

PATENT

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

Inventor: Glen Douglas Johnson)	MAIL STOP:
)	<i>Patent Board</i>
Case No.: Unassigned)	
)	Patent Trial and Appeal Board
Patent No.: 5,924,080)	
)	Issued Date: July 13, 1999
Application No.: 08/654,057)	
)	Filing Date: May 28, 1996
For: COMPUTERIZED DISCOUNT)	
REDEMPTION SYSTEM)	

**PETITION FOR COVERED BUSINESS METHOD PATENT REVIEW
PURSUANT TO 35 U.S.C. §321, AIA §18, AND 37 C.F.R. §§42.300-42.304**

Commissioner for Patents
P.O. Box 1450
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Pursuant to 35 U.S.C. §321, the Leahy-Smith America Invents Act (“AIA”), Pub L. 112-29, §18, and 37 C.F.R. §§42.300-42.304, The Kroger Co. (“Kroger”) and Brookshire Grocery Company (“Brookshire”) (collectively, “Petitioners”) hereby petition the United States Patent and Trademark Office Patent Trial and Appeal Board (“PTAB”) to institute a Covered Business Method patent review (“CBM”) of all claims of U.S. Patent No. 5,924,080 (the “’080 Patent,” **Ex. 1001**) to Johnson, which issued on July 13, 1999.

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- Exhibit 1001** U.S. Patent No. 5,924,080 to Johnson
- Exhibit 1002** U.S. Patent No. 5,687,322 to Deaton, *et al.*
- Exhibit 1003** Nexuscard's Response to Kroger's Motion to Dismiss in *Nexuscard, Inc. v. The Kroger Co.*, Case No. 2:15-cv-00968-JRG (E.D. Tex.)
- Exhibit 1004** U.S. Patent No. 4,882,675 to Nichtberger, *et al.*

I. PRELIMINARY STATEMENT

From coupons in a newspaper, to circulars at the front of a store, to direct-to-consumer mailing, retailers have tried innumerable strategies to lure consumers into their stores and track their buying behavior. Claims 1-11 (the “Challenged Claims”) of U.S. Patent No. 5,924,080 (the “’080 Patent,” **Ex. 1001**) are directed to a simple, abstract concept that traces its origins to these same longstanding retail marketing strategies: a membership discount program.

The Challenged Claims do not recite anything more than generic computing apparatuses common in the retail environment operating in conventional and routine ways. The claims of the ’080 Patent are directed to a computerized membership discount program implemented on generic computer components. Membership discount programs are abstract marketing techniques that have been employed for many years without computers, and have roots in discount marketing strategies that are nearly as old as commerce itself. The computerized methods claimed in the ’080 Patent do not reflect technological innovation or an “inventive concept,” but rather recite routine marketing and sales activity performed using the basic functions of a generic computer. Thus, none of the Challenged Claims of the ’080 Patent meet the patent-eligibility standards set forth in 35 U.S.C. §101, as described in *Alice Corp. v. CLS Bank Int’l*, 134 S. Ct. 2347 (2014). To expedite proceedings, this petition is directed only at this single, purely legal basis of invalidity.

II. GROUND FOR STANDING – 37 C.F.R. §42.304(a)

A. At Least One Challenged Claim Is Unpatentable

The Challenged Claims of the '080 Patent are unpatentable under 35 U.S.C. §101. The instant petition should be granted and trial instituted because it is “more likely than not that at least one of the claims [of the '080 Patent] challenged in the petition is unpatentable.” 35 U.S.C. §324(a).

B. The '080 Patent Is a Covered Business Method Patent

The '080 Patent qualifies as a “covered business method” (“CBM”) patent. The AIA defines covered business method patents as:

(1) IN GENERAL.—For purposes of this section, the term “covered business method patent” means a patent that claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a **financial product or service**, except that the term does not include patents for technological inventions.

AIA, §18(d)(1) (emphasis added). The PTAB has construed this definition broadly.

The legislative history of the AIA supports such a broad interpretation:

The plain meaning of “financial product or service” demonstrates that section 18 is not limited to the financial services industry. At its most basic, a financial product is an agreement between two parties stipulating movements of money or other consideration now or in the future.

157 CONG. REC. S5432 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer).

The AIA, its legislative history, and 37 C.F.R. §42.301(a) broadly define a “covered business method patent” as a patent that (1) claims a method or apparatus for performing data processing used in the practice, administration, or management of a financial product or service; and (2) is not a technological invention.

1. The '080 Patent Claims a Method or Apparatus Used in the Practice, Administration, or Management of a Financial Product or Service

The '080 Patent relates to a membership discount program for retailers including a method of calculating and applying discounts to designated merchandise. The claims are all directed to a “method for processing and applying merchandise discounts to a consumer’s purchases,” for which a customer provides monetary payment. The claims include generic steps associated with membership discount programs, such as steps for determining what merchandise is subject to discount, how the discounts are determined, and how the discounts are applied to the merchandise before printing a sales slip for a user. A dependent claim further recites that the method employs a cash register.

For example, independent Claim 11 recites a method for processing and applying discounts to merchandise (the merchandise having a specified cost) that includes determining the amount to be charged to a customer following the application of the discount(s), and determining the nature and amount of the discount(s):

11. The method of processing and applying merchandise discounts to a consumer’s purchases by providing a computerized

membership system, said membership including a plurality of consumer members, a plurality of **point of purchase merchant members**, a plurality of manufacturer members, and a centralized system provider, said membership system having:

a point of purchase merchant member computer terminal and computer and a centralized provider's computer, said provider's computer having a database for the storage and retrieval of information, said database storing information regarding **point of purchase merchant members**, manufacturer members, and consumer members, in predetermined files, at least some of said information being entered into the system at the time of a member establishing membership in said system and

communication means, said communications means providing real time communication between said member merchant's computer terminals and said provider's computer,

comprising the steps of:

a. providing consumer members with individual identification codes, said identification codes accessing said databases;

b. storing said consumer member identification codes on said provider's computer in a consumer database;

c. providing each consumer member with a membership ID, said membership ID having memory storage means, said memory storage means containing at least said consumer identification code;

d. storing merchandise information provided by a manufacturer member in a manufacturer member database in said provider's, said

merchandise information including at least a merchandise identification code and **the discount on predetermined merchandise,**

e. **displaying to consumers indicia, said indicia identifying point of purchase merchandise subject to a price discount,**

f. **transporting, by said consumer, consumer selected discounted and non-discounted merchandise a purchase location** at said merchant member to form a collection of transported merchandise, each of said transported merchandise having a merchandise identification code,

g. scanning merchandise identification codes of each of said transported merchandise, at said communication means,

h. scanning said consumer ID,

i. uploading said scanned consumer identification code, from said merchant member, through said communication means to said provider's computer,

j. comparing said consumer identification code with consumer identification codes stored in said provider's computer and verifying said consumer's membership,

k. uploading said merchandise identification code for each of said scanned merchandise to said merchant member's computer,

l. comparing at said merchant's computer, said merchandise identification code for consumer selected merchandise with the identification codes of said discounted merchandise,

m. **computing the discounts on said merchandise subject to**

a price discount,

n. uploading to said provider's computer merchandise codes for merchandise subject to a price discount,

o. downloading from said provider's computer to said merchant's computer through said merchant communication means, discounts on said merchandise subject to a price discount,

p. printing at said merchant member's computer terminal a sales slip for said member consumer including the discounts for said merchandise subject to a price discount,

q. sorting and storing in said provider's databases said downloaded data on said consumer and said merchandise purchased by said a member consumer from a member merchant, and

r. storing merchant member sales data on said merchant member computer, wherein said provider maintains and processes, in real time, discounts provided by manufacturer members to member consumers without said member merchant being required to process said discounts or member consumers being required to present coupons or file rebates to obtain said discounts.

Ex. 1001 at 11:41-12:63 (emphasis added). Independent claim 11 likewise recites processing and applying merchandise discounts to a consumer's purchases, a point of purchase merchant member with a computer terminal, discounts on predetermined merchandise, displaying indicia of the discount, transporting merchandise to a purchase location, the process for determining what items are subject to discount and applying the discount, printing a sales slip indicating the amount of the dis-

counts, and processing the discounts in real time. *Id.* at 10:2-11:14. Claim 8 also recites that the communications means is a cash register (*id.* at 11:32-33).

The specification of the '080 Patent is littered with references to the primary purpose of the purported invention: calculating prices of items that are subject to discount. The '080 Patent states that the field of the invention is “providing in-store purchase discounts for predetermined products.” *Id.* at 1:7-8. The “Summary of the Invention” states:

It has now been found that a simple, low cost system can be provided by which **manufacturers can discount selected products** to consumers, in which system, **the discount or rebate can only be applied to the purchase price of the product at the time of actual purchase of the product** eliminating fraud and waste, tracking customer usage and building a valuable customer demographic database.

Id. at 1:39-45 (emphasis added). The '080 Patent teaches that the purported invention is directed to activities that are financial in nature, incidental to a financial activity, or complementary to a financial activity in numerous instances, including:

- “A communication system, such as a cash register.” *Id.* at Abstract, 1:52-53;
- “The discounts are deducted and a slip printed.” *Id.*;
- “The provider’s computer deducts the discounts on the merchandise subject to a discount. The discounts on the merchandise are downloaded to the merchant communication system. A sales slip, either displaying the discounts ...

is printed for the consumer.” *Id.* at 2:11-16;

- “To use the system, the consumer collects the items to be purchased and brings them to the check-out counter. At the check-out counter, the clerk enters the purchase information of the products into the cash register by either scanning the bar code or using other current entry methods. Since cash registers are in effect computer terminals for the entry of data into a central computer, the instant system can be incorporated into existing systems by scanning bar code pricing and reading the magnetic stripe on membership cards. After all of the purchases have been recorded into the cash register, the clerk scans the memory storage on the member's identification card.” *Id.* at 4:6-16;
- “For those products that are subject to a discount, the system computer itemizes the discounts, totals the discounts and transfers the sum back to the computerized cash register. ... The discount total is deducted from the total bill to the member-consumer. The member-consumer then pays the total purchase price of the goods, less the discount provided by the system.” *Id.* at 4:40-52;
- “Consumers can use the database to obtain read outs of their spending habits for budgeting income or viewing spending trends.” *Id.* at 5:20-22;
- Once a customer's eligibility has been determined, the merchant enters the

items into the communication system for totaling and entry into the database. The total deduction would then be deducted from the consumer's total prior to payment. The data transferred from the general merchants can include all product information or can be limited to the amount of the transaction or other selected information.” *Id.* at 6:15-22; and

- “Thus, the merchant will have readily accessible information as to the total dollar value of the transactions and the amount of the discount for sales to customers who are using the system of the instant invention.” *Id.* at 6:35-38.

As the PTAB has recognized, “‘financial product or service’ should be interpreted broadly.” *Apple Inc. v. SightSound Techs., LLC*, CBM2013-00020, Paper 14 at 11 (Oct. 8, 2013). The legislative history confirms this broad interpretation, indicating that CBM review is applicable to patents covering “any ancillary activities related to a financial product or service, including . . . marketing, customer interfaces, Web site management and functionality, transmission or management of data, servicing, underwriting, customer communications, and back office operations-e.g., payment processing, stock clearing.” 157 CONG. REC. S1364–65. The examples above demonstrate that the ’080 Patent is directed to the practice, administration, and management of a financial product or service under §18(d)(1) of the AIA. Indeed, the PTAB has consistently determined that patents with even less connection to a financial product or service are still eligible for CBM review.

