

UNITED STATES PATENT AND TRADEMARK OFFICE

BEFORE THE PATENT TRIAL AND APPEAL BOARD

THE KROGER COMPANY and BROOKSHIRE GROCERY COMPANY,
Petitioner,

v.

NEXUSCARD, INC.,
Patent Owner.

Case CBM2015-00183
Patent 5,924,080

Before JENNIFER S. BISK, MICHAEL J. FITZPATRICK, and
MINN CHUNG, *Administrative Patent Judges*.

Opinion for the Board filed by *Administrative Patent Judge* MINN CHUNG

Opinion Concurring filed by *Administrative Patent Judge* MICHAEL J.
FITZPATRICK

CHUNG, *Administrative Patent Judge*.

FINAL WRITTEN DECISION
35 U.S.C. § 328(a) and 37 C.F.R. § 42.73

I. INTRODUCTION

In this covered business method patent review, instituted pursuant to 35 U.S.C. § 324, The Kroger Co. and Brookshire Grocery Company (collectively, “Petitioner”) challenge the patentability of claims 1–11 (the “challenged claims”) of U.S. Patent No. 5,924,080 (Ex. 1001, “the ’080 patent”), owned by Nexuscards, Inc. (“Patent Owner”). This Final Written Decision is entered pursuant to 35 U.S.C. § 328(a) and 37 C.F.R. § 42.73. With respect to the ground instituted in this trial, we have considered the papers submitted by the parties and the evidence cited therein. For the reasons discussed below, we determine Petitioner has shown by a preponderance of the evidence that claims 1–11 of the ’080 patent are unpatentable.

A. Procedural History

On September 25, 2015, Petitioner filed a Petition (Paper 1, “Pet.”) requesting a covered business method patent review of claims 1–11 of the ’080 patent under Section 18 of the Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284, 329 (2011) (“AIA”). Patent Owner filed a Corrected Preliminary Response (Paper 11, “Prelim. Resp.”).¹ On March 28, 2016, we instituted a covered business method patent review based on the ground that claims 1–11 are directed to patent-ineligible subject matter under 35 U.S.C. § 101. Paper 16 (“Dec. on Inst.”), 28.

After institution of trial, Patent Owner filed a Patent Owner Response (Paper 22, “PO Resp.”), to which Petitioner filed a Reply (Paper 26, “Pet.

¹ Pursuant to our Order Regarding Exhibit Numbering and Formatting (Paper 7) and upon our authorization (Paper 10), Petitioner filed a Corrected Preliminary Response (Paper 11).

Reply”). An oral hearing was held on December 15, 2016. A transcript of the hearing is included in the record as Paper 37 (“Tr.”).

B. Related Proceedings

The parties indicate that the ’080 patent has been asserted against Petitioner in the following patent infringement cases: *Nexuscard, Inc. v. The Kroger Co.*, No. 2:15-cv-00968-JRG (E.D. Tex.); and *Nexuscard, Inc. v. Brookshire Grocery Company*, No. 2:15-cv-00961-JRG (E.D. Tex.). Pet. 17; Paper 5, 1 (Patent Owner’s list of related matters). According to the parties, the ’080 patent is also the subject of the following patent infringement case: *Nexuscard, Inc. v. Winn Dixie Stores Inc.*, No. 4:15-cv-00138-CDL (M.D. Ga.). Pet. 17; Paper 5, 1.

II. THE ’080 PATENT

A. Described Invention

The ’080 patent describes a method of processing merchandise discounts based on a computerized membership system. Ex. 1001, Abstract, col. 1, ll. 46–47. According to the ’080 patent, the purpose of the disclosed process is to replace or eliminate conventional paper coupons used in retail stores. *Id.* at col. 2, ll. 52–59. To accomplish this goal, a centralized computer system is established to distribute, collect, and organize information between the central system and the local merchants. *Id.* at col. 2, ll. 54–57. The centralized computer system is part of a “couponless” product discount membership system operated by a membership service provider. *Id.* at col. 1, ll. 46–54; col. 2, ll. 52–59; col. 3, ll. 11–33.

When consumers join the discount membership system, they are given individualized membership cards. *Id.* at col. 2, ll. 57–59. The membership cards include a memory storage mechanism, such as a magnetic stripe, which contains the consumer’s membership information. *Id.* at col. 2, ll. 59–62. Product manufacturers, distributors, and retail stores are also enrolled in the membership system. *Id.* at col. 3, ll. 22–33. The membership provider’s centralized computer has a database that stores information regarding merchants, manufacturers, and consumers. *Id.* at col. 3, ll. 11–21. The database also stores the consumer identification codes and merchandise information including the identification code of merchandise subject to a price discount. *Id.* at col. 1, ll. 55–59. A communication system, such as a cash register, provides real time communication between merchant members and the provider’s computer. *Id.* at col. 1, ll. 52–54.

When a consumer member selects products for purchase at a merchant member’s location, the product identification code of each of the selected merchandise is scanned at the merchant communication system. The consumer membership card is also scanned to obtain the consumer’s identification code, which is transmitted to the provider’s computer for membership verification. *Id.* at col. 1, l. 62–col. 2, l. 4. The merchandise identification code for each item is also sent to the provider’s computer to determine discounts by comparing the scanned code with the product identification codes of the discounted merchandise stored at the computer. *Id.* at col. 2, ll. 7–10. Upon determination, the discounts are deducted from the purchase price of the merchandise that is subject to a price discount, and a sales slip showing the discounts is printed for the consumer. *Id.* at col. 2, ll. 11–16, 30–32, Abstract. The consumer purchase data is stored and

maintained in a database at the provider's computer. *Id.* at col. 2, ll. 17–20. Purchase demographics reports can be generated from the purchase data compiled in the database. *Id.* at col. 2, ll. 19–22. According to the '080 patent, by applying the discounts to the purchase prices at the time of actual purchases of the products, the disclosed system allows “eliminating fraud and waste, tracking customer usage, and building a valuable customer demographic database.” *Id.* at col. 1, ll. 39–45.

B. Illustrative Claim

Of the challenged claims, claims 1 and 11 are independent. Claim 11 is illustrative of the challenged claims and is reproduced below:

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.

III. ANALYSIS

A. Claim Construction

In a covered business method patent review, claim terms in an unexpired patent are given their broadest reasonable construction in light of the specification of the patent in which they appear. 37 C.F.R. § 42.100(b); *see Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131, 2144 (2016) (holding that a prior version of 37 C.F.R. § 42.100(b), which likewise called for the broadest reasonable construction, “represents a reasonable exercise of the rulemaking authority that Congress delegated to the . . . Office”). Under the

broadest reasonable interpretation standard, and absent any special definitions, claim terms are given their ordinary and customary meaning, as would be understood by one of ordinary skill in the art, in the context of the entire disclosure. *In re Translogic Tech. Inc.*, 504 F.3d 1249, 1257 (Fed. Cir. 2007).

