

**IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
TYLER DIVISION**

| | | |
|--|---|-----------------------------|
| ADVANCED MARKETING SYSTEMS, LLC | § | |
| | § | |
| | § | Case No. 6:15-cv-134 |
| v. | § | LEAD CASE |
| | § | |
| CVS PHARMACY, et al. | § | |

REPORT AND RECOMMENDATION

Before the Court is CVS Pharmacy, Inc.’s, Walgreen Co.’s, and Brookshire Grocery Co.’s (Defendants, collectively) Motion for Judgment on the Pleadings that the Asserted Patents are Invalid for Failure to Claim Statutory Subject Matter (Doc. No. 63). For the reasons set forth below, the Court recommends that the Motion be **DENIED WITHOUT PREJUDICE**.

BACKGROUND

On February 20, 2015, Plaintiff Advanced Marketing Systems, LLC, filed actions against multiple defendants alleging infringement of Claim 9 of U.S. Patent No. 8,219,445 (the ‘445 Patent); Claims 15 and 28 of U.S. Patent No. 8,370,199 (the ‘199 Patent); and Claim 1 of U.S. Patent No. 8,538,805 (the ‘805 Patent). Claim 9 of the ‘445 Patent and Claim 15 of the ‘199 Patent are very similar and recite:¹

A [distributed] discount vehicle for use with a data processing system for tracking and processing a plurality of in-store discounts to potential purchasers of plural products during the checkout process, wherein said discounts are each associated with a specific one of said plural products, said discount vehicle comprising:

two or more of said discounts including descriptive material to provide information at least identifying the products and their associated discounts, wherein said vehicle is associated with [exactly one] {a} select code that permits

¹ Differing language between the claims is denoted by [brackets] for Claim 9 of the ‘445 Patent and {braces} for Claim 15 of the ‘199 Patent.

[machine reading and] tracking of said vehicle and of individual purchasers' purchased products and the prices thereof during checkout, said select code uniquely identifying all the discounts for all of the plural products associated with said vehicle [and reflecting at least one of varying discounts unique to a potential purchaser and identical discounts common to all potential purchasers], and said select code uniquely identifying said vehicle such that said select code can be selectively deactivated for only particular discounts, of the plurality of discounts, associated with the purchased products by redemption of the code associated with the vehicle such that the code remains active for future use with yet unused ones of the plurality of discounts associated with said plural products.

See '445 Patent, Claim 9; '199 Patent, Claim 15.

Claim 1 of the '805 Patent and Claim 28 of the '199 Patent are also similar to one another and recite:²

A data processing system for tracking and processing a plurality of in-store discounts to potential purchasers of plural products during the checkout process, wherein said discounts are each associated with a specific one of said plural products, said system comprising:

a discount vehicle, characterized by two or more of said discounts, including descriptive material to provide information at least identifying the products and their associated discounts;

a customer account associated with a customer identification code, the customer account comprising two or more of said discounts of the discount vehicle selected by a customer to be associated with the customer account, the customer account being associated with a select code that permits tracking of said customer account during checkout, said select code uniquely identifying all the discounts for all of the plural products associated with the customer account;

[wherein the customer identification code is inputted by the customer to access the customer account;]

a checkout processing terminal including computer based tracking of individual purchasers' purchased products and the prices thereof, wherein said processing terminal includes a device for receiving the [select code] {customer

² Differing language between the claims is denoted by [brackets] for Claim 1 of the '805 Patent and {braces} for Claim 28 of the '199 Patent.

identification code and the select code associated with the customer account} during checkout; and

a data processor attached to said checkout terminal for receiving information regarding transactions associated with checkout, selected products and the discounts associated with the [select code] {code associated with the customer account} forming a part of the transactions, and processing said discounts in accord with said [select] code;

wherein said data processor selectively deactivates the [select] code for only particular discounts, of the plurality of discounts, associated with the purchased products by redemption of the [select] code associated with the customer account such that the [select] code remains active for future use with yet unused ones of the plurality of discounts associated with said plural products, said data processor being further connected to memory for storing data associated with said transaction.

See '805 Patent, Claim 1; '199 Patent, Claim 28.

The actions were consolidated into the lead case, No. 6:15-cv-134, on June 25, 2015, for pretrial issues other than venue, and on September 8, 2015, Defendants filed their Motion for Judgment on the Pleadings. The parties fully briefed the issue on October 23, 2015.