For example, in *CRS Advanced Technologies v. Frontline Technologies, Inc.*, CBM2012-00005, the PTAB found a patent that recited a method of performing substitute fulfillment for a plurality of organizations, including a number of different organizations such as banks (e.g., substitute bank tellers), to be a CBM-eligible patent:

[I]n considering public comments during the rulemaking process, the Office stated that the legislative history supported the notion that the definition of covered business method patents be broadly interpreted to encompass patents claiming activities that are financial in nature, incidental to a financial activity, or complementary to a financial activity. 77 Fed. Reg. 157 (August 14, 2012) 48734, 48735. The Office also stated that it did not adopt the suggestion that the term financial product or service be limited to the products or services of the financial services industry as it ran contrary to the intent behind §18(d)(1). *Id.* at 48736. Nothing in the statute, its legislative history, or the rules requires that a covered business method patent include claim elements that map directly to financial products or services as Patent Owner seems to suggest.

CRS Advanced Technologies v. Frontline Technologies, Inc., CBM2012-00005, Decision to Institute, Paper No. 17 (Jan. 23, 2013), at 7-8; *see also Symphony Health Solutions Corporation v. IMS Health Inc.*, CBM2015-00085, Decision to Institute, Paper No. 7 (Sept. 10, 2015), at 10-11.

Similarly, the PTAB found a patent with a claim reciting methods of trans-

mitting digital audio signals to be a covered business method patent. *Apple, Inc. v. SightSound Technologies, LLC*, CBM2013-00019, Decision to Institute, Paper No. 17 (Oct. 8, 2013). The claims at issue in that proceeding recited transferring money electronically via a telecommunication line. The PTAB held that a patent need have *only one claim* directed to a covered business method to be eligible for review, and that the legislative history indicates that “financial product or service” should be interpreted broadly. Relying on the legislative history, the PTAB held that, although claim 1 “does not relate to a financial services business, it does recite the electronic movement of money between financially distinct entities, which is an activity that is financial in nature.” *Id.* at 12.

The PTAB has also found claims reciting methods of representing a plurality of items in a database hierarchically (and a hierarchy for representing a plurality of items) to be CBM-eligible, even though the claims did not recite any transfer of money or otherwise relate to a financial product or service. *Volusion, Inc. v. Versata Software, Inc.*, CBM2013-00017, Decision to Institute, Paper No. 8 (Oct. 24, 2013). The PTAB reasoned that the specification described the invention as having application in the field of e-commerce in the form of e-catalogs used by potential buyers. In addition, the patent specification stated that “[m]any embodiments of the present invention have application to a wide range of industries” including “financial services.” *Id.* at 5. The PTAB held that this was sufficient to qualify the patent

for covered business method review: “[W]e are persuaded that at least one claim covers data processing or other operations used in the practice, administration, or management of a financial service.” *Id.* at 6.

The PTAB therefore has found patents CBM-eligible with far less connection to financial products or services than the connection here. The ’080 Patent purports to be an improvement in applying discounts to merchandise, it claims methods that calculate discounts to customer-selected merchandise, and it claims methods that apply discounts to merchandise at a cash register whereby the customer can purchase the discounted merchandise. **Ex. 1001.** That subject matter is squarely within the meaning of “financial product or service” as properly informed by the legislative history of the AIA. *See Apple, Inc. v. SightSound Technologies, LLC*, CBM2013-00019, Decision to Institute, Paper No. 17 (Oct. 8, 2013), at 12; *Volusion, Inc. v. Versata Software, Inc.*, CBM2013-00017, Decision to Institute, Paper No. 8 (Oct. 24, 2013) at 6. Accordingly, the ’080 Patent includes at least one claim to a method or apparatus used in the practice, administration, or management of a financial product or service.

2. The ’080 Patent Is Not a Technological Invention

The definition of “covered business method patent” in Section 18(d)(1) of the AIA does not include patents for “technological inventions.” To determine whether a patent is for a technological invention, the PTAB considers “whether the

claimed subject matter as a whole recites a technological feature that is novel and unobvious over the prior art; and solves a technical problem using a technical solution.” 37 C.F.R. §42.301(b). The following claim drafting techniques, for example, typically do not render a patent a “technological invention”:

(a) Mere recitation of known technologies, such as computer hardware, communication or computer networks, software, memory, computer-readable storage medium, **scanners**, display devices or databases, or specialized machines, such as an ATM or **point of sale device**.

(b) **Reciting the use of known prior art technology to accomplish a process or method**, even if that process or method is novel and non-obvious.

(c) Combining prior art structures to achieve the normal, expected, or predictable result of that combination.

Office Patent Trial Practice Guide, 77 Fed. Reg. 48756, 48763-64 (Aug. 14, 2012) (emphasis added).

The '080 Patent claims do not recite any technological feature that is novel and unobvious over the prior art, or that solves a technical problem using a technical solution. Although a generic computer terminal, central computer (i.e., server), database, and communications means are recited in the claims, there is nothing unique or specific about that technology. To be a “technological invention,” a claim must recite elements that are novel and not well-known components. *See*

Bloomberg Inc. v. Markets-Alert PTY Ltd., CBM2013-00005, Paper 18 at 6-7 (Mar. 29, 2013); *Symphony Health*, CBM2015-00085, Paper No. 7 at 11-12; *CRS Advanced Technologies v. Frontline Technologies, Inc.*, CBM2012-00005, Inst. Decision, Paper No. 17 (Jan. 23, 2013), at 9 (requiring more than generic hardware). The '080 Patent claims can be carried out using conventional software and hardware components. No special technical solution is required.

The '080 Patent does not describe any specific hardware or software needed to carry out the invention beyond such generic elements as “a point of purchase merchant member computer terminal and computer,” a “centralized provider’s computer,” a “database for the storage and retrieval of information,” and communications means “providing real time communication between said member merchants’ computer terminal and said provider’s computer.” '080 Patent at 10:2-20; 11:41-60. The '080 Patent fails to identify any specific structures to satisfy these components, apparently conceding that the recited hardware is generic and well-known hardware that possesses no distinctive characteristics. Accordingly, the '080 patent is not one of “those patents whose novelty turns on a technological innovation . . . and are concerned with a technical problem which is solved with a technical solution and which requires the claims to state the technical features which the inventor desires to protect.” 157 CONG. REC. S1364.

The claims also do not otherwise demonstrate a “technological invention” by

using these unspecified generic components to provide a technical solution to a technical problem. That is because the claims of the '080 Patent merely automate the previously-manual process of calculating and applying discounts, a non-technical problem. *See, e.g., Ex. 1001* at claim 1. Indeed, such calculations can be performed mentally or with simple pen and paper. *See In re Bilski*, 545 F.3d 943, 965 (Fed. Cir. 2008); *Gottshalk v. Benson*, 409 U.S. 63, 67 (1972); *CyberSource Corp v. Retail Decisions Inc.*, 654 F.3d 1366, 1372 (Fed. Cir. 2011). Although automating the process may result in administrative efficiencies, it does not transform an otherwise non-technical problem into a technical one.

The claims are not directed at a technical solution. The physical components are limited to generic computing equipment (e.g., a computer or computer terminal, “communications means,” and a database). *See Intellectual Ventures I LLC v. Capital One Bank (USA)*, 792 F.3d 1363, 1367 (Fed. Cir. 2015) (noting that including technical elements does not render the claims any less abstract). Each of these recited elements were well-known to those of ordinary skill before the filing of the '080 Patent. Moreover, the USPTO has already indicated such components are insufficient to constitute a “technical solution. *See Office Patent Trial Practice Guide*, 77 Fed. Reg. at 48763-64 (an invention is not a “technological invention” simply due to the “[m]ere recitation of known technologies, such as computer hardware, communication or computer networks”). At their greatest level of granu-

larity, the claims recite well-known generic computing components, like a “computer terminal,” a “cash register,” or a “processor,” which are generic components known in various contexts well before the ’080 Patent. *See, e.g.*, U.S. Patent No. 5,687,322 (**Ex. 1002**), discussed in Section IV.B.1.c, *infra*.

The ’080 Patent claims are not directed at a technological invention. Thus, Challenged Claims are eligible for the CBM review transitional program.

C. Petitioners Have Been Sued for Infringement of the ’080 Patent and Are Not Estopped from Challenging the ’080 Patent Claims

Petitioners must also satisfy 37 C.F.R. §42.302, which requires the Petitioners: (a) to have either been sued or charged with infringement; and (b) to not be estopped from challenging the claims. Petitioners have been sued for infringement of the ’080 Patent. The ’080 Patent was asserted against Kroger by Nexuscard, Inc. in *Nexuscard, Inc. v. The Kroger Co.*, Case No. 2:15-cv-00968-JRG (E.D. Tex.). The ’080 Patent was also asserted against Brookshire in *Nexuscard, Inc. v. Brookshire Grocery Co.*, Case No. 2:15-cv-00961-JRG (E.D. Tex.). Petitioners are not estopped from challenging the ’080 Patent claims under 35 U.S.C. §325. Petitioner satisfies the requirements of 37 C.F.R. §42.302, and has standing to file a petition for CBM review of the ’080 Patent.

D. The Petition Is Timely Under 37 C.F.R. §42.303

The ’080 Patent is not eligible for post-grant review under 35 U.S.C. §321(c), and therefore this Petition seeking CBM review of the ’080 Patent is

proper under 37 C.F.R. §42.303.

E. Real Party-in-Interest

In accordance with 37 C.F.R. §42.8(b)(1), Petitioners identify as real-parties-in-interest The Kroger Co. and Brookshire Grocery Company. Brookshire Grocery Company is a wholly-owned subsidiary of BGC Management, Inc., which is a wholly-owned subsidiary of Brookshire Holdings, Inc.

F. Related Matters

In accordance with 37 C.F.R. §42.8(b)(2), Petitioner identifies the following district court and proceedings as related matters: (1) *Nexuscard, Inc. v. The Kroger Co.*, Case No. 2:15-cv-00968-JRG (E.D. Tex.), in which Kroger is accused of infringing claims of the '080 Patent; (2) *Nexuscard, Inc. v. Brookshire Grocery Company*, Case No. 2:15-cv-00961-JRG (E.D. Tex.), in which Brookshire Grocery Company is accused of infringing claims of the '080 Patent; and (3) *Nexuscard, Inc. v. Winn Dixie Stores Inc.*, Case No. 4:15-cv-00138-CDL (M.D. Ga.), in which Winn Dixie Stores Inc. is accused of infringing claims of the '080 Patent.

G. Lead and Back-Up Counsel; Service Information

In accordance with 37 C.F.R. §42.8(b)(3) and (4), Petitioner identifies Christopher Dorsey as lead counsel and Brian Nash as back-up counsel, identifies the following service information, and consents to service by email at the addresses noted below, with a copy to raymond.sweigart@pillsburylaw.com, david.wille@bakerbotts.com and cody.gartman@pillsburylaw.com:

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H. Supporting Evidence

Pursuant to 37 C.F.R. §42.304(b)(5), a list of exhibits and exhibit numbers used and/or relied upon in this Petition are provided in the Exhibit List above at Page viii, *supra*. The relevance of each exhibit and a citation to the particular portions of each exhibit relied upon by Petitioner are included in the text throughout.

III. STATEMENT OF PRECISE RELIEF REQUESTED FOR EACH CLAIM CHALLENGED

A. Claims for which Review is Requested

Pursuant to 37 C.F.R. §42.304(b)(1) and (2), Petitioner respectfully requests review of all claims (claims 1-11) of the '080 Patent under 35 U.S.C. §321 and AIA §18, and the cancellation of these claims as unpatentable.

