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4 **UNITED STATES DISTRICT COURT**
5 **DISTRICT OF NEVADA**

6 _____)
7 2-WAY COMPUTING, INC.,)
8 Plaintiff,)
9 vs.)
10 GRANDSTREAM NETWORKS, INC.,)
11 Defendant.)
12 _____)

2:16-cv-01110-RCJ-PAL

ORDER

13 This case arises out of the alleged infringement of a patent for an “audio communication
14 system for a computer network.” Pending before the Court is a Motion to Dismiss (ECF No. 21).

15 **I. FACTS AND PROCEDURAL HISTORY**

16 Plaintiff 2-Way Computing, Inc. has sued Defendant Grandstream Networks, Inc. in this
17 Court for patent infringement under 35 U.S.C. § 271(a). Plaintiff alleges that Defendant’s
18 manufacture, use, importation, offer, and/or sale of the GXP2120 SIP Enterprise Phone infringes
19 Claim 1 of U.S. Patent No. 5,434,797 (as reexamined). Defendant has moved to dismiss.

20 **II. LEGAL STANDARDS**

21 Federal Rule of Civil Procedure 8(a)(2) requires only “a short and plain statement of the
22 claim showing that the pleader is entitled to relief” in order to “give the defendant fair notice of
23 what the . . . claim is and the grounds upon which it rests.” *Conley v. Gibson*, 355 U.S. 41, 47
24 (1957). Federal Rule of Civil Procedure 12(b)(6) mandates that a court dismiss a cause of action

1 that fails to state a claim upon which relief can be granted. A motion to dismiss under Rule
2 12(b)(6) tests the complaint’s sufficiency. *See N. Star Int’l v. Ariz. Corp. Comm’n*, 720
3 F.2d 578, 581 (9th Cir. 1983). When considering a motion to dismiss under Rule 12(b)(6) for
4 failure to state a claim, dismissal is appropriate only when the complaint does not give the
5 defendant fair notice of a legally cognizable claim and the grounds on which it rests. *See Bell*
6 *Atl. Corp. v. Twombly*, 550 U.S. 544, 555 (2007). In considering whether the complaint is
7 sufficient to state a claim, the court will take all material allegations as true and construe them in
8 the light most favorable to the plaintiff. *See NL Indus., Inc. v. Kaplan*, 792 F.2d 896, 898 (9th
9 Cir. 1986). The court, however, is not required to accept as true allegations that are merely
10 conclusory, unwarranted deductions of fact, or unreasonable inferences. *See Sprewell v. Golden*
11 *State Warriors*, 266 F.3d 979, 988 (9th Cir. 2001).

12 A formulaic recitation of a cause of action with conclusory allegations is not sufficient; a
13 plaintiff must plead facts pertaining to his own case making a violation “plausible,” not just
14 “possible.” *Ashcroft v. Iqbal*, 556 U.S. 662, 677–79 (2009) (citing *Twombly*, 550 U.S. at 556)
15 (“A claim has facial plausibility when the plaintiff pleads factual content that allows the court to
16 draw the reasonable inference that the defendant is liable for the misconduct alleged.”). That is,
17 under the modern interpretation of Rule 8(a), a plaintiff must not only specify or imply a
18 cognizable cause of action (*Conley* review), but also must allege the facts of his case so that the
19 court can determine whether the plaintiff has any basis for relief under the cause of action he has
20 specified or implied, assuming the facts are as he alleges (*Twombly-Iqbal* review). Put
21 differently, *Conley* only required a plaintiff to identify a major premise (a cause of action), but
22 *Twombly* and *Iqbal* require a plaintiff also to allege minor premises (facts of the plaintiff’s case)
23 such that the syllogism showing liability is logically complete and that liability necessarily, not
24 only possibly, follows (assuming the allegations are true).

1 “Generally, a district court may not consider any material beyond the pleadings in ruling
2 on a Rule 12(b)(6) motion. However, material which is properly submitted as part of the
3 complaint may be considered on a motion to dismiss.” *Hal Roach Studios, Inc. v. Richard Feiner*
4 *& Co.*, 896 F.2d 1542, 1555 n.19 (9th Cir. 1990) (citation omitted). Similarly, “documents
5 whose contents are alleged in a complaint and whose authenticity no party questions, but which
6 are not physically attached to the pleading, may be considered in ruling on a Rule 12(b)(6)
7 motion to dismiss” without converting the motion to dismiss into a motion for summary
8 judgment. *Branch v. Tunnell*, 14 F.3d 449, 454 (9th Cir. 1994). Moreover, under Federal Rule
9 of Evidence 201, a court may take judicial notice of “matters of public record.” *Mack v. S. Bay*
10 *Beer Distribs., Inc.*, 798 F.2d 1279, 1282 (9th Cir. 1986). Otherwise, if the district court
11 considers materials outside of the pleadings, the motion to dismiss is converted into a motion for
12 summary judgment. *See Arpin v. Santa Clara Valley Transp. Agency*, 261 F.3d 912, 925 (9th Cir.
13 2001).