APPLICABLE LAW

Rule 12(c) Judgment on the Pleadings

A motion for judgment on the pleadings provides the Court with a method for summary adjudication of a claim or defense after the pleadings are closed, but before trial. *See* FED. R. CIV. P. 12(c). "A motion for judgment on the pleadings under Rule 12(c) is subject to the same standard as a motion to dismiss under Rule 12(b)(6)." *Doe v. MySpace, Inc.*, 528 F.3d 413, 418 (5th Cir. 2008). The Court "accepts all well-pleaded facts as true, viewing them in the light most favorable to the [nonmovant]." *Id.* Thus, the Court determines whether the pleadings allege

“enough facts to state a claim to relief that is plausible on its face.” *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544, 570 (2007). A claim is facially plausible “when the plaintiff pleads factual content that allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged.” *Ashcroft v. Iqbal*, 556 U.S. 662, 678 (2009).

Patentable Subject Matter

Section 101 of the Patent Act defines patentable subject matter: “[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.” 35 U.S.C. § 101. “Congress took this permissive approach to patent eligibility to ensure that ingenuity should receive liberal encouragement.” *Bilski v. Kappos*, 561 U.S. 593, 601 (2010) (internal quotations omitted). Supreme Court precedent carves out three specific exceptions to § 101’s broad patentability principles: laws of nature, physical phenomena, and abstract ideas. *Id.* These exceptions represent “the basic tools of scientific and technological work.” *Alice Corp. Pty. v. CLS Bank Int’l*, 134 S. Ct. 2347, 2354 (2014) (quoting *Ass’n for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107, 2116 (2013)). “‘Monopolization of those tools through the grant of a patent might tend to impede innovation more than it would tend to promote it,’ thereby thwarting the primary object of the patent laws.” *Id.* (quoting *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1303 (2012)). Accordingly, courts must distinguish between patents that claim such “building blocks of human ingenuity and those that integrate the building blocks into something more.” *Id.* (quotations omitted) (quoting *Mayo*, 132 S. Ct. at 1303).

The Supreme Court has set forth a two part test for patent eligibility. *Id.* at 2355. First, the court determines whether the claims at issue are directed towards one of the patent-ineligible concepts. *Id.* If so, then the court asks “what else is there in the claims before us?” *Id.* (quoting *Mayo*, 132 S. Ct. at 1296–97). To answer the question, the court considers “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.* (internal quotations omitted). The Court has described the second step as a search for an “inventive concept”—“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 1298); see also *DDR Holdings, LLC v. Hotels.com, L.P.*, 773 F.3d 1245, 1255 (Fed. Cir. 2014) (“This second step is the search for an ‘inventive concept,’ or some element or combination of elements sufficient to ensure that the claim in practice amounts to ‘significantly more’ than a patent on an ineligible concept.”).

DISCUSSION

The Parties’ Positions

Defendants ask the Court to invalidate the asserted claims on the basis that they are directed to the abstract idea of “offering, tracking, and processing discounts”—a concept Defendants contend is a longstanding commercial practice. Doc. No. 63 at 18. With regard to Claims 9 and 15 (the discount vehicle claims), Defendants interpret the claims to cover a printed article that conveys multiple discounts to consumers and includes a select code for monitoring the use of discounts associated with the vehicle. *Id.* at 20. Specifically, the select code can be selectively deactivated for redeemed discounts, while remaining active for future use with

unredeemed discounts. *Id.* Defendants argue that these features constitute nothing more than the idea of tracking discounts after they are offered to consumers and processing them once they have been redeemed. *See id.*

Similarly, Defendants contend that Claims 1 and 28 (the data processing system claims) recite merely standard and generic components used to perform the abstract idea of offering, tracking, and processing discounts. *Id.* at 22–23. They argue that the inclusion of elements such as a customer account, a customer identification code, a checkout processing terminal, a data processor, and memory in the claims does not change the “basic character of the subject matter” of the claims because each function performed by these components is purely conventional. *See id.* at 23 (citing *Internet Patents Corp. v. Active Network, Inc.*, 790 F.3d 1343, 1348 (Fed. Cir. 2015)). Additionally, Defendants assert that both the discount vehicle claims and the data processing claims are directed to an abstract idea because tracking discounts is a mental process that can be performed by a human using pencil and paper. *Id.* at 21–22, 24–26.

Defendants also argue that the asserted claims fail to recite an inventive concept. *Id.* at 26. Beginning with the discount vehicle claims, Defendants point to the specification of the ‘445 patent to support their assertion that the use of the vehicle itself is not inventive. *Id.* (“The vehicle is merely an insert in a newspaper or a magazine ([‘445 Patent] at 7:30–31, 9:42–53), a ‘single sheet or card of any size or shape’ (*id.* at 7:60–62), a folded card (*id.* at 8:14–19), or a ‘single sheet stock’ (*id.* at 8:54–55), that has two or more discounts printed on it.”). Nor do Defendants believe that associating multiple discounts with a single code was inventive. *Id.* at 27. Likewise, Defendants take the view that the data processing claims lack an inventive concept because the elements present are either nontechnical or purely conventional. *Id.* They

also argue that the claims recite an end result (selectively deactivating a discount) without describing how that result is accomplished beyond using conventional computers. *Id.* at 28.