B. Statutory Grounds of Challenge

Petitioner requests cancellation of all claims under 35 U.S.C. §101 for failure to claim patent-eligible subject matter. The claim construction, reasons for un-

patentability, and specific evidence supporting this request are detailed below.

C. Level of Ordinary Skill in the Art

The claims and specification of the '080 Patent are directed to implementing generic discount program processes and algorithms on a generic computing apparatus or device. *See* Section II.B.2, *supra*. Thus, a person having ordinary skill in the art would typically have had at least a Bachelor of Science degree in computer science, computer engineering, or a closely related technical field, and at least two years practical experience in the industry (preferably experience designing systems for use in a retail environment), or equivalent training or industry experience.

D. Claim Construction

The PTAB has previously held that it applies the Broadest Reasonable Interpretation (“BRI”) during CBM review. 37 C.F.R. §42.300(b); *Symphony Health*, CBM2015-00085, Paper No. 7 at 7-8; *SAP Am., Inc. v. Versata Development Group, Inc.*, CBM2012-00001, Final Written Decision, Paper No. 70 at 19 (June 11, 2013) (“Accordingly, we agree with SAP and hold that the broadest reasonable interpretation standard is the one correct standard for post grant reviews.”).¹

¹ Petitioner recognizes that the USPTO has issued draft rules that may change the claim construction standard applicable to certain patents from BRI to the same construction given to the terms in the district court under the Federal Circuit’s decision in *Phillips v. AWH Corp.*, 415 F.3d 1303 (Fed. Cir. 2005). *See* Amendments to the Rules of Practice for Trials Before the Patent Trial and Appeal Board, 80 FR 50719 (Aug. 20, 2015). Because the '080 Patent would expire before the conclusion of this proceeding, Petitioner recognizes that the claims

In motion papers in a related district court action, Patent Owner made vague reference to claim limitations that it contended require construction. Petitioners advance constructions under the BRI standard for those terms in the Challenged Claims that Patent Owner identified as needing construction. Petitioners do not concede that any of the terms require construction. Indeed, Petitioners contend that the '080 Patent claims are directed to ineligible subject matter under *any* reasonable construction. The constructions advanced herein are provided only for the purposes of this Petition and are not intended and shall not be viewed as constituting, in whole or in part, Petitioners' constructions applicable in any other forum, including U.S. District Court, where the rules or standards for claim construction differ from those applicable to CBM review.

1. “Information Regarding Point of Purchase Merchant Members, Manufacturer Members, and Consumer Members”

In motion papers, Patent Owner identified the term “information regarding point of purchase merchant members, manufacturer members, and consumer members” as needing construction. *See Ex. 1003* at 14; '080 Patent, Claims 1, 11. The ordinary and broadest meaning of that term is any information regarding any of the types of members.

would be subject to this rule change. Petitioner submits that the claim construction standard applicable to the claims does not impact the Section 101 analysis, but has noted where appropriate where the claim terms may be construed differently under the two analyses.

This meaning is apparent from the claim language itself, which requires that “at least some of said information being entered into the system at the time of a member establishing membership in said system.” **Ex. 1001** ('080 Patent) at Claims 1, 11. The meaning is reinforced by the specification, which states that:

The membership provider's centralized computer has a database which contains membership information, such as name, address, membership number, membership expiration date, and phone number. The merchant's portion of the centralized database contains such information as store name, location, membership number and phone number. The manufacturer's information contains information such as company name, specific product types, and specific product names and the standard price, a list of products to be currently discounted, the discount rate and length of time of the discount.

Id. at 3:11-21. According to the '080 Patent's specification, the collected information can be by nearly *any* identifying information regarding the member. In the case of a consumer, that information may be as simple as a name, address, and membership number. *Id.* For merchants, the information can also include things such as the name and location of the store. *Id.* For manufacturers, the information can be directed to the names, prices, and types of products that are discounted, and the nature of the discount. *Id.*

Accordingly, under both the BRI and *Phillips* standards, this claim limitation should be given its plain and ordinary meaning: any information regarding any of

the types of members.

2. “Membership ID Having Memory Storage Means”

In motion papers, Patent Owner also identified the term “membership ID with memory storage means” as requiring construction. *See Ex. 1003* at 22-23; ’080 Patent, Claims 1, 11. The “memory storage means” term is a means-plus-function limitation. *EnOcean GmbH v. Face Int’l Corp.*, 742 F.3d 955, 958 (Fed. Cir. 2014). Thus, the corresponding structure is constrained to the structures disclosed in the specification, which is a construction most favorable to the Patent Owner. 35 U.S.C. §112, ¶6 (pre-AIA). Here, the only disclosed structure for storing identification codes is a magnetic stripe on a card.

For example, the specification states that:

Consumers join a couponless product discount system and are provided with an individualized membership card. The membership cards include a memory storage mechanism, such as an encoded **magnetic stripe** or other means known by those versed in the current art, which contains the consumer's membership information. The card also contains on the memory storage a coded signal which activates a system such as available under the trademark VeriFone.

Id. at 2:57-65 (emphasis added). The specification further teaches:

Joining consumers are provided with a credit card-like plastic card having a memory storage area, such as a **magnetic stripe**; which contains the consumer ID code; information specific to the individual consumer. The consumer ID code can identify the consumer by an as-

signed account number, telephone number, or social security number.

Id. at 6:46-52.

Thus, the structure of the “memory storage means” is a magnetic stripe on a card. The overall meaning of the phrase is simply a membership identification that includes a magnetic stripe on a card.

3. “Communications Means”

In motion papers, Patent Owner also identified the term “communications means” as requiring construction. *See Ex. 1003* at 22-23; ’080 Patent, Claims 1, 11. That term is a means-plus-function limitation. *EnOcean*, 742 F.3d at 958. Thus, the corresponding structure is constrained to the structures disclosed in the specification, which is a construction most favorable to the Patent Owner. 35 U.S.C. §112, ¶6 (pre-AIA). Here, the only disclosed structure for communicating between a member merchant’s computer terminal and a provider’s computer is a cash register.

For example, the specification states: “A communication system, such as a cash register, provides real time communication between members and the provider’s computer.” ’080 Patent at 1:52-54. The specification of the ’080 Patent also describes the “communications means as the intermediary between the member merchant’s computer terminals and the provider’s computer. *See id.* at 2:7-16; 6:15-18. Thus, the structure of the “communications means” is a cash register.

4. “Real Time Communication”

In motion papers, Patent Owner also identified the term “real time communication,” as requiring construction. *See Ex. 1003* at 22-23; ’080 Patent, Claims 1, 11. Unlike the previous terms, the specification of the ’080 Patent provides little guidance on the meaning of this limitation.

The construction of this limitation is the same under both the BRI and *Phillips* standards, and is merely “communication without intentional delay, given the processing limitations of the system and the time required to effect the communication.” *Cf. Paragon Solutions, LLC v. Timex Corp.*, 566 F.3d 1075, 1094 (Fed. Cir. 2009).

5. “Provider”

In motion papers, Patent Owner also identified the term “provider” as requiring construction. *See Ex. 1003* at 22-23; ’080 Patent, Claims 1, 11. The specification of the ’080 Patent provides guidance on the meaning of this claim limitation:

The membership provider's centralized computer has a database which contains membership information, such as name, address, membership number, membership expiration date, and phone number.

Id. at 3:11-14. The specification further teaches that the provider is a distinct, separate entity from the “merchant”:

The demographics database retrieval information provided to the merchant can either be provided by the membership provider's computer or accessed directly by the merchant, who is provided with access

codes and a computer terminal.

Id. at 6:23-27. The '080 Patent teaches throughout that the provider is the central warehouse for maintaining membership data and for determining, processing, and applying discounts.

Thus, it is possible that the provider may have a different interpretation under the BRI and *Phillips* standards. The BRI of “provider” is simply an “entity maintaining the centralized computer.” Under *Phillips*, the “provider” is an “entity, distinct from the merchant that maintains the centralized computer with whom the merchant communicates information.” Neither construction impacts the Section 101 analysis. Thus, it is not necessary to construe that term for the instant petition.

IV. THE CHALLENGED CLAIMS ARE UNPATENTABLE

The Challenged Claims (claims 1-11) are unpatentable for failing to claim patentable subject matter pursuant to 35 U.S.C. §101. The Challenged Claims are directed to an abstract idea, and they do not reflect an inventive step or concept. Petitioner respectfully requests that the PTAB institute CBM review of the Challenged Claims pursuant to 35 U.S.C. §324. Petitioner further respectfully requests that the PTAB adjudge all of the Challenged Claims unpatentable pursuant to 35 U.S.C. §101.

A. The Challenged Claims Are Unpatentable under 35 U.S.C. §101

The Challenged Claims are not directed to patent-eligible subject matter, as defined by 35 U.S.C. §101 and the Supreme Court’s decision in the case *Alice*

Corp. v. CLS Bank Int'l, 134 S. Ct. 2347 (2014). An invention is only eligible for patenting if it claims a “new and useful process, machine, manufacture, or composition of matter.” 35 U.S.C. § 101. Specifically excluded from the scope of patentable inventions are “laws of nature, natural phenomena, and abstract ideas.” *Alice*, 134 S. Ct. at 2354. “Laws of nature, natural phenomena, and abstract ideas are the basic tools of scientific and technological work.” *Id.* *Alice* thus confirmed *Bilski*, where the Supreme Court found that “one may not patent an idea.” *Bilski v. Kappos*, 561 U.S. 593, 610 (2010) (quoting *Gottschalk v. Benson*, 409 U.S. 63, 71 (1972)).

Alice defined a two-step process for determining whether a patent claim meets the Section 101 eligibility requirements. *Alice*, 134 S. Ct. at 2354-55. First, the Court must “determine whether the claims at issue are directed to” an abstract idea. *Id.* at 2355. Second, the Court must “consider the elements of each claim both individually and ‘as an ordered combination’ to determine whether the additional elements ‘transform the nature of the claim’ into a patent-eligible application.” *Id.* (quoting *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1297-98 (2012)). “We have described step two of this analysis as a search for an ‘inventive concept’—i.e., an element or combination of elements that is ‘sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the [ineligible concept] itself.’” *Id.* (quoting *Mayo*, 132 S. Ct. at 1294).

1. *Mayo/Alice* Step 1: Are the Claims Directed to an Abstract Idea?

The first step in a Section 101 analysis is determining if an invention falls within one of the four statutorily-defined categories: processes, machines, articles of manufacture, and compositions of matter, and is not directed to “laws of nature, natural phenomena, and abstract ideas.” *Alice*, 134 S. Ct. at 2354. An abstract idea is one that has “no particular concrete or tangible form.” *Ultramercial, Inc. v. Huhu, LLC*, 772 F.3d 709, 715 (Fed. Cir. 2014).

Recent decisions have provided multiple examples of claims that are impermissibly directed at “abstract ideas.” For example, non-patent-eligible subject matter at least includes claims directed to (1) intermediated settlement risk, *Alice*, 134 S. Ct. at 2360; (2) methods for using concentrations of chemicals in a patient’s blood for treatment, *Mayo*, 132 S. Ct. at 1302; (3) risk-hedging, *Bilski*, 561 U.S. at 593; (4) price optimization, *OIP Techs., Inc. v. Amazon.com, Inc.*, 788 F.3d 1359, 1362-63 (Fed. Cir. 2015); (5) data extraction and storage, *Content Extraction and Transmission, LLC v. Wells Fargo Bank*, 776 F.3d 1343, 1351 (Fed. Cir. 2014); (6) displaying advertisements for free content, *Ultramercial*, 772 F.3d at 716; and (7) creating a contractual relationship, *buySAFE, Inc. v. Google, Inc.*, 765 F.3d 1350, 1355 (Fed. Cir. 2014).