In the Decision on Institution, we preliminarily interpreted various claim terms of the '080 patent as follows:

Claim Term (Claims)	Interpretation
“communication means” (1, 8, 11) ^{2, 3}	Claimed Function: “providing real time communication between [a point of purchase] member merchant’s computer terminal and [a centralized] provider’s computer” Corresponding Structure: a cash register with a communication capability, a credit card verification machine, a terminal, or a scanner, and equivalents
“memory storage means” (1, 11)	Claimed Function: “containing at least . . . consumer identification code” Corresponding Structure: a magnetic stripe on a card, and equivalents

² The parties agree the terms “communication means” and “memory storage means” should be interpreted as means-plus-function limitations under 35 U.S.C. § 112, ¶ 6. Pet. 22, 23; Prelim. Resp. 6, 8.

³ Section 4(c) of the AIA re-designated 35 U.S.C. § 112 ¶ 6, as 35 U.S.C. § 112(f). Because the '080 patent has a filing date prior to September 16, 2012, the effective date of § 4(c) of the AIA, we refer to the pre-AIA version of 35 U.S.C. § 112. See AIA § 4(e).

Claim Term (Claims)	Interpretation
“real time communication” (1, 7, 11)	“communication without intentional delay, given the processing limitations of the system and the time required to effect the communication”

See Dec. on Inst. 8–11. The parties do not dispute these interpretations in their Patent Owner Response and Reply. For this Final Written Decision, after considering the complete record, we see no reason to deviate from those constructions and, therefore, maintain our constructions as set forth above.

B. Standing

Section 18 of the AIA limits filing of petitions for a covered business method patent review to persons or their privies that have been sued or charged with infringement of a covered business method patent. AIA, § 18(a)(1)(B); see 37 C.F.R. § 42.302(a). A “covered business method patent” is 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). For the reasons described below, we determine that Petitioner has standing to file the Petition for covered business method patent review of the ’080 patent.

1. Sued for Infringement

As discussed above, Petitioner represents, and Patent Owner does not dispute, that Petitioner has been sued for infringement of the ’080 patent in *Nexuscard, Inc. v. The Kroger Co.*, No. 2:15-cv-00968-JRG (E.D. Tex.) and

Nexuscard, Inc. v. Brookshire Grocery Co., No. 2:15-cv-00961-JRG (E.D. Tex.). Pet. 16; Paper 5, 1. Thus, Petitioner has been sued for infringement for purposes of AIA § 18(a)(1)(B).

*2. Whether the '080 Patent is a Covered Business Method Patent
Subject to Covered Business Method Patent Review*

a. Financial Service or Product

Petitioner bears the burden of demonstrating that the '080 patent is a “covered business method patent”—i.e., a patent that claims a method “used in the practice, administration, or management of a financial product or service.” AIA § 18(d)(1); 37 C.F.R. § 42.304(a). “[T]he definition of ‘covered business method patent’ is not limited to products and services of only the financial industry, or to patents owned by or directly affecting the activities of financial institutions such as banks and brokerage houses. The plain text of the statutory definition . . . covers a wide range of finance-related activities.” *Versata Dev. Grp., Inc. v. SAP Am., Inc.*, 793 F.3d 1306, 1325 (Fed. Cir. 2015). To determine whether a patent is eligible for a covered business method patent review, the focus is on the claims. *Blue Calypso, LLC v. Groupon, Inc.*, 815 F.3d 1331, 1340 (Fed. Cir. 2016) (“§ 18(d)(1) directs us to examine *the claims* when deciding whether a patent is a CBM patent.”). A patent is eligible for review if it has at least one claim directed to a covered business method. *Versata*, 793 F.3d at 1326–27 (accepting the Board’s use of a single claim to determine whether a patent is eligible for covered business method patent review); *see also* 77 Fed. Reg. 48,734, 48,736 (Aug. 14, 2012) (Transitional Program for Covered Business Method Patents—Definitions of Covered Business Method Patent and Technological Invention).

Petitioner contends that the '080 patent claims a method or apparatus used in the practice, administration, or management of a financial product or service because the claims are all directed to a “method for processing and applying merchandise discounts to a consumer’s purchases,” for which a consumer provides monetary payment. Pet. 3. For example, Petitioner asserts that 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).” *Id.* at 3–6 (citing Ex. 1001, col. 11, l. 41–col. 12, l. 63). Petitioner also contends that 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.” *Id.* at 7 (citing Ex. 1001, col. 1, ll. 7–8, 39–45). Petitioner argues the '080 patent, therefore, includes at least one claim to a method or apparatus used in the practice, administration, or management of a financial product or service. *Id.* at 12.

Patent Owner does not dispute Petitioner’s contentions regarding the “financial product or service” prong of the CBM patent review eligibility for the '080 patent. Based on the record presented, we are persuaded Petitioner has shown that the '080 patent claims a method or apparatus used in the practice, administration, or management of a financial product or service. The record supports, and we adopt, Petitioner’s contention that the '080 patent is directed to a method or apparatus for “calculating *prices* of items that are subject to discount.” *Id.* at 7 (citing Ex. 1001, col. 1, ll. 7–8, 39–45 (“SUMMARY OF THE INVENTION”)) (emphasis added). As noted by Petitioner, claim 11 explicitly recites a “method of processing and *applying*

merchandise *discounts* to a consumer’s *purchases*,” which includes a step for “computing the discounts on said merchandise subject to a *price discount*” that has been selected for purchase by the consumer at a purchase location. *Id.* at 3–6 (emphases added). On this record, we conclude that the ’080 patent meets the “financial product or service” requirement of AIA § 18(d)(1) because the ’080 patent claims a method for calculating the *prices* of products. *See Versata*, 793 F.3d at 1325–26 (finding a patent that claims “[a] method for determining a *price of a product*” to “fall well within the terms of the statutory definition of a ‘covered business method patent’” under AIA § 18(d)(1)) (emphasis added); *see also Secure Access, LLC v. PNC Bank Nat’l Ass’n*, 848 F.3d 1370, 1381 (Fed. Cir. 2017) (citing *Versata* as an example where a claim recites one of a “wide range of finance-related activities,” which the Federal Circuit has “held to be within the CBM provision”).

b. Technological Invention Exception

The definition of “covered business method patent” in AIA § 18(d)(1) excludes patents for “technological inventions.” In determining whether a patent is for a technological invention, we consider “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 presence of a general purpose computer or a combination of known technologies does not render a patent a technological invention. *Blue Calypso*, 815 F.3d at 1339; *SightSound Techs., LLC v. Apple Inc.*, 809 F.3d 1307, 1315 (Fed. Cir. 2015).

In the Decision on Institution, we determined, upon considering the arguments and evidence submitted by the parties, that Petitioner has

demonstrated sufficiently that the '080 patent is not a patent for “technological inventions” under AIA § 18(d)(1) because the challenged claims recite generic and conventional computer components and devices. Dec. on Inst. 13–16. Patent Owner and Petitioner do not dispute whether the '080 patent is a patent for a technological invention in the Patent Owner Response and Petitioner's Reply, and we do not perceive any reason or evidence in the record that compels deviation from our earlier determination.