Finally, Defendants assert that the discount vehicle claims are not patent-eligible under the printed matter doctrine. *Id.* at 33. They argue that the claims recite “nothing more than paper with certain text and/or graphics printed on it.” *Id.* And because this printed material does not create a functional relationship between the discount vehicle and the select code, Defendants contend that the claims do not satisfy the requirements of patent eligibility. *Id.* at 33–34.

Plaintiff responds that underlying factual disputes concerning the scope of the claim language make a decision on the issue of patentable subject matter inappropriate at this stage in the case. Doc. No. 67 at 15. Specifically, Plaintiff disputes that the claimed discount vehicle is a sheet or card that includes printed information regarding discounts and argues instead that the discount vehicle claims read on Defendants’ websites and mobile applications. *Id.* In Plaintiff’s view, limiting the discount vehicle to a printed article improperly restricts the scope of the claims to exemplary embodiments disclosed in the patent’s specification. *Id.* at 14–15. Plaintiff also asserts that the data processing claims are not merely directed to standard hardware used to automate parts of a manual process, but rather cover a non-generic, specifically programmed system that selectively deactivates certain e-coupons redeemed by a customer at checkout. *Id.* at 15.

Further, Plaintiff claims that its evidence will establish that selective deactivation, as claimed, is an inventive concept and not a longstanding commercial practice. *Id.* at 16. For example, Plaintiff submits that using selective deactivation to disable the select code associated with particular discounts while leaving the code active as to unused discounts offers significantly

more than the abstract idea of “offering, tracking, and processing discounts.” *Id.* at 25–26. For this reason, Plaintiff argues that the asserted claims do not “risk disproportionately tying up the use of the underlying ideas,” as suggested by Defendants. *Id.* at 26 (quoting *Alice*, 134 S.Ct. at 2354 (2014)).

Analysis

Although the court recognizes that, under certain circumstances, a determination of patent eligibility under § 101 may be made at the pleading stage, *see Ultramercial, Inc. v. Hulu, LLC*, 772 F.3d 709, 712 (Fed. Cir. 2014), the issue of patentable subject matter requires a legal analysis that can—and often does—“contain underlying factual issues.” *Accenture Global Servs., GmbH v. Guidewire Software, Inc.*, 728 F.3d 1336, 1340–41 (Fed. Cir. 2013). And while a motion under Rule 12(c) requires a facial analysis of the pleadings themselves, where the parties dispute the scope and meaning of the asserted claims as they do here, application of the principles governing a § 101 analysis is not a straightforward exercise. *See Rockstar Consortium US LP v. Samsung Elecs. Co.*, No. 2:13-cv-894-JRG, 2014 WL 1998053, at *3 (E.D. Tex. May 15, 2014). The parties’ briefing on Defendants’ Motion for Judgment on the Pleadings highlights several reasons why a decision regarding validity under § 101 here is best left until after claim construction.

First, Defendants have not sufficiently shown an absence of fact and claim construction issues such that the only plausible reading of the asserted claims is one of patent ineligibility. *See id.* Plaintiff has identified two terms—“discount vehicle” and “selectively deactivated”—whose construction, it argues, is central to the decision regarding § 101 eligibility. *See Doc. No. 67* at 15. And although Defendants contend that “[t]here is no plausible claim construction that

saves these claims from invalidity,” such a statement is necessarily premised on Defendants’ reading of the claim terms. *See* Doc. No. 71 at 4.

For example, inherent in Defendants’ argument for invalidity under the printed matter doctrine is an assumption that the term “discount vehicle” can only be interpreted as “paper with certain text and/or graphics printed on it.” *See* Doc. No. 63 at 33. Plaintiff, on the other hand, asserts that “there is no claim language or disclosure in the specification that would limit [the discount vehicle claims] to printed matter.” Doc. No. 67 at 19–20. This disagreement demonstrates that there are issues surrounding the claim language that necessitate claim construction. *Rockstar*, 2014 WL 1998053, at *3 (“If there are factual disputes about the patent’s claims, . . . the question of patentable subject matter should be reserved until claim construction.”). Without a meaningful opportunity to fully examine how a person of ordinary skill in the art would interpret the claim terms, and given the extent of the parties’ disagreement concerning their scope, it would be inappropriate to simply adopt Defendants’ characterization of the claims.