2. *Mayo/Alice* Step 2: Do the Claims Contain “Something More?”

The second step of the *Alice* analysis asks if the claims contain “an element or combination of elements that is ‘sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the [ineligible concept] itself.’” *Alice*, 134 S. Ct. at 2355 (quoting *Mayo*, 132 S. Ct. at 1294) (alteration in original).

For computer-related inventions, “the mere recitation of a generic computer cannot transform a patent-ineligible abstract idea into a patent-eligible invention. *Alice*, 134 S. Ct. at 2358. Similarly, it is insufficient to add steps which “consist of well-understood, routine, conventional activity,” if such steps, “when viewed as a whole, add nothing significant beyond the sum of their parts taken separately.” *Mayo*, 132 S. Ct. at 1294. Likewise, it is insufficient, for patent eligibility purposes, to either state an abstract idea “while adding the words ‘apply it’” or to limit the use of an abstract idea “to a particular technological environment.” *Alice*, 134 S. Ct. at 2358 (quoting *Mayo*, 132 S. Ct. at 1294; *Bilski*, 561 U.S. 593, 610-611 (2010)). “Stating an abstract idea while adding the words ‘apply it with a computer’ simply combines those two steps, with the same deficient result. Thus, if a patent’s recitation of a computer amounts to a mere instruction to ‘implemen[t]’ an abstract idea ‘on . . . a computer,’ that addition cannot impart patent eligibility.” *Id.* (citations omitted).

As a result, “relying on a computer to perform routine tasks more quickly or

more accurately is insufficient to render a claim patent eligible.” *OIP*, 788 F.3d at 1363. “To salvage an otherwise patent-ineligible process, a computer must be integral to the claimed invention, facilitating the process in a way that a person making calculations or computations could not. . . . [The computer] must play a significant part in permitting the claimed method to be performed, rather than function solely as an obvious mechanism for permitting a solution to be achieved more quickly.” *Bancorp Servs. LLC v. Sun Life Assurance Co.*, 687 F.2d 1266 (Fed. Cir. 2012) (quoting *SiRF Tech., Inc. v. Int’l Trade Comm’n*, 601 F.3d 1319 (Fed. Cir. 2010)).

Under *Alice*, *Mayo*, *Ultramercial*, and *OIP*, the Challenged Claims are directed to abstract ideas and are not directed to patent-eligible subject matter.

B. None of the Independent Challenged Claims Are Directed to Patent Eligible Subject Matter

Each claim of the ’080 Patent embodies the abstract idea of a membership discount program and adds little more than conventional and wholly generic computer equipment associated with customer checkout in a retail environment. As described in detail below, the claims of the ’080 Patent are not directed to patent-eligible subject matter under *Mayo/Alice*’s two-step test.

1. *Mayo/Alice* Step 1: The Claims Are Directed to the Abstract Idea of a Membership Discount Program

The ’080 Patent’s claims are directed to a generic computer implementation of a simple abstraction: a membership discount program. As the ’080 Patent ad-

mits, “discount coupons have long been distributed by manufacturers to merchandise their products and by retail stores to attract consumers to their particular store.” ’080 Patent at 1:17-20. Indeed, the patent recognizes that “[c]omputer systems have been developed for either enhancing the ease of use of product discount coupons or eliminating the use of coupons altogether.” *Id.* at 1:11-13. The Challenged Claims attempt to automate age-old discount methods using generic steps associated with customer loyalty card programs. In doing so, the ’080 Patent disproportionately preempts computerized customer loyalty card programs. The Challenged Claims are therefore directed at the abstract idea of a membership discount program as set forth in detail below.

a. Claim 11 Is Representative

Independent claims 1 and 11 are nearly identical with only minor differences. For example, claim 1’s step f requires transporting “point of purchase merchandise” to a purchase location, whereas claim 11’s step only requires transporting “merchandise.” *See Ex. 1001* at claims 1, 11. Similarly, claim 1’s steps k. through n. require uploading merchandise identification codes to a provider’s computer, comparing it with discount information, computing a discount, and downloading the discounts to the merchant’s computer, whereas in steps k. through o., the discount comparison and calculation is performed on the merchant’s computer. *Id.* These differences are immaterial for a Section 101 analysis.

The dependent claims add trivial limitations that either are conventional activities easily performed using pen and paper or human thought, or relate to underlying steps that can just as easily be performed by a “manual” process. *See In re Bilski*, 545 F.3d at 965; *Gottshalk v. Benson*, 409 U.S. at 67; *CyberSource*, 654 F.3d at 1372. For example, claim 2 merely adds the compilation of consumer purchase data in a demographic database and demographic reports. Claim 3 merely requires that the “indicia” provides consumers with the discount information through an advertisement. Claim 4 merely requires the “indicia” is displayed proximate to the merchandise. Claim 5 merely requires that the provider is a centralized computer networked to multiple merchants. Claim 6 merely adds the multiple merchants have at least two stores. Claim 7 merely requires that the provider is a centralized computer in real-time communication with at least one merchant terminal. Claim 8 merely requires that the communication means is a cash register. And claim 10 merely requires that the sales slip display information on the identified and non-identified merchandise. None of these dependent claims add limitations that affect or alter that first step of the Section 101 analysis.

b. The Claims Are Directed to a Process that Can Be Performed Manually and Mentally

Although verbose, the claims can be distilled to nothing more than a method for providing a membership discount program using generic steps associated with customer loyalty card programs accompanied by routine and conventional steps

inherent in commercial transactions. These steps include providing consumers with a membership number and an ID, storing membership information and manufacturer discount information on computers, displaying discounts to consumers, transporting merchandise to a purchase location, scanning the merchandise and the ID, comparing that scanned information to the stored information to verify membership and calculate discounts, printing a sales slip for the consumer reflecting the discounts, and sorting and storing information about the transaction on computers. *See, e.g.* Claim 11 (recited above in Section II.B.1).

The Challenged Claims' abstraction is illustrated by contrasting the claimed steps with a membership discount program maintained with pen, paper, and mental computation. *See In re Bilski*, 545 F.3d at 965; *Gottshalk v. Benson*, 409 U.S. at 67; *CyberSource*, 654 F.3d at 1372. Indeed, the '080 Patent concedes that these same steps can be accomplished with pen and paper:

Merchants who cannot receive discounts electronically must reference the discounts through a hard copy. The merchants can be provided with a list of products currently receiving product discounts and would check each product against the list. Discount stickers can be provided as proof of purchase indicators and would be removed at the time of purchase. The discount stickers would be returned to the membership provider, similar to currently used coupons, and read into the membership provider's computer. The merchant would either manually enter the discounts into the cash register or deduct the dis-

counts from the total. Alternatively the consumer can be provided with a coupon book corresponding to the computerized system. In this way, the merchants unable to electronically process discounts can either take the coupon from the book, or stamp the coupon, depending on the number of uses per coupon. The book also provides the advantages of providing a bridge between the current world of paper coupons and the paperless coupons of the instant system. The book would most likely be used for non-grocery coupons due to the vast number of grocery coupons available.

See '080 Patent at 9:28-48. Thus, the '080 Patent itself concedes that the claimed steps can be performed *without* computer components.

The same claimed steps can be rewritten to replace computing components with manual and human equivalents. Such a “manual” program would provide consumers with a membership number and an ID, but membership information and manufacturer discount information would be stored in hardcopy membership rolls and product discount lists, rather than the claimed computers. Like the claimed steps, the merchant would advertise the discounts, and the members would bring merchandise to a purchase location. But instead of scanning the merchandise and ID with a computerized scanner and comparing it to computer-stored information, the merchant would “scan” these items visually and compare them to the membership roll and discount lists to verify membership and calculate discounts. The merchant would calculate the discount (mentally or by pen and paper), write a receipt,

and log transaction details in a store ledger, rather than printing a sales slip and storing the transaction by computer. As discussed above, the '080 Patent itself concedes that many of these steps can be performed with pencil and paper, indicating that the claims themselves are directed to an abstract, mental process. *Id.*

Removing the computer components reveals that the claimed computer elements are functional in nature and could easily be performed by a human. The only difference between the '080 Patent's claims and a "manual" process is the use of general purpose computers to collect, store, and process information about consumer memberships, merchants, manufacturers, and sales transactions. The claims essentially propose that, instead of a human merchant looking up membership numbers, product discounts and performing calculations, a generic computer can perform those functions. But processing these discounts involves nothing more than reading and performing math. The Supreme Court and the Federal Circuit have repeatedly found such mental processes to be abstract. *See In re Bilski*, 545 F.3d at 965; *Gottshalk v. Benson*, 409 U.S. at 67; *CyberSource*, 654 F.3d at 1372 (“[M]ethods which can be performed mentally, or which are the equivalent of human mental work, are unpatentable abstract ideas — the ‘basic tools of scientific and technological work’ that are open to all.” (quoting *Gottschalk*, 409 U.S. at 67)); *Intellectual Ventures*, 792 F.3d at 1368. Accordingly, the claims are drawn to an abstract idea.

c. The Claims Merely Add Generic Computing Components and Routine Conventional Steps

The claimed hardware and software recited in the Challenged Claims² are generic components typically used in retail stores. Claim 11, for example, recites: point of purchase terminals; databases with customer, manufacturer, and merchandise information; central computers (i.e., servers); and communications means that connect the remote terminals (point of purchase) with the server (central computers) in a generic client-server architecture. **Ex. 1001** at claim 1. The only other structural elements recited are the merchandise itself (a prerequisite to a retail environment), the membership ID with storage means (i.e., a credit card or credit card-like device), a scanner typical to almost all electronic checkout terminals, and a receipt printer that is also a universal fixture at point-of-sale systems. *Id.* Claim 1 recites nearly identical components. The '080 Patent claims “invoke computer technology only to take advantage of the relative ease by which a computer, rather than a human,” can accomplish these tasks. *Clear with Computers, LLC v. Altec Indus., Inc.*, No. 6:14-cv-79, 2014 WL 993392, at *5 (E.D. Texas Mar. 3, 2015); *see also Intellectual Ventures*, 792 F.3d at 1367 (noting that including technical elements does not render the claims any less abstract). Thus, none of the structural elements

² To ensure that its analysis is made from the viewpoint most favorable to Patent Owner, Petitioner has assumed for the purposes of this analysis that the preamble is limiting. The scant recitations of generic structure in the '080 Patent claims are almost solely present in the preamble, and may not be limitations at all.

present in the claims are more than generic computing components in the art.

The claimed steps are equally conventional. For example, claim 11's steps a.-c. recite associating individual consumers with an ID, giving the consumer an ID token, and storing the ID in a database. This abstract concept is a basic building block on any ID, including driver's licenses, ATM cards, and credit cards. Step d. recites cataloging available merchandise and its associated price and discount in a database, a well-known concept that traces back to catalogs and inventories maintained since the beginning of commerce. Steps e.-h. recite conventional shopping behavior: displaying price tags, the consumer selecting and purchasing items, scanning the items at checkout, and scanning the consumer ID.

