, *Hikma Pharms. USA Inc.* v. *Vanda Pharms. Inc.*, cert. denied, No. 18-817 (Jan. 13, 2020) (U.S. *Hikma* Br.). The Solicitor General expressed the view that this Court's decisions provide "little guidance" at step one, *id.* at 18, and are "ambiguous" as to the scope of step two, *ibid.* He accordingly recommended that the Court grant review to reconsider the *Alice* framework. *Id.* at 22-23.

The confusion in the lower courts will have serious consequences if left uncorrected. Two former directors of the Patent and Trademark Office and two former chief judges of the Federal Circuit have warned that the current state of the law hampers innovation, particularly in the information technology and medical fields. Malathi Nayak, *Patent Eligibility Overhaul Plan Backed by Ex-Judges, Officials*, Bloomberg Law (July 31, 2019), https://perma.cc/XJX9-MLUY.

This case illustrates those concerns. Petitioner's engineers invested resources to develop an innovative solution to an emerging problem in digital media distribution, years before video streaming services became commonplace. Pet. 3. Yet the district court invalidated petitioners' patents based on its unduly narrow view of patent eligibility, Pet. App. 12a-24a, and the court of appeals affirmed, *id.* at 2a. The district court never considered the actual limitations in the claims, instead evaluating the claims at a high level

of generality. Pet. 8-9; see Pet. App. 13a, 23a. Decisions like the district court's reduce the incentives to develop solutions to new problems.

2. This Court has received, and will continue to receive, many petitions asking this Court to clarify patent eligibility under Section 101 and *Alice*. Litigants filed more than a dozen petitions raising this issue in 2019 alone.[1] In light of the fact that the Federal Circuit hears over 450 patent cases per year, Dan Bagatell, *Fed. Circ. Patent Decisions in 2018: An Empirical Review*, Law360 (Jan. 3, 2019), https://perma.cc/9RYH-F93J, this trend can only be expected to continue, see Matthew Bultman, *Happy Birthday! What We Know as* Alice *Turns 5*, Law360 (June 19, 2019), https://perma.cc/VVS9-EQ6H.

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[1] See Pet. at i, *Reese* v. *Sprint Nextel Corp.*, petition for cert. pending, No. 19-597 (filed Nov. 6, 2019); Pet. at i, *Cisco Systems, Inc.* v. *SRI Int'l, Inc.*, cert. denied, No. 19-619 (Feb. 24, 2020); Pet. at i, *Trading Techs. Int'l, Inc.* v. *IBG, LLC*, cert. denied, No. 19-522 (Jan. 27, 2020); Pet. at i, *ChargePoint, Inc.* v. *SemaConnect Inc.*, cert. denied, No. 19-521 (Jan. 27, 2020); Pet. at i, *Athena Diagnostics, Inc.* v. *Mayo Collaborative Servs., LLC*, cert. denied, No. 19-430 (Jan. 13, 2020); Pet. at i, *Garmin USA, Inc.* v. *Cellspin Soft, Inc.*, cert. denied, No. 19-400 (Jan. 13, 2020); Pet. at i, *Power Analytics Corp.* v. *Operation Tech., Inc.*, cert. denied, No. 19-43 (Jan. 13, 2020); Pet. at i, *StrikeForce Techs., Inc.* v. *SecureAuth Corp.*, cert. denied, 140 S. Ct. 245 (2019) (No. 19-103); Pet. at i, *Glasswall Sols. Ltd.* v. *Clearswift, Ltd.*, cert. denied, 140 S. Ct. 114 (2019) (No. 18-1448); Pet. at i, *InvestPic, LLC* v. *SAP Am. Inc.*, cert. denied, 139 S. Ct. 2747 (2019) (No. 18-1199); Pet. at i, *In re Bhagat*, mandamus denied, 139 S. Ct. 2032 (2019) (No. 18-1274); Pet. at i-iii, *Asghari-Kamrani* v. *United Servs. Auto. Ass'n*, cert. denied, 139 S. Ct. 1460 (2019) (No. 18-1088), Pet. at i-ii, *Villena* v. *Iancu*, cert. denied, 139 S. Ct. 2694 (2019) (No. 18-1223).

When the petition in this case was filed, six significant petitions were pending that raised patent-eligibility issues. Pet. 9-11. All of the petitions asked the Court to revisit the *Alice* framework for determining patent eligibility.[2] Two of them expressly asked this Court to abandon *Alice*, as did the Solicitor General's briefs. Pet. at 28, *Athena Diagnostics, Inc.* v. *Mayo Collaborative Servs., LLC*, cert. denied, No. 19-430 (Jan. 13, 2020); Pet. at i, *Trading Techs. Int'l, Inc.* v. *IBG, LLC*, cert. denied, No. 19-522 (Jan. 27, 2020); U.S. *Hikma* Br. at 21; U.S. *Amicus* Br. at 12-13, *HP Inc.* v. *Berkheimer*, cert. denied, No. 18-415 (Jan. 13, 2020) (U.S. *Berkheimer* Br.).