During the oral hearing, Patent Owner argued that the '080 patent's invention includes the technological feature of using credit card verification machines in an unconventional way to communicate with the centralized provider's system and provide verification of the consumer's membership. Tr. 24:17–26:20. To the extent Patent Owner's argument is directed to the “technological invention” exclusion under AIA § 18(d)(1), Patent Owner's argument is unpersuasive because Patent Owner concedes credit card verification machines were conventional at the time of the invention of the '080 patent. *Id.* at 26:21–27:4. In addition, as discussed in the Decision on Institution, the '080 patent describes credit card verification machines as conventional. Dec. on Inst. 15–16 (citing Ex. 1001, col. 8, ll. 65–66). As discussed above, a combination of known technologies does not render a patent a technological invention under AIA § 18(d)(1). *Blue Calypso*, 815 F.3d at 1339; *SightSound Techs*, 809 F.3d at 1315.

Accordingly, after considering the complete record, we adopt our previous analysis described in the Decision on Institution for purposes of this Final Written Decision, and conclude that Petitioner has shown sufficiently that the challenged claims recite well-known, conventional computer components or devices, and that the '080 patent, therefore, is not a

patent for a technological inventions under AIA § 18(d)(1). *See* Dec. on Inst. 13–16.

c. Conclusion

Based on the foregoing, we determine Petitioner has demonstrated sufficiently that the '080 patent is a covered business method patent under AIA § 18(d)(1) and is eligible for review under the transitional covered business method patent program.

C. Asserted Ground Based on 35 U.S.C. § 101

Petitioner contends that claims 1–11 of the '080 patent are directed to patent-ineligible subject matter under 35 U.S.C. § 101. Pet. 25–72. Patent Owner disagrees. PO Resp. 8–44. Upon review of all of the parties' papers and supporting evidence discussed in those papers, we are persuaded that Petitioner has demonstrated, by a preponderance of evidence, that claims 1–11 are unpatentable under 35 U.S.C. § 101.

Section 101 provides that “[w]hoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.” The Supreme Court has “long held that this provision contains an important implicit exception: Laws of nature, natural phenomena, and abstract ideas are not patentable.” *Alice Corp. Pty. Ltd. v. CLS Bank Int’l*, 134 S. Ct. 2347, 2354 (2014) (quoting *Assoc. for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107, 2116 (2013) (internal quotation marks and brackets omitted)).

The Supreme Court has set forth a two-stage analytical framework to determine whether a claim falls outside the scope of section 101. The

inquiry's first step requires us to determine "whether the claims at issue are directed to one of those patent-ineligible concepts." *Alice*, 134 S. Ct. at 2355. If so, under step two, we consider the elements of the claims "individually and 'as an ordered combination'" to determine whether there are "additional elements" sufficient to "'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)). In the context of claims that are challenged as containing an abstract idea, as is the case here, those two stages are typically referred to as the "abstract idea" step and the "inventive concept" step. *Affinity Labs of Texas, LLC v. DIRECTV, LLC*, 838 F.3d 1253, 1257 (Fed. Cir. 2016).

1. Abstract Idea Step

Under the "abstract idea" step of the *Alice* analysis, "there may be close calls about how to characterize what the claims are directed to," especially in cases involving computer-related claims. *Enfish, LLC v. Microsoft Corp.*, 822 F.3d 1327, 1339 (Fed. Cir. 2016); *see also Elec. Power Grp., LLC v. Alstom S.A.*, 830 F.3d 1350, 1353 (Fed. Cir. 2016) ("[W]e have noted that there can be close questions about when the inquiry should proceed from the first stage to the second.") (citing *Enfish*, 822 F.3d at 1339; *Rapid Litig. Mgmt. Ltd. v. CellzDirect, Inc.*, 827 F.3d 1042, 1050–52 (Fed. Cir. 2016); *Bascom Global Internet Servs., Inc. v. AT&T Mobility LLC*, 827 F.3d 1341, 1348–49 (Fed. Cir. 2016)). Reflecting those points, the Federal Circuit has provided further guidance on the first-stage analysis since the Petition was filed in 2015. For example, the court in *Enfish* held that a relevant inquiry in step one of the *Alice* framework is to ask whether the "focus" of the claims is on a specific asserted improvement in computer

capabilities or, instead, on a process that qualifies as an “abstract idea” for which computers are invoked merely as a tool. *Enfish*, 822 F.3d at 1335–36 (citing *Alice*, 134 S. Ct. at 2358–59). The Federal Circuit subsequently described the first-stage inquiry as “looking at the ‘focus’ of the claims, their ‘character as a whole.’” *Elec. Power Grp.*, 830 F.3d at 1353 (citing *Enfish*, 822 F.3d at 1335–36; *Internet Patents Corp. v. Active Network, Inc.*, 790 F.3d 1343, 1346 (Fed. Cir. 2015)). We analyze Petitioner’s contentions and Patent Owner’s responses under the “abstract idea” step in view of this recent development of law since the Petition was filed.

Petitioner contends that the challenged claims are directed to the abstract idea of a “membership discount program.” Pet. 29. Petitioner asserts the ’080 patent describes that discount coupons have long been used by manufacturers, retail stores, and consumers, and that prior art computer systems have been developed to eliminate the use of coupons. *Id.* at 29–30 (citing Ex. 1001, col. 1, ll. 11–13, 17–20). Petitioner contends that the challenged claims are directed to automating the age-old discount methods using generic steps relating to customer membership programs. *Id.* at 30. Petitioner argues that the ’080 patent and its claims purport to address the inconvenience of coupons by applying discounts after verifying that the customer is a member of the discount program. Pet. Reply 9–10 (citing Ex. 1001, col. 1, l. 39–col. 2, l. 35; col. 2, ll. 52–54).

Focusing on independent claims 1 and 11 as representative claims,⁴ Petitioner argues that the claims are directed to an abstract, mental process

⁴ Petitioner contends that claims 1 and 11 are nearly identical with minor differences, which are immaterial for purposes of patent eligibility analysis under § 101. Pet. 30. Patent Owner does not dispute Petitioner’s contention

because the recited steps can be performed manually or using pen and paper by replacing computing components with manual and human equivalents, such as providing consumers with a membership number and an identification, maintaining membership information and merchandise discount information in hardcopy membership rolls and product discount lists, comparing the membership ID and the merchandise at the point of purchase with the membership roll and discount lists to verify membership and available discounts, calculating applicable discounts mentally or by pen and paper, writing out a receipt, and logging the transaction details in a store ledger. *See* Pet. 32–34. Petitioner asserts that the only difference between the process recited in the challenged claims and the “manual” process is the use of general purpose computers to “collect, store, and process information about consumer memberships, merchants, manufacturers, and sales transactions.” *Id.* at 34. Petitioner argues that courts have found claims reciting similar processes that can be performed mentally by humans to be unpatentable as directed to abstract ideas. *Id.* (citing *In re Bilski*, 545 F.3d 943, 965 (Fed. Cir. 2008); *Gottschalk v. Benson*, 409 U.S. 63, 67 (1972); *CyberSource Corp. v. Retail Decisions Inc.*, 654 F.3d 1366, 1372 (Fed. Cir. 2011); *Intellectual Ventures I LLC v. Capital One Bank (USA)*, 792 F.3d 1363, 1368 (Fed. Cir. 2015)).