For steps i.-o.—which Nexuscard highlighted in the District Court action as central to the patent-eligibility of the claims—the limitations merely reflect the abstract concept of comparing items the customer intends to purchase with a list of discounts to determine if the customer is eligible for any electronic coupons. As discussed above, this same comparison could be performed by hand. Standard components like a client computer (merchant's computer terminal), a cash register (communication means), and a server (provider's computer) do not transform this abstract concept into something more. *Alice*, 134 S. Ct. at 2358. Finally, printing a receipt (step p.), storing transaction information (step. q), and automating application of discounts (step. r) are conventional sales activity performed with conven-

tional components.

Patent Owner argued in the district court actions that these steps and components are not “conventional” because certain steps had purportedly not been disclosed in the context of membership discount programs. Yet Patent Owner’s argument is undermined by the art considered during prosecution. For example, U.S. Patent No. 5,687,322 is prior art cited on the face of the ’080 patent and relied on during prosecution. It teaches that prior art merchants were using computerized discounts. *See Ex. 1002* (’322 patent) at 92:48-50 (“For example, rather than printing out coupons at the printer 976, discounts may be electronically generated and developed.”).

The ’322 patent also teaches that a customer’s debit card (which has a magnetic stripe) can be used to develop the consumer ID. *Id.* at 78:51-57. The ’322 Patent explicitly states with regard to the loyalty card:

FIG. 24 is a flow chart of the taking of a shopping card which has been previously distributed by the retail store to the customers. Usually these types of cards are presented only after obtaining substantial financial and other history of the customer which may then input into the database of the CVR controller 965. In this system, such cards are a useful adjunct in that they may continue in use so that cash paying shoppers are not otherwise excluded from participation in marketing promotions distributed by this system. Each of the cards is provided with a unique number which is used to identify the customers in place

of the customer checking account, bank account number or credit card number or the like. This flow chart illustrates the reading of the various types of shopping cards, including magnetic stripe and/or smart cards. Alternatively, the system provides for manual input of the customer identification numbers through the key pad on the AP/M and also envisions the use of a shopping card which may be scanned by the UPC code scanner.

Id. at 82:31-48. Thus, the '322 Patent teaches multiple options for the loyalty card, including various options with a magnetic stripe. In addition, the '322 patent teaches indicia that notify the consumer of discounted items, *id.* at 7:31-50, printed receipts that include discounted items, *id.* at 78:17-20, and a cash register with communication means and the ability to scan merchandise, *id.* at Fig. 2A, 5:46-47.

As another example, U.S. Patent No. 4,882,675 ("'675 Patent") is prior art that discloses the use of computers and includes a collection of flowcharts for computer software used to issue discounts to consumers using electronic coupons selected by a customer. *See Ex. 1004* at Abstract, Figs. 1-40, 4:33-18:44. Thus, the use of computers to provide discounts was well known by the time the '080 Patent was filed. The '675 Patent also teaches that cards with a magnetic stripe can be used for a customer loyalty program and that the card can additionally include a UPC code for scanning. *See id.* at 5:48-6:24. The '675 Patent also talks about electronic cash registers with UPC scanners in numerous places. *See, e.g., id.* at 5:17-25, 17:29-61. For example, the '675 Patent states that it is "an object of the inven-

tion to provide a coupon distribution and redemption system which is compatible with, or integrated into, an electronic cash register system or an automated check-out (UPC code scanning) system.” *Id.* at 3:32-35. Thus, cash registers with scanners were well known at the time the ‘080 Patent was filed and were used in connection with customer loyalty programs to provide discounts.

More importantly, the Patent Owner did not invent any new hardware or computer technology. *See Symphony Health*, CBM2015-00085, Paper No. 7 at 11-15. Conventional computers, magnetic stripe cards, and electronic cash registers with scanners are used to implement the claimed invention. As demonstrated above, all hardware used to perform the claimed invention was well known at the time the ‘080 Patent was filed. The ‘080 Patent presents a textbook case of the use of conventional hardware to implement an abstract idea.

Thus, despite Patent Owner’s arguments to the contrary, the claimed steps are routine and conventional steps associated with membership discount programs and customer loyalty cards.

d. The Claims Disproportionally Preempt Membership Discount Programs

Although Patent Owner may contend that the ’080 Patent does not preempt *all* membership discount programs, that argument ignores that a lack of total preemption does not make the claims any less abstract. *See, e.g., OIP*, 788 F.3d at 1362-63 (“And that the claims do not preempt all price optimization or may be

limited to price optimization in the e-commerce setting do not make them any less abstract.”); *buySAFE, Inc. v. Google, Inc.*, 765 F.3d 1350, 1355 (Fed. Cir. 2014) (“At best, that narrowing is an ‘attempt[] to limit the use’ of the abstract guarantee idea ‘to a particular technological environment,’ which has long been held insufficient to save a claim in this context.”); *see also Alice*, 134 S. Ct. at 2358. The issue is not whether a claim totally preempts an abstract idea, but whether the claim “**disproportionally** [ties] up the use of the underlying ideas.” *Alice*, 134 S. Ct. at 2347.

In *Diehr*, the Supreme Court explained that the prohibition against patenting an abstract idea such as a mathematical formula “cannot be circumvented by attempting to limit the use of the formula to a particular technological environment.” 450 U.S. at 191-92. The Court expanded upon that principle in *Bilski v. Kappos*, where it wrote that “limiting an abstract idea to one field of use . . . did not make the concept patentable.” 561 U.S. 593, 3231 (2010). In *Mayo*, the Court addressed the same argument. The *Mayo* Court rejected the argument that “because the particular laws of nature that its patent claims embody are narrow and specific, the patents should be upheld,” holding that “the underlying functional concern here is a relative one: **how much future innovation is foreclosed relative to the contribution of the inventor.**” *Id.* at 1303 (emphasis added).

Even if the claims in this case do not cover all membership programs, the

claims still have sweeping preemptive effects within the broad category of membership discount programs. Indeed, Patent Owner has only just begun asserting the '080 patent, but has already brought actions against four major grocery stores and pharmacies. Given the inventor's minimal (if any) contributions to the art, the '080 patent should not be allowed to foreclose future innovation in this broad category of membership discount programs.

e. Patent Owner Cannot Avoid Abstraction by Pointing to Purportedly Novel Steps

In the district court proceedings, Patent Owner attempted to argue against the abstract nature of its claims by emphasizing that certain steps had purportedly never been previously disclosed for membership discount programs. But whether certain claims had been previously disclosed—i.e., whether certain steps are “novel”— is irrelevant to whether the claims are directed to an abstract idea. *See Ultramercial*, 772 F.3d at 716 (“That some of the eleven steps were not previously employed in this art is not enough—standing alone— to confer patent eligibility.”); *see also Diehr*, 450 U.S. at 1058 (“The ‘novelty’ of any element or steps in a process, or even of the process itself, is of no relevance in determining whether the subject matter of a claim falls within the § 101 categories of possibly patentable subject matter.”).

f. Recent Decisions Confirm Claims 1 and 11 Are Directed to an Abstract Idea

Several recent decisions addressing the patentability of computerized business methods in the field of marketing are instructive. In each of those cases, courts have held the claims patent-ineligible after finding that the claimed computerized activities involved actions that had previously been performed, albeit less efficiently, without the aid of computers. The PTAB has consistently found such claims to fail the steps of the *Alice* test. For example, the PTAB has found unpatentable under 35 U.S.C. § 101 claims directed to real estate appraisal (*Interthinx, Inc. v. Corelogic Solutions, LLC*, No. CBM2012-00007, Paper No. 58 (P.T.A.B. Jan. 30, 2014)); electronic funds transfer between accounts (*SAP Am., Inc. v. Arunachalam*, No. CBM2013-00013, Paper No. 63 (P.T.A.B. Nov. 21, 2014)); converting future expected Social Security payments into immediately-available funds (*U.S. Bancorp v. Retirement Capital Access Management Co.*, No. CBM2013-00014, Paper No. 33); managing activities involving more than one person working together (*Salesforce.com, Inc. v. VirtualAgility, Inc.*, No. CBM2013-00024, Paper No. 47 (P.T.A.B. Sept. 16, 2014)); sales leads (*LinkedIn Corp. v. AvMarkets Inc.*, No. CBM2013-00025, Paper No. 30 (P.T.A.B. Nov. 10, 2014)); merchant payments (*Fidelity National Information Services, Inc. v. Checkfree Corp.*, No. CBM2013-00030, Paper No. 51); managing risk in a trading environment or system (*Int'l Sec. Exch., LLC v. Chicago Board Options Exch.*,

Inc., No. CBM2013-00049, Paper No. 53); and displaying advertisements associated with a search with search results (*Am. Express Co. v. MetaSearch Sys., LLC*, No. CBM2014-00001, Paper No. 70 (P.T.A.B. Mar. 13, 2015)).

Courts have also found computer-implemented marketing claims directed to patent-ineligible subject matter involve, for example, a method of showing an advertisement over the internet before delivering free content, *Ultramercial*, 772 F.3d at 715; a method of generating a customized proposal for selling equipment to particular customers, *Clear with Computers*, 2014 WL 993392; a method for conducting business transactions over the internet allowing the buyer to reduce the price by participating in an auction and a competitive activity, *Priceplay.com, Inc. v. AOL Advertising*, No. 14-92, 2015 WL 1246781 (D. Del. Mar. 18, 2015); a method of allowing advertisers to target online advertising to consumers fitting desired demographic, geographic, and psychographic criteria, *Morsa v. Facebook, Inc.*, No. SAVC 14-161, 2014 WL 7641155 (C.D. Cal. Dec. 23, 2014); a telemarketing system allowing an agent to use a mixture of prerecorded scripts and live voice to selectively respond to customers and to use personal information to select scripts relating to the customer, *KomBea Corp. v. Norguar L.C.*, No. 2:13-cv-957, 2014 WL 7359049 (D. Utah Dec. 23, 2014); and a method to upsell consumers by using information about the consumer to offer the consumer additional items, *Tuxis Techs., LLC v. Amazon.com, Inc.*, No. 13-1771, 2014 WL 4382446 (D. Del. Sept.

3, 2014).

The courts in each of those cases found the concept underlying the patent to be an abstract idea that had previously been employed in marketing, but was simply refreshed through the use of computers or the internet. Like the patents in each of those cases, the '080 Patent claims computerize an age-old marketing technique: a membership discount program. The use of a membership discount program in marketing is indistinguishable in principle from the kinds of financial or business operations that were at issue in *Bilski* and *Alice*.

Because the claims of the '080 Patent attempt to preempt the entire field of computerized membership discount programs, they are directed to an abstract idea under step one of the *Alice* analysis.