14 **III. ANALYSIS**

15 Defendant argues that the ‘797 Patent is patent-ineligible under 35 U.S.C. § 10 and *Alice*
16 *Corp. Pty. Ltd. v. CLS Bank Int’l*, 134 S. Ct. 2347 (2014). A district court may determine
17 whether a patent is eligible under § 101 at the dismissal stage. *See generally Internet Patents*
18 *Corp. v. Active Network, Inc.*, 790 F.3d 1343 (Fed. Cir. 2015) (affirming such a dismissal).

19 An inventor may obtain a patent on “any new and useful process, machine, manufacture,
20 or composition of matter, or any new and useful improvement thereof.” 35 U.S.C. § 101.

21 However, the Supreme Court “ha[s] long held that this provision contains an important implicit
22 exception: Laws of nature, natural phenomena, and abstract ideas are not patentable.” *Alice*
23 *Corp.*, 134 S. Ct. at 2354 (quoting *Ass’n for Molecular Pathology v. Myriad Genetics, Inc.*, 133
24 S. Ct. 2107, 2116 (2013)). The driving concern behind this exclusionary principle is one of pre-

1 emption—“that patent law not inhibit further discovery by improperly tying up the future use
2 of these building blocks of human ingenuity.” *Id.* (quoting *Mayo Collaborative Servs. v.*
3 *Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1301 (2012)). Notably, though, “an invention is not
4 rendered ineligible for patent simply because it involves an abstract concept,” *id.* (citing
5 *Diamond v. Diehr*, 450 U.S. 175, 187 (1981)); “[a]pplications of such concepts to a new and
6 useful end . . . remain eligible for patent protection,” *id.* (quoting *Gottschalk v. Benson*, 409 U.S.
7 63, 67 (1972)) (internal quotation marks and alterations omitted). In other words, “in applying
8 the § 101 exception, [courts] must distinguish between patents that claim the buildin[g] block[s]
9 of human ingenuity and those that integrate the building blocks into something more, thereby
10 transform[ing] them into a patent-eligible invention.” *Id.* (quoting *Mayo Collaborative Servs.*,
11 132 S. Ct. at 1294, 1303) (internal quotation marks omitted; second through fourth alterations in
12 original).

13 The Supreme Court has adopted a two-step test for “distinguishing patents that claim
14 laws of nature, natural phenomena, and abstract ideas from those that claim patent-eligible
15 applications of those concepts.” *Id.* at 2355. First, a court determines whether the claim is
16 “directed to one of those patent-ineligible concepts.” *Id.* If not, the analysis ends. If so,
17 however, a court must consider the elements of each claim “both individually and ‘as an ordered
18 combination’ to determine whether the additional elements ‘transform the nature of the claim’
19 into a patent-eligible application.” *Id.* (quoting *Mayo*, 132 S. Ct. at 1298). Step two is “a search
20 for an “inventive concept”—i.e., an element or combination of elements that is ‘sufficient to
21 ensure that the patent in practice amounts to significantly more than a patent upon the [ineligible
22 concept] itself.’” *Id.* (quoting *Mayo*, 132 S. Ct. at 1294). Such a transformation requires “more
23 than simply stat[ing] the [abstract idea] while adding the words ‘apply it.’” *Id.* (quoting *Mayo*,
24 132 S. Ct. at 1294) (alterations in original).

1 Claim 1 of the '797 Patent as issued on July 18, 1995 read:

2 A computer station of a computer network, said computer station comprising:

3 a computer station network interface;

4 a microphone;

5 a speaker; and

6 an audio communication system, said audio communication system comprising:

7 an audio responsive input unit which accepts analog audio waveform
8 signals from the microphone and digitizes the audio waveform signals;

9 an audio output unit which converts digital audio waveform signals to
10 analog audio waveform signals for audible output by the speaker; and

11 a computer station controller configured to execute application programs
12 of said computer station, said computer station controller coupled to said
13 audio responsive input unit, to said audio output unit, and to said computer
14 station network interface, said computer station controller configured to
15 accept the digitized audio signals from said audio responsive input unit
16 and to provide the signals in audio data packets for transmission via said
17 computer station network interface over the computer network, said
18 computer station controller further configured to accept audio data packets
19 from said network via said computer station network interface and to
20 transfer said audio data packets to said audio output unit, said computer
21 station controller also managing the operations of the audio
22 communication system while other application programs are actively
23 executing in the computer station controller.