Petitioner further contends that the steps recited in claims 1 and 11 of this case, such as the “storing,” “scanning,” “uploading,” and “downloading” steps, as well as the steps of “sorting and storing” downloaded data, are similar to the data processing steps recited in the claims in *Content*

and argues claims 1 and 11 together for purposes of Patent Owner’s abstract idea analysis under *Alice*. *See* PO Resp. 18–25.

Extraction and Transmission LLC v. Wells Fargo Bank, N.A., 776 F.3d 1343 (Fed. Cir. 2014), which were found to be patent ineligible as being directed to the abstract idea of (1) collecting data; (2) recognizing certain data within the collected data set; and (3) storing the recognized data. Pet. 71–72 (citing *Content Extraction*, 776 F.3d at 1345, 1347). Petitioner argues that the claims in both cases “merely shift conventional information processing in their respective industry from a manual process to one that is computerized.” *Id.* at 72.

Petitioner contends that the claims are not directed to improved computer functionality because the claims recite using conventional computer components in a conventional manner, such as using a card reader to scan magnetic stripes, providing communication between a computer terminal and a central computer, and utilizing databases on the computers. Pet. Reply 8, 10 (citing Ex. 1001, col. 2, ll. 59–62, col. 8, ll. 65–66; Ex. 1002, Abstract, col. 58, ll. 30–34, col. 76, ll. 11–14, Fig. 19). Petitioner argues that the ’080 patent does not describe new ways to scan magnetic stripes or new communication protocols, but, rather, merely uses these conventional components in their ordinary manner as tools to apply a membership discount program. *Id.* at 11. Petitioner argues that the ’080 patent and its claims purport to address the inconvenience of coupons in discount programs (*id.* at 9–10) but that providing discounts without coupons is not a solution to a challenge particular to computers or a specific improvement to the ways computers operate. *Id.* at 11.

Under the approach described in *Alice* and further explained in *English*, *Internet Patents*, and *Electric Power Group*, we are persuaded by Petitioner’s argument and evidence that claims 1 and 11 are directed to an

abstract idea. As discussed above, Petitioner has shown that the claims recite a process to “collect, store, and process information about consumer memberships, merchants, manufacturers, and sales transactions” (Pet. 34), a process that qualifies as an “abstract idea” (*id.* at 71) of “conventional information processing” in the retail industry (*id.* at 72), for which conventional components, such as a magnetic stripe scanner, computers, and databases, are merely invoked as tools used in their ordinary and conventional manner (Pet. Reply 8–11). In *Electric Power Group*, the Federal Circuit explained that the “the realm of abstract ideas” includes “collecting information, including when limited to particular content.” *Elec. Power Grp.*, 830 F.3d at 1353. The court determined, therefore, that the claims at issue were directed to an abstract idea because “the focus of the asserted claims” is “on collecting information, analyzing it, and displaying certain results of the collection and analysis.” *Id.* We are persuaded that claims 1 and 11 in this case are similarly directed to an abstract idea because Petitioner’s argument and evidence shows that the focus of the claims, the claims’ “character as a whole,” is on conventional information processing in the context of membership discount programs that use generic computers and conventional devices as tools to provide discounts without coupons.

This analysis is also consistent with Petitioner’s assertion that the claims are directed to an abstract idea because they recite information processing operations that replicate a series of tasks that could be accomplished mentally by humans. *See Elec. Power Grp.*, 830 F.3d at 1354 (“[W]e have treated *analyzing information by steps people go through in their minds* . . . without more, as essentially *mental processes* within the abstract-idea category.”) (emphases added).

Patent Owner contends that the '080 patent claims are not directed to an abstract idea, but, rather to an improvement to computer functionality. PO Rep. 20–21. Patent Owner contends that the claims “improve over the prior art systems” by providing “interconnectivity between manufacturer discounts, merchant stores, coupons, membership ID information, a magnetic stripe reader at the point-of-sale terminal, and the capture of consumer purchase information.” *Id.* at 21.

We are not persuaded by Patent Owner’s argument because Patent Owner does not explain why the identified improvement is focused on “computer capabilities” or “computer functionality itself.” *See Enfish*, 822 F.3d at 1335–36. In *Enfish*, the court found that the claims were focused on “specific” technological improvement to “computer functionality itself”—a particular database technique utilizing a “self-referential table.” *Id.* at 1336. The claims were thus “directed to a specific improvement to the way computers operate,” rather than an abstract idea implemented on a computer. *Id.* In this case, Patent Owner does not identify any “specific improvement” to “computer functionality itself” recited in the challenged claims. Patent Owner does not argue that the claims are directed to an improved database technique, a new magnetic card reader, or improved computer communications technology. Instead, the improvement identified by Patent Owner is directed to using unspecified computers or electronic devices to distribute, collect, store, and process information. For example, “manufacturer discounts, merchant stores, coupons, membership ID information, [and] a magnetic stripe reader at the point-of-sale terminal,” identified by Patent Owner, are conventional sources of information or information itself. *See* PO Rep. 21. “[C]aptur[ing] of consumer purchase

information” is plainly a basic operation to obtain information. *See id.* Providing “interconnectivity” between these information items or operations (*id.*) involves distributing, collecting, storing, and processing information, which has been repeatedly found to be an abstract idea by the Supreme Court and the Federal Circuit. *See Elec. Power Grp.*, 830 F.3d at 1353–54 (collecting cases).

Next, Patent Owner contends that the challenged claims “utilize the communication means and the scanning of the membership ID *differently* than the cash registers or the credit card terminal’s ordinary capacity.” PO Resp. 21 (emphasis added). During the oral hearing, Patent Owner argued that the ’080 patent uses credit card verification machines (such as the VeriFone system) in an unconventional manner by configuring the machines to communicate with the central provider’s computer and verify the consumer’s membership. Tr. 24:17–27:4. According to Patent Owner, this technological feature improved the function of the conventional credit card machines, which, in their ordinary capacity, could only be used to process payments with a credit card company at the time of the filing of the ’080 patent. *Id.*; *see also* PO Resp. 3–4 (providing a similar discussion). Patent Owner, however, does not explain how the claims recite the purported nonconventional use.

Patent Owner’s argument is unpersuasive because the purported technological improvement is not recited in the challenged claims. *See FairWarning IP, LLC v. Iatric Sys., Inc.*, 839 F.3d 1089, 1096–97 (Fed. Cir. 2016) (finding that the claims at issue are *not* directed to technological improvement because the *claims* do *not* recite the alleged improvement); *see also Content Extraction*, 776 F.3d at 1346 (“We focus here on whether the

claims of the asserted patents fall within the excluded category of abstract ideas.”) (emphasis added). A “credit card verification machine” is not a recited limitation of the claims, but, rather, a corresponding structure for the term “communication means” recited in claims 1 and 11. See § III.A (Claim Construction) *supra*. To the extent that Patent Owner’s argument is directed to “communication means,” claims 1 and 11 do not recite any technological improvement in the way the “communication means” operates. Rather, the claims recite “uploading said scanned consumer identification code, from said merchant member, *through said communication means* to said provider’s computer.” Hence, the claims recite merely using a “communication means” as a generic tool to transmit consumer identification code to the provider’s computer, and do not recite a specific technological improvement in the functionality of the “communication means” itself.