2. *Mayo/Alice* Step 2: The Claims Do Not Add an “Inventive Step”

Because the '080 Patent claims are directed to an abstract idea, they can only be patentable if the claim elements, either individually or viewed as an ordered combination, supply an inventive concept sufficient to transform the embodied abstract idea into a patent-eligible invention. *Alice*, 134 S. Ct. at 2355; *see also Ultramercial*, 772 F.3d at 715. Limitations that simply instruct the practitioner to implement the abstract idea with routine, conventional activity are not enough. *Alice*, 134 S. Ct. at 2355; *OIP*, 788 F.3d at 1363; *Ultramercial*, 772 F.3d at 723; *buySAFE*, 765 F.3d at 1355. As set forth below, the claims of the '080 Patent add

only token, conventional hardware (computers, electronic cash registers with scanners, cards with a magnetic stripe) set forth, if at all, at a high level of generality that performs routine, conventional activity. In other words, the '080 Patent claims do precisely what the Supreme Court has said is insufficient: recite an abstract idea and say “apply it with a computer.” *Alice*, 134 S. Ct. at 2350.

a. Preamble

Regardless of whether the preamble of the '080 Patent claims is limiting, the preamble fails to recite structure that does anything more than implement the abstract idea using generic hardware. For example, the preamble of Claim 11 recites:³

The method of processing and applying merchandise discounts to a consumer's purchases by providing a computerized membership system, said membership including a plurality of consumer members, a plurality of point of purchase merchant members, a plurality of manufacturer members, and a centralized system provider, said membership system having:

a point of purchase merchant member computer terminal and computer and a centralized provider's computer, said provider's computer having a database for the storage and retrieval of information, said database storing information regarding point of purchase merchant members, manufacturer members, and consumer members, in predetermined files, at least some of said information being entered into the system at the time of a member establishing membership in said sys-

³ Except as noted otherwise, the recitations in Claims 1 and 11 are identical.

tem and

communication means, said communications means providing real time communication between said member merchant's computer terminals and said provider's computer,⁴

comprising the steps of:

The preamble of Claim 11 of the '080 Patent recites limitations that are generic computer equipment and which cannot transform the otherwise abstract idea into something patentable. For example, Claim 11's preamble recites such generic components as a "point of purchase ... computer terminal," a "computer," a "centralized provider's computer," a "database for storing information," and "communications means." But each of these recitations is standard equipment that would be present in most grocery stores or any generic computer network. Specifically:

- Almost all grocery stores have a "point of purchase ... terminal" where the consumer checks out and pays for their purchases. This recitation is of standard equipment. *buySAFE*, 765 F.3d at 1355 ("The claims' invocation of computers adds no inventive concept. The computer functionality is generic...."). As discussed above in Section IV.B.1.c, electronic cash registers where a consumer checks out and pays for their purchases were known at the time the '080 Patent was filed.
- The recitations of a "computer," a "centralized provider's computer," and

⁴ Claim 1 is identical to Claim 11, except it recites "said merchants' computer terminal" instead for this portion of the preamble.

a “database for storing information” are standard computer components, and recite only generic computer functionality. *Ultramercial*, 772 F.3d at 723 (“[C]laims ... which ‘simply instruct the practitioner to implement [an] abstract idea ... on a generic computer’ ... do not pass muster under section 101.” (quoting *Alice*, 134 S. Ct. at 2359)). Moreover, as discussed above in Section IV.B.1.c, computers were used to administer membership programs that provided discounts to consumers prior to the filing of the ‘080 Patent.

- The ‘080 Patent teaches that the recited “communications means” is a “communication system, such as a cash register, [that] provides real time communication between members and the provider’s computer.” ‘080 Patent at 1:52-54; *see also id.* at Claim 8 (“The method of claim 1 wherein said communication means is a cash register”). Thus, the recited “communications means” is merely a generic computing device that allows a consumer to communicate with the system. Again, electronic cash registers and computers used at retail stores were well known.
- Each of these elements were common and known in the art. *See* Section IV.B.1.c, *supra*.

The Federal Circuit held similar components to be insufficient to save claims otherwise directed at an abstract idea. In *Planet Bingo*, the Federal Circuit held

computing components such as “a computer with a central processing unit,” “a memory,” “an input and output terminal,” illustrated a general purpose computer. *See Planet Bingo, LLC v. VKGS LLC*, 576 Fed. Appx. 1005, 1008 (Fed. Cir. 2014) (unpublished). The components recited in the preambles to Claims 1 and 11 are generic equipment employed as part of “well-understood, routine, [and] conventional activities previously known in the industry.” *Alice*, 134 S. Ct. at 2359; *see also Intellectual Ventures*, 792 F.3d at 1367 (noting that including technical elements does not render the claims any less abstract). Essentially, the ‘080 Patent “simply describe[s] a problem, announce purely functional steps that purport to solve the problem, and recite standard computer operations to perform some of those steps.” *Loyalty Conversion Sys. Corp. v. Am. Airlines, Inc.*, 66 F. Supp. 3d 829, 845 (E.D. Tex. 2014) (citing *Alice*, 134 S. Ct. at 2355, 2357; *Mayo*, 132 S. Ct. at 1294).

- b. Step a.: “providing consumer members with individual identification codes, said identification codes accessing said databases”

Step (a) merely recites the association of one piece of data (identification of a consumer member) with another piece of data (an identification code). Associating data with other data is a standard computer function that had been performed for decades prior to the filing of the ‘080 Patent. *See Content Extraction*, 776 F.3d at 1347-48 (“For the role of a computer in a computer-implemented invention to be

deemed meaningful in the context of this analysis, it must involve more than performance of ‘well-understood, routine, [and] conventional activities previously known to the industry.’” (quoting *Alice*, 134 S.Ct. at 2359)); *see also Parker v. Flook*, 437 U.S. 584, 594–95 (1978) (finding claim invalid under § 101 a method to change data representing an alarm limit in response to data representing various measurements). Moreover, this step can be implemented using paper and pencil and thus does not provide any inventive concept. Thus, this claimed step does not transform the claim into one reciting patent-eligible subject matter.

- c. Step b.: “storing said consumer member identification codes on said provider's computer in a consumer database”

Step (b) merely recites a generic computing function: storing the unique identification codes for the consumers in a database. Storing data is a standard computer function that had been performed for decades prior to the filing of the ’080 Patent. *See id.* Moreover, the claimed step can be implemented using paper and pencil and thus does not provide any inventive concept. Thus, this claimed step does not transform the claim into one reciting patent-eligible subject matter.

- d. Step c.: “providing each consumer member with a membership ID, said membership ID having memory storage means, said memory storage means containing at least said consumer identification code”

Step (c) merely recites providing a consumer member with an ID that can at least store the consumer’s unique identification code. The ’080 Patent admits that

the recited “memory storage means” is a generic and well-known component in the art. ’080 Patent at 2:59-62 (“The membership cards include a memory storage mechanism, such as an encoded magnetic stripe or other means known by those versed in the current art, which contains the consumer's membership information.”), 6:46-49. As discussed above in Section IV.B.1.c, the use of a membership card with a magnetic strip in connection with providing discounts to consumers was standard technology known at the time the ’080 Patent was filed. Step (c)’s recitation of generic and well-known equipment in the art does not transform the abstract idea into one reciting patent-eligible subject matter.

- e. Step d.: “storing merchandise information provided by a manufacturer member in a manufacturer member database in said provider's, said merchandise information including at least a merchandise identification code and the discount on predetermined merchandise”⁵

Step (d) merely recites a generic computing function: storing information related to the merchandise in a store in a database using a code and associating a discount with some of the merchandise. Storing data is a standard computer function that had been performed for decades prior to the filing of the ’080 Patent. *See Content Extraction*, 776 F.3d at 1347-48. Using a computer to perform a standard function performed by a computer cannot amount to an inventive concept. But even if it

⁵ Claim 1 recites “said manufacturer members” instead of “a manufacturer member” and adds the word “computer” after “provider’s,” but is otherwise identical to Claim 11.

could, as discussed above, the use of computers to store information on merchandise and discounts on the merchandise was known prior to the filing of the '080 Patent. Finally, this step can be implemented using paper and pencil and thus does not provide any inventive concept. Thus, this claimed step does not transform the claim into one reciting patent-eligible subject matter.

- f. Step e.: “displaying to consumers indicia, said indicia identifying point of purchase merchandise subject to a price discount”

Step (e) merely recites displaying indicia to a consumer that identifies merchandise subject to a discount to a consumer. This step can be performed manually using paper signage—it does not require a computer or any other component. Indicia—such as a simple sign—can and often is created without a computer, and has been utilized in commerce for hundreds of years as a method for indicating the price of an item. The '675 Patent teaches the use of a computer to display information about merchandise subject to a discount. *See Ex. 1004*, ('675 Patent) at 10:50-11:34. Certainly, displaying information on a computer screen is a standard function performed by computers for many years prior to the filing of the '080 Patent. *See Content Extraction*, 776 F.3d at 1347-48. Thus, this claimed step does not transform the claim into one reciting patent-eligible subject matter.

- g. Step f.: “transporting, by said consumer, consumer selected discounted and non-discounted merchandise a purchase location at said merchant member to form a collection of transported merchandise, each of said transported

merchandise having a merchandise identification code”⁶

Step (f) merely recites transporting merchandise that he or she has selected for purchase to a checkout, where some of the merchandise is discounted and all of the merchandise has an identification code (i.e., a barcode). Transporting items to a point of a point of sale is performed without computer assistance and has been utilized in commerce for hundreds of years as a method for purchasing an item. *See id.* Thus, this claimed step does not transform the claim into one reciting patent-eligible subject matter.

h. Step g.: “scanning merchandise identification codes of each of said transported merchandise, at said communication means”

Step (g) merely recites a generic computing function: scanning the consumer-selected merchandise at a checkout. Scanning is a standard computer function that had been performed for decades prior to the filing of the ’080 Patent. As discussed above, electronic cash registers with scanners were known and used to provide discounts to consumers prior to the filing of the ’080 Patent. *See id.* Moreover, this step can be implemented mentally by a human, or with pencil and paper, and thus does not provide any inventive concept. Thus, this claimed step does not transform the claim into one reciting patent-eligible subject matter.

⁶ Claim 1 recites that the “non-discounted merchandise” is “non-discounted point of purchase merchandise” and adds the word “to” after “merchandise,” but is otherwise identical to Claim 11.

i. Step h.: “scanning said consumer ID”

Step (h) merely recites a generic computing function: scanning the consumer’s identification with the unique identification code. Scanning is a standard computer function that had been performed for decades prior to the filing of the ’080 Patent. The ’675 Patent teaches scanning of a consumer’s identification code to provide them with discounts associated with their code. *See Ex. 1004*, (’675 Patent) at 17:29-61. Again, this claim element recites nothing more than a generic function performed in the prior art for the same purpose that the function is being performed in the claim. *See Content Extraction*, 776 F.3d at 1347-48. Moreover, this step can be implemented mentally by a human or with pencil and paper (e.g. by writing down an identification code from the card) and thus does not provide any inventive concept. Thus, this claimed step does not transform the claim into one reciting patent-eligible subject matter.

j. Step i.: “uploading said scanned consumer identification code, from said merchant member, through said communication means to said provider's computer”

Step (i) merely recites a generic computing function: uploading the identification code to the store’s computer, presumably for verification. Uploading is a standard computer function that had been performed for decades prior to the filing of the ’080 Patent. In essence, this claim element just claims the transfer of data between multiple computers. That the claim simply recites the performance of a

standard computer function is enough to mean that this step cannot supply an inventive concept. But even the specific data recited in the claim has been transferred in connection with providing discounts. For example, the '675 Patent teaches the information concerning coupon redemption is electronically sent to an operations center computer. *See Ex 1004*, ('675 Patent) at 18:20-41. The '675 Patent goes on to explain that the customer master file is preferably updated with redemption information. *Id.* That could only occur if the operations center computer had the customer identification code to associate with the purchasers. In addition, coupon information is sent and “highly detailed demographic information concerning the sale of for each product is available.” Thus, data regarding products and discounts is also uploaded to the operations center computer. *See id.* Moreover, this step of communicating a code can be implemented mentally or using pen and paper and thus does not provide any inventive concept. Thus, this claimed step does not transform the claim into one reciting patent-eligible subject matter.