Second, a review of the asserted claims does not clearly show that they “recite[] an abstraction—an idea, having no particular concrete or tangible form.” *Ulramercial*, 772 F.3d at 715. The discount vehicle claims, for example, include physical structures such as a discount vehicle with information identifying products and their associated discounts, and a select code that can be selectively deactivated as to certain discounts, while remaining active for future use as to others. The data processing system claims recite, in part, a checkout processing terminal with computer based tracking of purchased products and a device for receiving the select code during checkout. They also recite a data processor connected to memory that is capable of

selectively deactivating the select code for redeemed discounts, while leaving the select code active for unused discounts. The presence of these structures counsels away from summarily concluding that the asserted claims are directed to an abstract idea. Consequently, it is impossible to make a final determination before claim construction that the claims are simply “a drafting effort designed to monopolize [an] abstract idea,” rather than a patent-eligible application of the idea. *See Alice*, 134 S. Ct. at 2357.

Finally, the parties’ disagreement with regard to the claims’ inclusion of an inventive concept further demonstrates that the Court should conduct claim construction before engaging in a potentially dispositive § 101 analysis. Defendants argue that the asserted claims recite only conventional and generic hardware to perform the claimed “selective deactivation.” *See* Doc. No. 71 at 8. Yet Plaintiff contends that it is the implementation of selective deactivation itself that results in a non-generic, specifically programmed system. Doc. No. 67 at 27–28. Additionally, Plaintiff contends that the technical features associated with selective deactivation enhance the performance of prior art computer systems by “improv[ing] core data set access speed” as compared to other real time marketing systems. *Id.* at 29 (citing ‘805 Patent at 5:4–9). Defendants suggest that this feature is not inventive because it is only the result of replacing human activity with a computer. *See* Doc. No. 63 at 31. The resolution of these disputes rests at least in part on a settled interpretation of the claim terms. Therefore, even assuming that the claims are directed to an abstract idea, it is not apparent at this stage of the case that the asserted claims fail to recite an inventive concept.

In cases such as this, courts sometimes choose to deny motions for judgment on the pleadings without prejudice to refiling the motion after claim construction in order to obtain a

more complete understanding of the claimed invention. *Data Distribution Technologies, LLC v. BRER Affiliates, Inc.*, No. 12-4878 JBS/KMW, 2014 WL 4162765, at *7 (D.N.J. Aug. 19, 2014) (citing *Zillow, Inc. v. Trulia, Inc.*, No. 12–1549, 2013 WL 4782287, at *1 (W.D. Wash. Sept. 6, 2013) (“Defendants may resubmit their abstractness arguments at a later date, when there is a more complete record before the Court.”); *Card Verification Solutions, LLC v. Citigroup Inc.*, No. 13 C 6339, 2014 WL 4922524, at *5 (N.D. Ill. Sept. 29, 2014); *Vehicle Intelligence & Safety LLC v. Mercedes-Benz USA, LLC*, No. 13 C 4417, 2015 WL 394273, at *1 (N.D. Ill. Jan. 29, 2015) (“A previous motion for judgment on the pleadings was denied without prejudice to being renewed after conducting term-construction proceedings in accord with *Markman v. Westview Instruments, Inc.*, 52 F.3d 967 (Fed. Cir. 1995).”). Similarly, Defendants’ Motion for Judgment on the Pleadings is denied without prejudice to re-urging a similar motion following claim construction. *Amado v. Microsoft Corp.*, 517 F.3d 1353, 1358 (Fed. Cir. 2008) (district courts “are afforded broad discretion to control and manage their dockets, including the authority to decide the order in which they hear and decide issues pending before them.”).

CONCLUSION

For the foregoing reasons, the Court recommends that Defendants’ Motion for Judgment on the Pleadings (Doc. No. 63) be **DENIED WITHOUT PREJUDICE**.

Within fourteen days after receipt of the Magistrate Judge’s report, any party may serve and file written objections to the findings and recommendations of the Magistrate Judge. 28 U.S.C. § 636(b).

A party’s failure to file written objections to the findings, conclusions, and recommendations contained in this Report within fourteen days after service shall bar that party

from de novo review by the District Judge of those findings, conclusions, and recommendations, and except upon grounds of plain error, from attacking on appeal the unobjected-to proposed factual findings and legal conclusions accepted and adopted by the district court. *Douglass v. United Services Auto. Assn.*, 79 F.3d 1415, 1430 (5th Cir. 1996) (en banc), *superseded by statute on other grounds*, 28 U.S.C. § 636(b)(1) (extending the time to file objections from ten to fourteen days).

So ORDERED and SIGNED this 18th day of November, 2015.



K. NICOLE MITCHELL
UNITED STATES MAGISTRATE JUDGE