17 U.S. Patent No. 5,434,797 col. 18, ll. 31–62. In September 2, 2008, a fourth sub-element was

18 added to the fourth element pursuant to an ex parte reexamination proceeding:

19 a user interface that displays on a screen information relating to the other
20 application programs that are actively executing and information to control the
21 audio communication system.

21 Ex Parte Reexam. Cert. U.S. Patent No. 5,434,797 C1 col. 1, ll. 56–59. During the relevant time,

22 therefore, the '797 Patent contained four elements, the fourth of which contained four sub-

23 elements. *See id.*

1 Defendant argues that the “abstract idea” of translating information to enable audio
2 communication “has been practiced for decades.” The Court first notes that the question under
3 § 101 and *Alice Corp.* is not whether the invention or some variation thereof has been long-
4 practiced—the doctrines of anticipation and obviousness under pre-AIA §§ 102 and 103,
5 respectively, govern such challenges, and Defendant does not invoke those sections via the
6 present motion¹—but whether the patentee has simply instructed a practitioner to implement an
7 abstract idea such as “risk-hedging” or “intermediated settlement” using a generic computer. *See*
8 *Alice Corp.*, 134 S. Ct. at 2357–59. *Alice Corp.* stands for the proposition that a method directed
9 to an unpatentable abstract concept does not become patentable simply because the practitioner
10 is directed to use a generic computer to perform it or because the invention is claimed as a
11 generic computer apparatus used to perform the otherwise unpatentable method. But it is
12 unpatentable methods that are impugned under *Alice Corp.* Methods utilizing a generic
13 computer apparatus are not per se infirm under *Alice Corp.*; it is just that the bare addition of a
14 generic computer will not make an otherwise unpatentable method patentable. The question of
15 unpatentability of abstract ideas under *Alice Corp.* is not whether an invention can be understood
16 or described in the abstract, i.e., in one’s mind (any patent claim that could not be would fail for
17 lack of enablement), but whether the invention can be *practiced* in the abstract (mathematical
18 calculations, risk-hedging, etc).

19 The Court is not convinced that Claim 1 is directed to an abstract concept. Rather, it is
20 directed to a concrete, physical task. Unlike the risk mitigation method at issue in *Alice Corp.*,
21 converting sound to electronically stored information (and vice versa after transmitting data
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23 1 It appears that the invention may be anticipated under pre-AIA § 102(a) or obvious under
24 § 103. *See* https://en.wikipedia.org/wiki/Voice_over_IP#Historical_milestones, last visited
October 14, 2016 (appearing to indicate that variations of the technology at issue were practiced
as much as 20 years prior to the 1994 application leading to the ‘797 Patent).

1 between two computers) is not something that can be done without the claimed apparatus (or a
2 similar apparatus). The “computer station” claimed here is not utilized simply for its generalized
3 computing capabilities, i.e., its ability to substitute for a human mind, pencils and paper, etc. to
4 perform an abstract task. On the contrary, Claim 1 uses the computer station for a particular,
5 concrete method of communication inherently tied to a machine with particular physical
6 capabilities. Neither does the invention merely involve the conversion of information from one
7 abstract form to another. The information is converted from and to physical sound waves by a
8 machine. Indeed, as far as Claim 1 is concerned, the electronic data needn’t ever be converted
9 from one abstract format to another; the only conversion required is from physical sound waves
10 to electronic data packets and vice versa. Sound waves are not abstract concepts but fluctuations
11 in air pressure in the physical world. Nor are electronic data packets abstract concepts. Nor does
12 the ‘797 Patent attempt to claim all instances of communication by sound, and even if it did such
13 a claim would likely satisfy § 101 because communication by sound is not an abstract concept
14 that can be performed in one’s mind (although such a broad claim would of course be anticipated
15 under pre-AIA § 102(a)). The motion to dismiss therefore fails at the first step of *Alice Corp.*
16 Because the invention is not directed to a patent-ineligible concept, there is no need to analyze
17 whether the ‘797 Patent has transformed that putative concept into patent-eligible subject matter.

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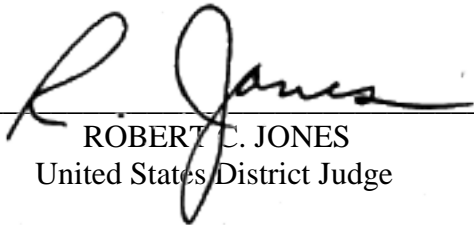
1 **CONCLUSION**

2 IT IS HEREBY ORDERED that the Motion to Dismiss (ECF No. 21) is DENIED.

3 IT IS FURTHER ORDERED that the Motion for Leave to File Notice of Supplemental
4 Authority (ECF No. 32) is GRANTED.

5 IT IS SO ORDERED.

6 DATED: This 18th day of October, 2016.

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10 ROBERT C. JONES
11 United States District Judge
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