- k. Step j.: “comparing said consumer identification code with consumer identification codes stored in said provider's computer and verifying said consumer's membership”

Step (j) merely recites a generic computing function: comparing the consumer's unique identification code to the codes in a database to verify membership. Comparing data to other data is a standard computer function that had been performed for decades prior to the filing of the '080 Patent. *See, e.g., Parker v. Flook*,

437 U.S. 584, 594–95 (1978) (finding claim invalid under § 101 a method to change data representing an alarm limit in response to data representing various measurements); *see also Content Extraction*, 776 F.3d at 1347-48. Moreover, this step can be implemented mentally or using pen and paper and thus does not provide any inventive concept. Thus, this claimed step does not transform the claim into one reciting patent-eligible subject matter.

1. Step k.: “uploading said merchandise identification code for each of said scanned merchandise to said merchant member's computer”⁷

Step (k) merely recites a generic computing function: uploading the merchandise identification codes to a merchant member’s computer, presumably for determining which merchandise is subject to a discount. As discussed above in connection with step i, uploading is a standard computer function that had been performed for decades prior to the filing of the ’080 Patent. That function, as also discussed above in connection with step i, has been performed in connection with giving discounts. Moreover, this step of data transfer can be implemented mentally or using pen and paper and thus does not provide any inventive concept. Thus, this claimed step does not transform the claim into one reciting patent-eligible subject

⁷ Claim 1 recites that the “merchandise identification code” is uploaded “from” rather than “to said merchant member’s computer” and that the uploading is “through said communication means to said provider’s computer,” but is otherwise identical to Claim 11. These differences have no impact on whether an inventive concept is disclosed or not.

matter.

- m. Step l.: “comparing at said merchant's computer, said merchandise identification code for consumer selected merchandise with the identification codes of said discounted merchandise”⁸

Step (l) merely recites a generic computing function: comparing the merchandise identification codes to the database to determine if any merchandise is discounted. Comparing data to other data is a standard computer function that had been performed for decades prior to the filing of the '080 Patent. *See, e.g., Parker* 437 U.S. at 594–95; *Content Extraction*, 776 F.3d at 1347-48. Not only is comparing data a generic computer function, but comparing merchandise codes with codes for discounts on merchandise is a standard function that was known in the prior art. *See Ex. 1004*, ('675 Patent) at 17:49-61. Moreover, this step can be implemented mentally, or using pen and paper and thus does not provide any inventive concept. Thus, this claimed step does not transform the claim into one reciting patent-eligible subject matter.

- n. Step m.: “computing the discounts on said merchandise subject to a price discount”

Step (m) merely recites a generic computing function: calculating discounts for items that are discounted. Computing (e.g. computing an alarm limit) is a

⁸ Claim 1 instead recites: “comparing said uploaded merchandise identification codes with the identification codes of merchandise subject to a price discount.” This is still comparing data—a generic computer function—and does not impact the analysis of whether there is an inventive step.

standard computer function that had been performed for decades prior to the filing of the '080 Patent. *See, e.g., Parker* 437 U.S. at 594–95; *Content Extraction*, 776 F.3d at 1347-48. Performance of a standard computer function means this step cannot provide an inventive concept. But even the specific operation recited—computing discounts on merchandise—was known in the prior art. *See Ex. 1004*, ('675 Patent) at 17:49-61. Moreover, this step can be implemented mentally or using pen and paper and thus does not provide any inventive concept. Thus, this claimed step does not transform the claim into one reciting patent-eligible subject matter.

- o. Step n.: “uploading to said provider's computer merchandise codes for merchandise subject to a price discount”⁹

Step (n) merely recites a generic computing function: uploading the codes for merchandise that is subject to a discount. As discussed above in connection with step i, uploading is a standard computer function that had been performed for decades prior to the filing of the '080 Patent. That function, as also discussed above in connection with step i, has been performed in connection with giving discounts—merchandise data and coupon redemption data is all uploaded as taught by the prior art. *See id.* Moreover, this step of data transfer can be implemented mentally or using pen and paper and thus does not provide any inventive concept. Thus, this claimed step does not transform the claim into one reciting patent-

⁹ Claim 1 does not recite this element.

eligible subject matter.

- p. Step o.: “downloading from said provider's computer to said merchant's computer through said merchant communication means, discounts on said merchandise subject to a price discount”¹⁰

Step (o) merely recites a generic computing function: downloading the discounts of merchandise that is subject to a price discount. Downloading is a standard computer function that had been performed for decades prior to the filing of the '080 Patent. *See, e.g., Parker* 437 U.S. at 594–95; *Content Extraction*, 776 F.3d at 1347-48. Just like the uploading steps, this is just transferring data between computers. Moreover, the prior art teaches transfer of discount data subject to a price discount. In the '675 Patent, upon scanning of the special card for discounts, a store's local processor requests a list of coupons from another computer (the CDR unit). *See Ex. 1004*, ('675 Patent) at 17:49-61. Thus, downloading information regarding discounts on merchandise is a standard function known in the prior art. Moreover, this step of data transfer can be implemented mentally or using pen and paper and thus does not provide any inventive concept. Thus, this claimed step does not transform the claim into one reciting patent-eligible subject matter.

- q. Step p.: “printing at said merchant member's computer terminal a sales slip for said member consumer including the discounts for said merchandise subject to a price dis-

¹⁰ Claim 1 omits the recitation “from said provider's computer” and adds the word “the” after the comma, but is otherwise identical to Claim 11.

count¹¹

Step (p) merely recites a generic computing function: printing a receipt for purchased items that show the discounts for discounted merchandise. Printing is a standard computer function that had been performed for decades prior to the filing of the '080 Patent. *See, e.g., Parker* 437 U.S. at 594–95; *Content Extraction*, 776 F.3d at 1347-48. Moreover, printing of a sales slip with discount information was well known in the prior art as the '675 Patent teaches that it is desirable to “print itemized entries for each discount at the end of the register tape.” *See Ex. 1004*, ('675 Patent) at 17:67-18:4. Moreover, printing can be implemented using pen and paper and thus does not provide any inventive concept. Thus, this claimed step does not transform the claim into one reciting patent-eligible subject matter.

r. Step q.: “sorting and storing in said provider's databases said downloaded data on said consumer and said merchandise purchased by said a member consumer from a member merchant”¹²

Step (q) merely recites a generic computing function: sorting and storing information on the merchandise purchased by a consumer. Sorting and storing are standard computer functions that had been performed for decades prior to the filing

¹¹ Claim 1 omits the recitation “at said merchant member's computer terminal,” but is otherwise identical to Claim 11. There is no difference with regard to whether there is an inventive concept between the two claims.

¹² Claim 1 recites “uploaded” instead of “downloaded data” and recites that the purchasing was “by said consumer” rather than “by said a member consumer from a member merchant,” but is otherwise identical to Claim 11.

of the '080 Patent. *See, e.g., Parker* 437 U.S. at 594–95; *Content Extraction*, 776 F.3d at 1347-48. Again, while the fact that this a standard computer function prevents this step from supplying an inventive concept, even this type of data has been processed in prior art systems. The '675 Patent teaches storage of data with all redemption information for a customer, which allows detailed reports to be generated. *See Ex. 1004*, ('675 Patent) at Col. 18, ll. 20-41. Moreover, sorting and storing can be implemented mentally and using pen and paper and thus does not provide any inventive concept. Thus, this claimed step does not transform the claim into one reciting patent-eligible subject matter.

- s. Step r.: “storing merchant member sales data on said merchant member computer, wherein said provider maintains and processes, in real time, discounts provided by manufacturer members to member consumers without said member merchant being required to process said discounts or member consumers being required to present coupons or file rebates to obtain said discounts”

Step (r) merely recites a generic computing function: storing sales data on a merchant member computer, and processing discounts in real time. Storing data is a standard computer function that had been performed for decades prior to the filing of the '080 Patent. *See, e.g., Parker* 437 U.S. at 594–95; *Content Extraction*, 776 F.3d at 1347-48. Again the fact that this step is being performed using conventional hardware is enough to mean it is not an inventive concept. But again, the specifics of what is presented in this step were just conventional activity in prior

art systems. The ‘675 Patent discloses a system where no coupons need to be presented because they are selected electronically at a kiosk and then discounts are given automatically upon presentation of a card. *See Ex, 1004*, (‘675 Patent) at 10:51-11: 50, 17:30-61. Discounts are provided in real time as well. *Id.* at 17:49-56. Moreover, this step can be implemented using paper and pencil and thus does not provide any inventive concept. Processing discounts is likewise a standard computer function that had been performed for decades prior to the filing of the Patent and can be implemented using paper and pencil and thus does not provide any inventive concept. Thus, this claimed step does not transform the claim into one reciting patent-eligible subject matter.

t. As Individual Steps or Taken as a Whole, Claims 1 and 11 Do Not Recite Patent-Eligible Subject Matter

As the above analysis shows, each of the claimed steps of claims 1 and 11 are directed to abstract ideas that are implemented through standard processes on generic computer equipment. None of the steps reflect an inventive concept. Moreover, the claimed steps when viewed as whole or as an ordered combination do not reflect an inventive concept or step. Indeed, the grouping and order of the steps is an entirely conventional arrangement consistent with typical computing functions and standard commercial transactions. The claim as a whole is nothing more than the sum of its parts—an abstract idea implemented using conventional hardware where the hardware is simply being used in a conventional manner to perform con-

ventional steps. Thus, whether taken as individual limitations or as an ordered combination, Claims 1 and 11 fail the second step of the *Mayo/Alice* analysis.

As shown below, the dependent claims of the '080 Patent suffer from the same flaws.

- u. Dependent Claim 2: “The method of claim 1, further comprising the steps of compiling consumer purchase data in a demographics database and providing demographic reports regarding consumer purchasing trends using stored database data.”

Claim 2 recites a generic computing function: compiling data into a database and generating certain reports from that data. Compiling data and generating reports are standard computer functions that had been performed for decades prior to the filing of the '080 Patent. *See, e.g., Parker* 437 U.S. at 594–95; *Content Extraction*, 776 F.3d at 1347-48. As discussed above, the '675 teaches keeping a database of data and generating reports if desired. *See Ex. 1004*, ('675 Patent) at 18:20-41. Moreover, this step can be implemented using paper and pencil and thus does not provide any inventive concept. Nor does it add an inventive concept when viewed as an ordered combination with other limitations, as the collection of steps is an entirely conventional arrangement consistent with typical computing functions and standard commercial transactions. This claim element can also be implemented with paper and pencil. Thus, this claimed step, whether viewed individually or together with other limitations, does not transform the claim into one reciting patent-

eligible subject matter.

- v. Dependent Claim 3: “The method of claim 1, wherein said indicia provides consumers with discount related information through at least one form of media advertisement.”

Claim 3 recites providing an indication of a discount through a form of media advertisement. Indicia—such as a simple sign—can and often is created without a computer, and has been utilized in commerce for hundreds of years as a method for indicating the price of an item. And again, the use of computerized media to provide discount information was known in the prior art. *See Ex. 1004*, (‘675 Patent) at 10:51-11:50. Nor does it add an inventive concept when viewed as an ordered combination with other limitations, as the collection of steps is an entirely conventional arrangement consistent with typical computing functions and standard commercial transactions. This claim element can also be implemented with paper and pencil. Thus, this claimed step does not transform the claim into one reciting patent-eligible subject matter.

- w. Dependent Claim 4: “The method of claim 1, wherein said indicia is displayed proximate merchandise subject to a price discount.”