This case turns exclusively on the application of the *Alice* framework. Pet. 7-9. Because the Federal Circuit did not issue a written decision in this case – a common but troubling practice[3] – petitioner did not

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[2] See Pet. at i, *Trading Techs. Int'l, Inc.* v. *IBG, LLC*, cert. denied, No. 19-522 (Jan. 27, 2020); Pet. at i, *Athena Diagnostics, Inc.* v. *Mayo Collaborative Servs., LLC*, cert. denied, No. 19-430 (Jan. 13, 2020); Pet. at i, *Garmin USA, Inc.* v. *Cellspin Soft, Inc.*, cert. denied, No. 19-400 (Jan. 13, 2020); Pet. at i, *Power Analytics Corp.* v. *Operation Tech., Inc.*, cert. denied, No. 19-43 (Jan. 13, 2020); Pet. at i, *Hikma*, *supra*; Pet. at i, *HP Inc.* v. *Berkheimer*, cert. denied, No. 18-415 (Jan. 13, 2020).

[3] See, *e.g.*, Pet at i, *Chestnut Hill Sound Inc.* v. *Apple Inc.*, cert. denied, No. 19-591 (Jan. 13, 2020) (seeking review of Federal Circuit's Rule 36 affirmance practice); Pet. at i, *SPIP Litig. Group, LLC* v. *Apple, Inc.*, cert. denied, No. 19-253 (Nov. 18, 2019) (same); Pet. at 22-26, *Power Analytics Corp.* v. *Operation Tech., Inc.*, cert. denied, No. 19-43 (Jan. 13, 2020) (same); Pet. at i, *Senju Pharm. Co.* v. *Akorn, Inc.*, cert. denied, 140 S. Ct. 116 (2019) (No. 18-1418) (same); Pet. at i, *Capella Photonics, Inc.* v. *Cisco Sys., Inc.*, cert. denied, 139 S. Ct. 462 (2018) (No. 18-314) (same); Pet. at i, *Stambler* v. *Mastercard Int'l Inc.*, cert. denied,

seek plenary review of that decision in this Court. *Id.* at 7; see Pet. App. 2a. Instead, petitioner requested that, if the Court grants one or more of the pending petitions, the Court hold this petition pending its decision on the merits in the granted case or cases, then vacate the Federal Circuit's decision and remand the case to that court. Pet. 12-13.

The Court denied the six petitions mentioned in the petition. See Br. in Opp. 9-10. But there are at least two more pending petitions raising patent eligibility issues. The cases are *Reese* v. *Sprint Nextel Corp.*, petition for cert. pending, No. 19-597 (filed Nov. 6, 2019), and *Solutran, Inc.* v. *Elavon, Inc.*, petition for cert. pending, No. 19-1017 (filed Feb. 12, 2020). *Reese* concerns claims in a networking equipment patent; the petition challenges the Federal Circuit's decision holding those claims ineligible. Pet. at 6-7, *Reese*, *supra* (*Reese* Pet.); see *Reese* v. *Sprint Nextel Corp.*, 774 Fed. Appx. 656, 660-661 (Fed. Cir. 2019) (unpublished). *Solutran* concerns claims in a business-method patent; the petition challenges the Federal Circuit's decision holding those claims ineligible. Pet. at i, *Solutran, Inc.*, *supra* (*Solutran* Pet.); see *Solutran, Inc.* v. *Elavon, Inc.*, 931 F.3d 1161, 1166-1170 (Fed. Cir. 2019).

The petitions ask this Court to clarify and/or reconsider the *Alice* framework. *Reese* Pet. at 15-19; *Solutran* Pet. at 14-19. If the Court grants review in either case, its analysis likely would affect the outcome in this case. If the Court abandons the *Alice* framework altogether, the claims at issue in this case likely would be patent-eligible. But even if the Court only

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139 S. Ct. 54 (2018) (No. 17-1140) (same); Pet at i, *Security People, Inc.* v. *Ojmar US, LLC*, cert. denied, 138 S. Ct. 2681 (2018) (No. 17-1443) (same).

clarifies the *Alice* framework, the courts below should be given the chance to apply that guidance to the claims here in the first instance.