In addition, as Patent Owner conceded during the oral hearing, there is no disclosure in the ’080 patent of how the purported inventive feature is technologically achieved or implemented. Tr. 27:6–28:4. Hence, the purported technological improvement cannot render the ’808 patent claims patent eligible. See *Apple, Inc. v. Ameranth, Inc.*, 842 F.3d 1229, 1243–44 (Fed. Cir. 2016) (determining that the alleged inventive feature cannot support a finding of patent eligibility when the patent contained no disclosure of how the alleged inventive feature would be technologically implemented).

Patent Owner next contends that the ’080 patent utilizes “existing machines in new ways to automate . . . discounts in real time,” which allegedly was not possible in the conventional art. PO Resp. 22. Similar to

Patent Owner's contention discussed above, Patent Owner's argument is unpersuasive because Patent Owner does not explain how the claims recite the purported "new ways" to automate the discounting process. Nor does Patent Owner identify any disclosure in the Specification of how the purported improvement is technologically achieved.

Claims 1 and 11 recite that the "communications means" provides "real time communication between said member merchant's computer terminals and said provider's computer" and that the "provider maintains and processes, in real time, discounts provided by manufacturer members to member consumers." Hence, the claims recite merely using generic computers and "communications means" as tools to achieve real time communication and processing. The claims, therefore, are not directed to any specific technological improvement to accomplish processing discounts in real time.

Next, Patent Owner contends that the '080 patent improves computer functionality by allowing the manufacturer to "provide . . . discount information to a centralized provider" and enabling the provider to "serve a significantly large number of stores with better efficiency." PO Resp. 3. Patent Owner's argument is unpersuasive because "merely adding computer functionality to increase the speed or efficiency of the process does not confer patent eligibility on an otherwise abstract idea," such as collecting and storing discount information. *See Intellectual Ventures I LLC v. Capital One Bank (USA)*, 792 F.3d at 1370.

Lastly, we address Patent Owner's contention that the '080 patent claims are patent eligible because the patent "solved the coupon problem by *transforming* existing *technology* to eliminate paper coupons and capture

new information that at the time was not available, nor collected.” PO Resp. 6 (emphases added).

Patent Owner’s argument is unpersuasive because “merely selecting information, by content or source, for collection [and] analysis . . . does nothing significant to differentiate a process from ordinary mental processes, whose implicit exclusion from § 101 undergirds the information-based category of abstract ideas.” *FairWarning IP*, 839 F.3d at 1097 (quoting *Elec. Power Grp.*, 830 F.3d at 1355). In *FairWarning IP*, the court rejected the patent owner’s argument that the claims at issue were patent eligible because the claimed system “allowed for the compilation and combination of . . . disparate information sources” and “the patented method ‘made it possible to generate a *full picture* of a user’s activity, identity, frequency of activity, and the like in a computer environment.’” *Id.* at 1096–97 (emphasis added) (citation omitted). As the court in *FairWarning IP* explained, “[t]he mere combination of data sources . . . does not make the claims patent eligible.” *Id.* at 1097. Similarly, here, the alleged capturing and processing of new information does not render the ’080 patent claims patent eligible, absent a showing that the claimed method is achieved by a technological improvement in the functionality of the computer itself and that such an improvement is recited in the claims. *See id.* (finding the claims at issue patent-ineligible because the alleged technological advance was not recited in the claims). Patent Owner makes no such showing. In fact, Patent Owner concedes that “[t]he ’080 patent may have used instruments that at the time were *not novel* in themselves.” PO Resp. 6 (emphasis added).

As discussed above, Petitioner has shown that claims 1 and 11 are similar to the claims in *Content Extract* in that both sets of claims are

focused on a process to collect, store, and process information (Pet. 34, 71–72), a process that qualifies as an abstract idea of “conventional information processing” that can be performed mentally by humans. *Id.* at 71–72 (citing *Content Extract*, 776 F.3d at 1345, 1347, 1348). For the reasons discussed above, we are persuaded by Petitioner’s argument that claims 1 and 11 are not like the claims in *Enfish* directed to a technological improvement to computer functionality, but, rather, are directed to an abstract idea of performing information processing operations, for which conventional components, such as a magnetic stripe scanner, computers, and databases, are merely invoked as tools used in their ordinary and conventional manner. Pet. Reply 8–11. Based on the foregoing, we are persuaded that Petitioner has demonstrated by a preponderance of evidence that claims 1 and 11 are directed to the abstract idea of collecting, storing, and processing information relating to a membership discount program.

Petitioner contends that dependent claims 2–10 “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.” Pet. 31. Petitioner also describes or outlines the additional limitations included in the dependent claims and asserts that “[n]one of these dependent claims add limitations that affect or alter [the] first step of the Section 101 analysis.” *Id.*

We have reviewed Petitioner’s arguments and underlying evidence cited in support (*see id.* at 31, 35–39) and are persuaded that Petitioner establishes dependent claims 2–10 are directed to an abstract idea, similar to claim 1 from which they depend.

Patent Owner asserts that “[e]ach dependent claim adds limitations in addition to the limitations found in Claim 1,” but does not argue whether these additional limitations recite an improvement in computer capability or functionality. PO Resp. 25; *see also Enfish*, 822 F.3d at 1335–36. Based on this record, we are persuaded that Petitioner has demonstrated by a preponderance of evidence that dependent claims 2–10 are drawn to an abstract idea.

2. Inventive Concept Step

Turning to step two of the *Alice* analysis, we consider the elements of the claims to “determine whether the claims do significantly more than simply describe [the] abstract method.” *Ultramercial, Inc. v. Hulu, LLC*, 772 F.3d 709, 715 (Fed. Cir. 2014) (citing *Mayo*, 132 S. Ct. at 1297). We consider the elements of the claims “individually and ‘as an ordered combination’” to determine whether there are “additional elements” sufficient to “‘transform the nature of the claim’ into a patent-eligible application.” *Alice*, 134 S. Ct. at 2355 (quoting *Mayo*, 132 S. Ct. at 1297–98).

a. Claims 1 and 11

Petitioner contends that the challenged claims do not include an inventive concept because they add, to the abstract idea, only conventional components that perform routine, conventional activity. Pet. 44–45; Pet. Reply 12–13. Petitioner addresses all of the language of claims 1 and 11, including the preamble and all of the recited steps,⁵ and presents a detailed

⁵ Petitioner notes the differences between claims 1 and 11 throughout Petitioner’s second step analysis and asserts that the claims are otherwise identical and the differences have no impact on the inventive concept

analysis of the recited elements, arguing that none of them provides an inventive concept sufficient to transform the claimed abstract idea into patent-eligible subject matter because the limitations recite generic or conventional computer components or computing functions, standard technologies well-known at the time of invention, functions utilized in commerce for hundreds of years, and/or steps that can be performed mentally by a human or with pen and paper. Pet. 35–39, 45–61. For example, Petitioner argues that the components of the membership system recited in the preamble of claims 1 and 11, such as “point of purchase . . . computer terminal,” a “computer,” a “centralized provider’s computer,” and a “database,” are all generic computer components that cannot transform the otherwise abstract idea into something patentable. *Id.* at 45–47 (citing *id.*, § IV.B.1.c).