Claim 4 merely recites displaying an indication of a discount near where the merchandise sits on the shelf. Indicia—such as a simple sign—can and often is created without a computer, and has been utilized in commerce for hundreds of years as a method for indicating the price (and discount) of an item. Long before

there were computers, grocers would include signs in stores indicating products that were on sale. Nor does it add an inventive concept when viewed as an ordered combination with other limitations, as the collection of steps is an entirely conventional arrangement consistent with typical computing functions and standard commercial transactions. Obviously, a sign can be implemented with pencil and paper, thus indicating that no inventive concept is disclosed. Thus, this claimed step does not transform the claim into one reciting patent-eligible subject matter.

- x. Dependent Claim 5: “The method of claim 1 wherein said provider is a centralized computer networked to multiple unaffiliated merchants.”

Claim 5 merely recites the generic computer implementation of the invention by a centralized computer networked to remote sites that are not affiliated. This recitation is a standard computer implementation, and does not transform the claim into patentable subject matter. *buySAFE*, 765 F.3d at 1355. Claim 5 does not recite anything more than a conventional connection among multiple computers that may be implemented by generic computer equipment, and therefore does not transform the claim into one reciting patent-eligible subject matter. The fact that computers are owned by different entities when they are connected together does not amount to an inventive concept. This has occurred at least since the creation of the Internet—long before the filing of the patent. Nor does it add an inventive concept when viewed as an ordered combination with other limitations, as the collec-

tion of steps is an entirely conventional arrangement consistent with typical computing functions and standard commercial transactions. This claim element can also be implemented with paper and pencil—a single entity could communicate with paper and pencil to multiple other entities. Thus, this claimed step does not transform the claim into one reciting patent-eligible subject matter.

- y. Dependent Claim 6: “The method of claim 5 wherein said multiple, unaffiliated merchants have at least two stores.”

Claim 6 merely recites the unaffiliated merchants having at least two stores each. By requiring at least two stores, Claim 6 does not add any non-conventional components or steps, it simply restricts the minimum number of merchants. Nor does it add an inventive concept when viewed as an ordered combination with other limitations, as the collection of steps is an entirely conventional arrangement consistent with typical computing functions and standard commercial transactions. Thus, this claimed step does not transform the claim into one reciting patent-eligible subject matter.

- z. Dependent Claim 7: “The method of claim 1 wherein said provider is a centralized computer networked in real time communication to at least one merchant terminal.”

Claim 7 merely recites the generic computer implementation of the invention by a centralized computer networked to in real time communication with a merchant terminal. This recitation is a standard computer implementation, and

does not transform the claim into patentable subject matter. As discussed above, the connection of two computers in real time to process discount information for a retailer was well known in the prior art. Claim 7 does not recite anything more than a conventional arrangement that may be implemented by generic computer equipment, and therefore does not transform the claim into one reciting patent-eligible subject matter. Nor does it add an inventive concept when viewed as an ordered combination with other limitations, as the collection of steps is an entirely conventional arrangement consistent with typical computing functions and standard commercial transactions. Thus, this claim element does not transform the claim into one reciting patent-eligible subject matter.

- aa. Dependent Claim 8: “The method of claim 1 wherein said communication means is a cash register.”

Claim 8 merely recites the generic computer implementation of a cash register being the communicating means. This recitation is a standard computer implementation, and does not transform the claim into patentable subject matter. *See id.* Claim 8 does not recite anything more than a generic cash register communicating with generic computer equipment, and therefore does not transform the claim into one reciting patent-eligible subject matter. As discussed above, communication between cash registers and computers was known in the prior art. Nor does it add an inventive concept when viewed as an ordered combination with other limitations, as the collection of steps is an entirely conventional arrangement consistent with

typical computing functions and standard commercial transactions. Thus, this claimed step does not transform the claim into one reciting patent-eligible subject matter.

- bb. Dependent Claim 9: “The method of claim 1 wherein said provider's computer terminates the discounting of said discounted merchandise if said consumer identification code is not a valid identification code in said provider's computer.”

Claim 9 recites a generic computing function: rejecting an invalid identification code (i.e., only applying the discounts if the consumer’s membership is verified). Verifying data and rejecting non-verified data are standard computer functions that had been performed for decades prior to the filing of the Patent. *See Content Extraction*, 776 F.3d at 1347-48. Moreover, this claim step can be implemented mentally and using paper and pencil and thus does not provide any inventive concept. Nor does it add an inventive concept when viewed as an ordered combination with other limitations, as the collection of steps is an entirely conventional arrangement consistent with typical computing functions and standard commercial transactions. Thus, this claimed step, whether viewed individually or together with other limitations, does not transform the claim into one reciting patent-eligible subject matter.

- cc. Dependent Claim 10: “The method of claim 1 wherein said sales slip displays information on said identified merchandise and non-identified merchandise.”

Claim 10 recites a generic computing function: printing a sales slip that displays information on two types of merchandise. Printing is a standard computer function that had been performed for decades prior to the filing of the '080 Patent. As discussed above, it was a standard feature used in prior art systems to identify information on discounted merchandise as well. *See id.* Moreover, this claim element can be implemented using paper and pencil and thus does not provide any inventive concept. Nor does it add an inventive concept when viewed as an ordered combination with other limitations, as the collection of steps is an entirely conventional arrangement consistent with typical computing functions and standard commercial transactions. Thus, this claimed step, whether viewed individually or together with other limitations, does not transform the claim into one reciting patent-eligible subject matter.

- dd. All Claims of the '080 Patent Are Directed to Ineligible Subject Matter

Like independent Claims 1 and 11, the dependent claims of the '080 Patent do not recite patent-eligible subject matter, and do not contain recitations that transform the claims into something more than an abstract idea. *See Content Extraction*, 776 F.3d at 1348.

The above analysis demonstrates that the '080 Patent claims are an abstrac-

tion implemented using conventional hardware (computer/card/cash register) with nothing more. The claims do not improve any technological process or require any specialized computer, software, or other hardware component. The '080 Patent claims “invoke computer technology only to take advantage of the relative ease by which a computer, rather than a human” can accomplish these tasks.” *Clear with Computers*, 2015 WL 993392 at *5; *see also SiRF Tech., Inc., v. U.S. Int’l Trade Comm’n*, 601 F.3d 1319, 133 (Fed. Cir. 2010) (“In order for the addition of a machine to impose a meaningful limit on the scope of a claim, it must play a significant part in permitting the claimed method to be performed, rather than function solely as an obvious mechanism for permitting a solution to be achieved more quickly”). As a result, the claims of the '080 Patent fail step two of the *Mayo/Alice* analysis and are directed to patent-ineligible subject matter under 35 U.S.C. § 101.

3. The '080 Patent Claims Also Fail the Machine-or-Transformation Test

Petitioner submits that the machine-or-transformation test is not the sole test governing Section 101 analyses. However, the Federal Circuit has recognized it as providing “a ‘useful clue’ in the second step of the *Alice* framework.” *Ultramerical*, 772 F.3d at 716. To the extent Patent Owner contends that the machine-or-transformation test is relevant to the patent-eligibility determination, or the Board intends to rely on the test, Petitioner has included analysis under the test below.

The '080 Patent claims “are not tied to any particularly novel machine or apparatus, only a general purpose computer,” and “adding a computer to otherwise conventional steps does not make an invention patent-eligible,” as shown above. *See id.* at 716-17; *Alice*, 134 S. Ct. at 2357. “Any transformation from the use of computers or the transfer of content between computers is merely what computers do and does not change the analysis.” *Ultramercial*, 772 F.3d at 717. The claims merely recite generic components, such as a computer terminal, a communications means, a printer, and a scanner. None of these components is described in any technical detail in the '080 Patent's specification, and none performs any task other than that of a general purpose computer. Thus, the claims fail the machine prong of the machine-or-transformation test.

The claims also fail the transformation prong of the machine-or-transformation test. “[O]btaining, separating, and then sending information,” including sending information gathered from one source to different destinations, does not constitute a meaningful transformation. *Cyberfone Sys., LLC v. CNN Interactive Grp., Inc.*, 558 F. App'x 988, 990–91 (Fed. Cir. 2014). For the same reasons, the '080 Patent claims' collection of consumer and merchandise information, organization and storage in a database, application of discounts to the goods is not a meaningful transformation under the machine-or-transformation test.

C. The Asserted Claims Are Analogous to Recently Invalidated Claims under Section 101 in *Content Extraction*

The invalidated claims in *Content Extraction* are directly on point. In that case, the Federal Circuit invalidated claims under Section 101 because they claimed the abstract idea of (1) collecting data; (2) recognizing certain data within the collected data set; and (3) storing the recognized data. 776 F.3d at 1345, 1347. As the Federal Circuit explained: “The concept of data collection, recognition, and storage is undisputedly well-known. Indeed, humans have always performed these functions.” *Id.* at 1347. There was no inventive concept to otherwise transform the claims into patent eligible subject matter because the claims merely recited existing generic computing components—including scanners and general purpose computers—that performed well-understood, routine, and conventional activities commonly used in industry. *Id.* at 1348.

The claims at issue in *Content Extraction* are particularly relevant to the asserted claims here. For example, the data collection and storage steps in *Content Extraction*’s claims are similar to the “storing,” “scanning,” “uploading,” and “downloading” steps in claims 1 and 11 of the ’080 Patent. *Compare, e.g.,* ’080 Patent, at Claim 11 (steps b., d., g.-i., k., n., o., and r.) *with Content Extraction*, 776 F.3d at 1345 (receiving output from a digitizing unit and storing information from “first field data” into memory). The step in *Content Extraction*’s claim that recognizes certain data within the collected data is likewise analogous to Claim 11’s step

of “sorting and storing” downloaded data on the consumer and the purchased merchandise. See ’080 Patent, at Claim 11 (step q.); *Content Extraction*, 776 F.3d at 1345. Both sets of claims merely shift conventional information processing in their respective industry from a manual process to one that is computerized. And just as the recitation of a scanner and computer for check processing did not save the *Content Extraction* claims, the recitation of generic networked computers and “communication means” between them does not save the ’080 Patent claims.

The Federal Circuit thus found that performing generic activity using generic computing components is not enough to confer patent-eligibility. *Content Extraction*, 776 F.3d at 1345, 1347. Paired with the fact that at least some claimed steps here are squarely within the abstract concepts claimed in *Content Extraction*, *Content Extraction* supports finding the claims patent ineligible.

V. CONCLUSION, REQUEST FOR JUDGMENT, AND FEES

For the foregoing reasons, the Challenged Claims are directed to non-patent-eligible subject matter. Petitioner respectfully requests that the PTAB institute a CBM review of the Challenged Claims pursuant to 35 U.S.C. §324, adjudicate that the Challenged Claims fail to recite patent-eligible subject matter under 35 U.S.C. §101, and find the Challenged Claims unpatentable on that basis. Please charge any fees due, including additional fees, and/or credit any excess fees paid in connection with the filing of this paper to Deposit Account 033975 (041882-0000028).

Respectfully submitted,

Date: September 25, 2015

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that the foregoing **PETITION FOR COVERED BUSINESS METHOD PATENT REVIEW PURSUANT TO 35 U.S.C. §321, AIA §18, AND 37 C.F.R. §§42.300-42.304**, and all exhibits/attachments thereto (Exhibits 1001-1004), was served on September 25, 2015 via Express Mail, in its entirety on the patent owner at:

1. The correspondence address of record for the subject patent as indicated below:

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