3. Respondent argues that further review is not warranted for two reasons. First, it says that the claims at issue are not like the claims at issue in *Athena*, the case the Solicitor General recommended that this Court review. Br. in Opp. 10-12. Second, respondent notes that the district court and Federal Circuit did not disagree about the application of *Alice* in this case. *Id.* at 12-14. Neither is a basis for denying review.

a. The Solicitor General recommended that the Court grant review in *Athena*, a case involving medical-diagnostic patents that implicate the exception to patent eligibility for "laws of nature." U.S. *Hikma* Br. at 22; see *Alice*, 573 U.S. at 217. The Solicitor General also suggested that this Court might prefer to clarify the *Alice* framework in a case involving methods of medical treatment for which there are real-world analogs, rather than one involving software systems. U.S. Br. in Opp. at 23, *Trading Techs.*, *supra.* This case involves patents for processes used in video-streaming technology and the exception to patent eligibility for "abstract ideas." Pet. 4-6; see *Alice*, 573 U.S. at 217.

Respondent's argument misses the point. The point is that this Court's guidance about patent eligibility is sorely needed. All petitioner is requesting is that if the Court grants review in a patent-eligibility case, the Court hold this case pending its disposition of the case it chooses to review. Whether the Court grants review in a medical devices case, software case, or case addressing a different type of technology, its analysis of patent eligibility will bear on this case.

The Solicitor General recognized that. See U.S. *Berkheimer* Br. at 17 (recognizing that "principles that will govern Section 101 analysis * * * generally" would apply to claims in computer-technology patents). Federal Circuit judges have as well. See *Smart Sys. Innovations, LLC*, 873 F.3d at 1377 (Linn, J., concurring in part and dissenting in part) ("[T]here is no principled difference between the judicially recognized exception relating to 'abstract ideas' and those relating to laws of nature and natural phenomena.").

In any event, this Court's intervention is particularly needed in the context of computer-technology patents and the exception for abstract ideas. *Interval Licensing LLC*, 896 F.3d at 1350-1353 (Plager, J., concurring in part and dissenting in part) (discussing the "number of unsettled matters as well as the fundamental problems" with the "abstract ideas" exception to patent eligibility in the context of a software patent); *Smart Sys. Innovations, LLC.*, 873 F.3d at 1377 (Linn, J., concurring in part and dissenting in part) ("[T]he abstract idea exception is almost impossible to apply consistently and coherently."). So this Court should not hesitate to grant plenary review in a case involving such claims, and to hold this case in the meantime.

b. Respondent also observes (Br. in Opp. 12-13) that the lower courts did not disagree about the application of the *Alice* framework to the claims at issue here. That does not matter, for three reasons.

First, the Federal Circuit's patent-eligibility cases are hopelessly inconsistent. With respect to the abstract ideas exception in particular, the cases "fail[] to provide the kind of specificity and clarity" required for them to provide a "useful * * * future prediction of outcome." *Interval Licensing LLC*, 896 F.3d at 1351 (Plager, J., concurring in part and dissenting in part).

Accordingly, the fact that the Federal Circuit panel in this case summarily affirmed does not mean that another panel would have done the same. And it likewise does not mean that the panel's decision in this case was correct.

Second, the district court's analysis cannot be squared with *Alice*. At step one, the district court erred by framing the claims at issue at too high a level of generality. Pet. 8. Respondent defends the district court's analysis on the grounds that "a specific abstract idea is still an abstract idea." Br. in Opp. 13. But all patent claims, if described at a high enough level of generality, could be said to rest on an abstract idea, law of nature, or natural phenomenon. *Alice*, 573 U.S. at 217. So specificity matters – as this Court and the Federal Circuit have recognized. See *ibid.*; see also, *e.g.*, *McRO, Inc.* v. *Bandai Namco Games Am. Inc.*, 837 F.3d 1299, 1313-1315 (Fed. Cir. 2016). Framing the claims at the right level of generality is critical to ensuring that the exceptions to patent eligibility do not become the rule. *Smart Sys. Innovations, LLC*, 873 F.3d at 1378 (Linn, J., concurring in part and dissenting in part).

The district court also erred at step two, by refusing to consider the specific limitations in the claims as well as petitioner's evidence that those limitations were novel at the time of the invention. Pet. 9. Respondent notes (Br. in Opp. 14) that the district court said its decision would be the same even if it considered evidence of novelty. But that does not cure the district court's misunderstanding of the legal framework. The only reason the court said the evidence did not matter is because it had already decided that the specific limitations in the claims could not provide an inventive concept. Pet. App. 23a-24a. That holding cannot be squared with *Alice*. 573 U.S. at 221-222.

In any event, petitioner does not ask the Court to review the district court's errors directly. But should the Court revisit, clarify, or provide additional guidance regarding patent eligibility, that likely will affect the eligibility analysis in this case. The lower courts should have the opportunity to apply that guidance to the claims at issue here. Pet. 12.

CONCLUSION

The petition for a writ of certiorari should be held pending this Court's decisions in *Reese* v. *Sprint Nextel Corp.*, No. 19-597, and *Solutran, Inc.* v. *Elavon, Inc.*, No. 19-1017, and then disposed of as appropriate in light of those decisions.

Respectfully submitted.

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