Petitioner further contends that U.S. Patent No. 5,687,322 (Ex. 1002, “the ’322 patent”) and U.S. Patent No. 4,882,675 (Ex. 1004, “the ’675 patent”) show that many of the components or steps recited in claims 1 and 11 were well-known and conventional at the time the ’080 patent was filed. Pet. 36–39, 51, 53–54, 56–61. For example, Petitioner asserts the ’322 patent shows that a cash register with communication means and the ability to scan merchandise was conventional at the time of the filing of the ’080 patent. *Id.* at 38 (citing Ex. 1002, col. 5, ll. 46–47, Fig. 2A). Hence, Petitioner argues that “communication means” recited in claims 1 and 11

analysis. *See, e.g.*, Pet. 45 n.3, 46 n.4, 50 n.5, 52 n.6, 55 n.7, 56 n.8, 59 nn.11–12. Patent Owner does not appear to dispute Petitioner’s identification of the differences between the claims and generally argues claims 1 and 11 together for purposes of the inventive concept analysis. *See, e.g.*, PO Resp. 28, 30–31, 36.

was conventional.⁶ *Id.* at 47 (citing *id.*, § IV.B.1.c). Similarly, Petitioner asserts that “step g” recited in the claims, i.e., “scanning merchandise identification codes of each of said transported merchandise, at said communication means,” was well-known. *Id.* at 52.

Petitioner further asserts that both the ’322 patent and the ’675 patent show customer cards with a magnetic stripe were well-known when the ’080 patent was filed. *Id.* at 37–38 (citing Ex. 1002, col. 78, ll. 51–57, col. 82, ll. 31–48; Ex. 1004, col. 5, l. 48–col. 6, l. 24). Thus, Petitioner argues that “membership ID having memory storage means” recited in “step c” of the claims was conventional.⁷

In addition, Petitioner contends that the ’675 patent shows that scanning of consumers’ identification code to provide them with discounts associated with their code was well-known. *Id.* at 53 (citing Ex. 1004, col. 17, ll. 29–61). Thus, Petitioner argues that “scanning said consumer ID,” i.e., “step h,” of claim 1 and 11 recites nothing more than a generic function performed in the prior art for the same purpose that the function is

⁶ Petitioner proposes to construe the term “communication means” to cover “a cash register.” Pet. 23. As discussed in Section III.A above, we construe “communication means” to cover the corresponding structure of “a cash register with a communication capability, a credit card verification machine, a terminal, or a scanner, and equivalents.” Hence, Petitioner’s showing that a cash register with communication means was well-known prior to the filing of the ’080 patent is sufficient to demonstrate that the “communication means” recited in the claims was conventional.

⁷ Petitioner argues that the term “memory storage means” should be construed to cover “a magnetic stripe on a card.” Pet. 22–23. We construe “memory storage means” to cover the corresponding structure of “a magnetic stripe on a card, and equivalents.” See § III.A *supra*. Therefore, Petitioner’s showing that cards with a magnetic stripe were well-known is sufficient to demonstrate that “memory storage means” was conventional.

being performed in the claims, and, therefore, does not provide any inventive concept sufficient to transform the claimed abstract idea into patent-eligible subject matter. *Id.* at 53.

Petitioner provides a detailed analysis of the rest of the steps recited in claims, i.e., steps a, b, d, e, f, i–q (claims 1 and 11), and r (claim 11), and argues that these elements recite generic computer functions, functions utilized in commerce for hundreds of years, and/or steps that can be performed mentally by a human or with pen and paper. *Id.* at 48–61.

Petitioner further contends that the claimed steps, when viewed as an ordered combination, do not reflect an inventive concept and that the grouping and order of the steps is an entirely conventional arrangement consistent with typical computing functions and standard commercial transactions. *Id.* at 61. Petitioner asserts, therefore, taken individually or as an ordered combination, elements of claims 1 or 11 do not provide any inventive concept sufficient to transform the claimed abstract idea into patent-eligible subject matter. *Id.* at 61–62.

We have reviewed Petitioner’s arguments and underlying evidence cited in support and are persuaded that Petitioner establishes that claims 1 and 11 do not recite any elements that individually or as an ordered combination transform the claimed abstract idea into a patent-eligible application.

Patent Owner contends that the challenged claims “supply an inventive concept” because the claimed invention cannot be performed without the use of computers. PO Resp. 26. Patent Owner asserts that the use of computers, cash register, point-of-sale (“POS”) terminal, and credit card terminal are “integral to the claimed invention.” *Id.*

Patent Owner's argument is unpersuasive because the claims' invocation of computers, cash register, POS terminal, and credit card terminal does not transform the claimed abstract idea into a patent-eligible application. As discussed above, the challenged claims do not recite non-conventional computers, cash register, POS terminal, or credit card terminal, but merely call for performance of the claimed information collection, analysis, and storage functions on generic computers and terminals using conventional cash registers, customer cards with a magnetic stripe, and databases. The claims, therefore, do not recite an inventive concept sufficient to transform the claimed abstract idea of collecting, storing, and processing information relating to a membership discount program into a patent-eligible application of that idea. *See Elec. Power Grp.*, 830 F.3d at 1355–56 (finding that “the claims’ invocation of computers, networks, and displays” did not transform the claimed information-based abstract idea into patent-eligible applications when the claims at issue merely called for performance of the claimed information collection, analysis, and display functions on a set of generic computer components and display devices).

Next, Patent Owner asserts that the '080 patent improves upon the computer technology used in the prior art, and repeats essentially the same unpersuasive contentions relating to the allegedly improved use of credit card verification machines Patent Owner advanced in the context of step one of the *Alice* analysis. PO Resp. 29–30. Patent Owner's argument is unpersuasive under step two as well, because, as discussed above, the purported technological improvement is not recited in the challenged claims or disclosed in the Specification. *See Intellectual Ventures I LLC v. Erie Indemnity Co.*, No. 2016-1128, ___ F.3d ___, 2017 WL 900018, at *11 (Fed.

Cir. Mar. 7, 2017) (determining, under step two, the purported feature of the invention cannot supply an inventive concept when neither the specification nor the claims “cabin the invention specifically in terms of [the purported technological improvement]”).

Patent Owner next argues that it is improper to rely on the ’322 patent to show that the claim elements are conventional or routine because the ’322 patent was filed only about one year prior to the filing of the ’080 patent. PO Resp. 28–29. The record, however, lacks evidence to support a finding that these admittedly known-in-the-prior-art elements were nonetheless unconventional.

Patent Owner further argues that the systems described in the ’322 patent and the ’675 patent operate differently from the claimed invention of the ’080 patent. PO Resp. 29–34. We are not persuaded by Patent Owner’s argument because Petitioner relies on the ’322 patent and the ’675 patent to show that the elements of the challenged claims were known in the art, not to show the claims are anticipated or obvious.

Next, Patent Owner argues that the combination of the elements of the challenged claims was new and never done before at the time of the ’080 patent’s filing. PO Resp. 27, 28, 35. Patent Owner’s argument is unpersuasive because the claims recite a combination of generic computers and conventional devices and a combination of conventional information processing steps that use those conventional components in their ordinary capacity. *See FairWarning IP*, 839 F.3d at 1096–97 (finding the claims reciting collection and analysis of an allegedly new combination of information sources patent ineligible because “mere combination of data sources . . . does not make the claims patent eligible” and “the claims require

that [the recited processes] be executed on a generic computer”); *Smartflash LLC v. Apple Inc.*, No. 2016-1059, 2017 WL 786431, at *6 (Fed. Cir. Mar. 1, 2017) (nonprecedential) (stating that “‘provid[ing] a distinct advantage over alternatives’ is not the test for eligibility” and finding that the claims reciting allegedly new combination of “specific hardware components [that] reflect specific technical choices” did not transform the claimed abstract idea into a patent-eligible invention because the recited components were all generic computer components) (quoting *Alice*, 134 S. Ct. at 2355)). Unlike the claims at issue in *Amdocs (Israel) Ltd. v. Openet Telecom, Inc.*, 841 F.3d 1288 (Fed. Cir. 2016), the challenged claims in this case do not use generic components in an unconventional manner to achieve an improvement in computer functionality. *See id.* at 1300–01. Nor do the claims recite a specific improvement to the way computers operate, such as the claims in *Trading Technologies Int’l, Inc. v. CQG, Inc.*, No. 2016-1616, 2017 WL 192716 (Fed. Cir. Jan. 18, 2017) (nonprecedential) that recited specific technological improvements to graphical user interface systems. *Id.* at *2–*4.

Finally, Patent Owner argues that the ordered combination of the claim elements eliminate paper coupons and eliminate or significantly reduce coupon fraud. PO Resp. 35. These are, however, not features recited in the claims, but, rather, the purported goals or advantages of the ’080 patent. *See* Ex. 1001, col. 1, ll. 39–45, col. 2, ll. 52–59. The ’080 patent describes explicitly that the goal of eliminating paper coupons is achieved by utilizing generic computers.

The purpose of the process of the instant invention is to replace the paper coupon in both grocery and general merchant stores. To accomplish this, a centralized computer system is

established to distribute, collect and organize information between the central system and the local merchants.

Id. at col. 2, ll. 52–57 (emphases added). The language of the limitations recited in claims 1 and 11 reflects this description, as discussed above. Hence, the goal of eliminating paper coupons cannot provide an inventive concept because the desired result is achieved by using generic computers, i.e., a “centralized provider’s computer” and “merchant member computer terminal,” to perform conventional information processing steps recited in the claims. *See Intellectual Ventures I LLC v. Capital One Financial Corp.*, No. 2016-1077, ___ F.3d ___, 2017 WL 900031, at *8 (Fed. Cir. Mar. 7, 2017) (determining that the claims at issue recited nothing inventive or transformative to achieve the stated goal of the patent when the claim elements, either individually or as an ordered combination, recited “no more than routine steps of data collection and organization using generic computer components and conventional computer data processing activities”).

Similarly, the ’080 patent describes that the goal of eliminating coupon fraud is achieved by utilizing generic computers and conventional devices to apply the discounts “at the time of the actual purchase of the product.” Ex. 1001, col. 1, ll. 39–54. This description is reflected in the claim language of claim elements reciting “real time” activities, e.g., “communications means providing *real time* communication between said member merchant’s computer terminals and said provider’s computer,” “computing the discounts on said merchandise subject to a price discount,” and the “provider maintains and processes, in *real time*, discounts provided by manufacturer members to member consumers.” As discussed above, this “real time” performance is achieved merely by using generic computers and

conventional devices in their ordinary capacity. Hence, the claims recite nothing inventive or transformative to achieve the purported goal of eliminating coupon fraud. *See Elec. Power Grp.*, 830 F.3d at 1355–56 (finding that the claims at issue did not state an arguably inventive concept when the claims “specif[ied] what information in the power-grid field it is desirable to gather, analyze, and display, including *in ‘real time,’*” but did not include “any requirement for performing the claimed functions of gathering, analyzing, and displaying in real time by use of anything but entirely conventional, generic technology”) (emphasis added).

Upon considering all of the evidence of record, we are persuaded Petitioner has demonstrated by a preponderance of evidence that claims 1 and 11 fail to recite any elements that individually or as an ordered combination transform the claimed abstract idea into a patent-eligible application.

b. Dependent Claims 2–10

For dependent claims 2–10, which depend from claim 1, Petitioner addresses each limitation additionally recited in the claims and presents a detailed analysis of the recited elements, arguing that none of them provides an inventive concept sufficient to transform the claimed abstract idea into patent-eligible subject matter because the limitations recite generic or conventional computer components or computing functions, standard technologies well-known at the time of invention, functions utilized in commerce for hundreds of years, and/or steps that can be performed mentally by a human or with pen and paper. Pet. 62–68.

We have reviewed Petitioner’s arguments and underlying evidence cited in support and are persuaded that Petitioner establishes that the

additionally recited limitations of claims 2–10 do not contain an inventive concept sufficient to transform the claimed abstract idea into patent-eligible subject matter.

Although it remains Petitioner’s burden to prove unpatentability by a preponderance of the evidence, in our Scheduling Order, we cautioned Patent Owner that “any arguments for patentability not raised in the response will be deemed waived.” See Paper 17, 4. Aside from its unpersuasive arguments directed to claims 1 and 11 discussed above, Patent Owner elected not to respond separately, with specificity, to Petitioner’s arguments regarding dependent claims 2–10.

Based on this record, we are persuaded Petitioner has demonstrated by a preponderance of evidence that claims 2–10 do not contain an inventive concept sufficient to transform the claimed abstract idea into a patent-eligible application.

3. Preemption

Patent Owner argues that that its claims do not preempt computerized membership discount programs. PO Resp. 11–18. But the preemption concern is addressed by the two part test considered above. See *Ariosa Diagnostics, Inc. v. Sequenom, Inc.*, 788 F.3d 1371, 1379 (Fed. Cir. 2015) (“The Supreme Court has made clear that the principle of preemption is the basis for the judicial exceptions to patentability. . . . For this reason, questions on preemption are inherent in and resolved by the § 101 analysis.”). As the Federal Circuit has indicated, “[w]here a patent’s claims are deemed only to disclose patent ineligible subject matter under the *Mayo* framework, as they are in this case, preemption concerns are fully addressed and made moot.” *Id.*

The recent cases mentioned by Patent Owner during the oral hearing do not change this conclusion. See Tr. 33:1–23. For example, in *McRO, Inc. v. Bandai Namco Games America Inc.*, 837 F.3d 1299 (Fed. Cir. 2016), although the claim at issue was found not to preempt “all processes for achieving automated lip-synchronization of 3–D characters,” that was not the basis for a finding of patent eligibility, because the court noted expressly, “the absence of complete preemption does not demonstrate patent eligibility.” *Id.* at 1315 (quoting *Ariosa*, 788 F.3d at 1379). Rather, the court found that the claim was not directed to an abstract idea because the claim “improved [the] existing *technological* process” in computer animation by “the automatic use of rules of a particular type.” *Id.* at 1314–15 (emphasis added). Similarly, in *Amdocs*, the claims of a patent directed to a distributed network architecture were patent eligible because the claims were focused on “an unconventional *technological* solution (enhancing data in a distributed fashion) to a *technological* problem (massive record flows which previously required massive databases).” *Amdocs*, 841 F.3d at 1300–01. Indeed, in *FairWarning IP*, the court held that “even assuming that the [patent at issue] does not preempt the field, its lack of preemption does not save [the claims at issue],” and found the claims to be patent ineligible based on the two-step inquiry under *Alice*. *FairWarning IP*, 839 F.3d at 1098 (citing *Ariosa*, 788 F.3d at 1379).

As described above, after applying the two-part test under *Alice*, we are persuaded that Petitioner has shown by a preponderance of the evidence that the challenged claims are drawn to an abstract idea and do not contain an inventive concept sufficient to transform the claimed abstract idea into a patent-eligible application. The alleged existence of a large number of non-

infringing, and, thus, non-preemptive, alternatives (*see* PO Resp. 11–18) does not alter this conclusion because the question of preemption is inherent in, and resolved by, the two-step inquiry under *Alice*.

4. Machine-Or-Transformation Test

A claimed process can be patent-eligible under § 101 if: (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing. *Ultramercial*, 772 F.3d at 716 (citation omitted). Petitioner contends that the challenged claims fail the machine prong of the machine-or-transformation test because the claims merely recite generic components, such as a computer terminal, a communications means, a printer, and a scanner. Pet. 70. Petitioner asserts that the claims also fail the transformation prong because the claims’ collection of consumer and merchandise information, organization and storage in a database, and application of discounts to the goods is not a meaningful transformation under the machine-or-transformation test. *Id.* (citing *Cyberfone Sys., LLC v. CNN Interactive Grp., Inc.*, 558 F. App’x 988, 990–91 (Fed. Cir. 2014)).

We are persuaded by Petitioner’s argument that the challenged claims recite merely generic components for the same reasons discussed above in the context of the two-stage analysis under the *Alice* framework. Hence, we are persuaded that Petitioner has established the challenged claims fail the machine prong of the machine-or-transformation test. We are also persuaded Petitioner has established that the challenged claims fail the transformation prong because “obtaining, separating, and then sending information,” including sending information gathered from one source to different destinations, does not constitute a meaningful transformation under the machine-or-transformation test. *Cyberfone*, 558 F. App’x at 990–91.

Patent Owner contends that the challenged claims are tied to a particular machine because the claims cannot be performed manually and require the use of computers. PO Resp. 36–42. Patent Owner’s argument is unpersuasive because “adding a computer to otherwise conventional steps does not make an invention patent-eligible.” *Ultramercial*, 772 F.3d at 717.

Patent Owner further argues that the cash register and the credit card verification machine corresponding to the “communication means” are not general purpose computers, but, rather, special purpose computers. PO Resp. 43 (citing *Chicago Mercantile Exchange, Inc. v. 5th Market Inc.*, Case CBM2015-00061, 37 (PTAB July 16, 2015) (Paper 9)). Patent Owner’s argument is unpersuasive because the CBM2015-00061 decision is not relevant here. In this case, we construe “communication means” differently than the means-plus-function limitation at issue in CBM2015-00061. As discussed above, here, “communication means” covers “a cash register with a communication capability, a credit card verification machine, a terminal, or a scanner, and equivalents.” See § III.A *supra*.

Based on our construction, the cash register, credit card verification machine, and scanner covered by the challenged claims are similar to the scanner or other digitizing devices of the *Content Extraction* case in that the devices would function as well-understood and conventional peripherals when they are connected to a computer. See *Content Extraction*, 776 F.3d at 1348. Therefore, we are not persuaded the challenged claims are tied to a particular machine.

Regarding the transformation prong, Patent Owner contends that the challenged claims meet the test because the claims recite “collecting data utilizing tangible elements in a way that cannot be performed by a human.”

PO Resp. 43–44. Patent Owner, however, does not explain why this shows that the claimed process transforms a particular article into a different state or thing. As discussed above, the challenged claims recite collecting, storing, and processing information using generic computers and conventional devices. And, as discussed above, we agree with Petitioner that the claims here can be performed mentally by humans by replacing computing components with manual and human equivalents. Hence, we determine the claims do not satisfy the transformation test because “[a]ny transformation from the use of computers or the transfer of content between computers is merely what computers do and does not change the [machine-or-transformation] analysis.” *Ultramercial*, 772 F.3d at 717.

5. Conclusion

Upon considering all of the evidence of record, we determine that Petitioner has met its burden of proof, by a preponderance of the evidence, in showing that claims 1–11 of the ’080 patent are unpatentable under 35 U.S.C. § 101 as being directed to patent-ineligible subject matter.

IV. ORDER

In consideration of the foregoing, it is hereby:

ORDERED that claims 1–11 of the ’080 patent are *unpatentable*; and

FURTHER ORDERED that, because this is a Final Written Decision, parties to the proceeding seeking judicial review of the decision must comply with the notice and service requirements of 37 C.F.R. § 90.2.

CBM2015-00183

Patent 5,924,080

PETITIONER:

William Atkins

Brian Nash

Michael Chibib

william.atkins@pillsburylaw.com

brian.nash@pillsburylaw.com

michael.chibib@pillsburylaw.com

PATENT OWNER:

Adam Baumli

Andrew Spangler

adam@baumli-lawfirm.com

spangler@spanglerlawpc.com

UNITED STATES PATENT AND TRADEMARK OFFICE

BEFORE THE PATENT TRIAL AND APPEAL BOARD

THE KROGER COMPANY and BROOKSHIRE GROCERY COMPANY,
Petitioner,

v.

NEXUSCARD, INC.,
Patent Owner.

Case CBM2015-00183
Patent 5,924,080

Before JENNIFER S. BISK, MICHAEL J. FITZPATRICK, and
MINN CHUNG, *Administrative Patent Judges*.

FITZPATRICK, *Administrative Patent Judge*, concurring.

I concur with the Final Written Decision, and I join all aspects of the majority’s opinion therein except for the section titled “Machine-or-Transformation Test.” The Supreme Court has held the following about that test:

The machine-or-transformation test may well provide a sufficient basis for evaluating processes similar to those in the Industrial Age—for example, inventions grounded in a physical or other tangible form. But there are reasons to doubt whether the test should be the sole criterion for determining the patentability of inventions in the Information Age. As numerous amicus briefs

argue, the machine-or-transformation test would create uncertainty as to the patentability of software, advanced diagnostic medicine techniques, and inventions based on linear programming, data compression, and the manipulation of digital signals.

Bilski v. Kappos, 561 U.S. 593, 605 (2010). The test is of little, if any, value in determining patent-eligibility of the claims here. And, it is nonetheless wholly unnecessary, as we have applied the legal framework set out in *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1293–94 (2012) and reaffirmed in *Alice Corp. Pty. Ltd. v. CLS Bank Int’l*, 134 S. Ct. 2347 (2014). I would not apply the machine-or-transformation test to the challenged claims before us.