

2015 WL 3452469

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United States District Court,  
E.D. Texas, Marshall Division.

Kroy IP Holdings, LLC, Plaintiff,

v.

Safeway, Inc., Defendant.

CASE NO. 2:12-cv-800-  
WCB | Signed May 29, 2015

### Synopsis

**Background:** Patentee brought action against alleged infringer, alleging infringement of patent relating to method and system for providing incentive award programs over computer network. Alleged infringer moved for summary judgment of invalidity on ground that asserted claims of patent were directed to ineligible subject matter.

**[Holding:]** The District Court, [William C. Bryson](#), Circuit Judge, held that claims in patent did not contain inventive concept sufficient to transform the claimed abstract idea into a patent-eligible application.

Motion granted.

West Headnotes (3)

[1] **Patents**

🔑 [Data processing](#)

Claims in patent relating to method and system for providing incentive award programs over computer network did not contain inventive concept sufficient to transform the claimed abstract idea, i.e., an incentive award program, into a patent-eligible application; although patent contained detailed software implementation guidelines, claimed system involved generic use of computer and conventional computer functions rather than improvement in computer technology or manipulation of website, and additional features listed in patent beyond an abstract incentive award program, including

program providing for communication between provider's awards and its inventory, were conventional features that would be expected to be associated with a computer-based incentive award program. [35 U.S.C.A. § 101](#).

[1 Cases that cite this headnote](#)

[2] **Patents**

🔑 [In general; utility](#)

US Patent [7,054,830](#). Invalid in Part.

[Cases that cite this headnote](#)

[3] **Patents**

🔑 [In general; utility](#)

US Patent [5,822,735](#), US Patent [5,970,469](#). Cited.

[Cases that cite this headnote](#)

### Attorneys and Law Firms

[Steven C. Schroer](#), Fitch Even Tabin & Flannery, Boulder, CO, [Timothy Paul Maloney](#), [Alison Aubry Richards](#), [David Allen Gosse](#), [Joseph Frank Marinelli](#), [Nicole Lyn Little](#), Fitch Even Tabin & Flannery, Chicago, IL, [Austin Hansley](#), Austin Hansley PLLC, Dallas, TX, [Melissa Richards Smith](#), Gillam & Smith, LLP, Marshall, TX, for Plaintiff.

[Kirsten R. Rydstrom](#), [Justin J. Kontul](#), Reed Smith, Pittsburgh, PA, [Christine M. Morgan](#), [William R. Overend](#), Reed Smith LLP, San Francisco, CA, [Dallas William Tharpe](#), [Herbert A. Yarbrough, III](#), Yarbrough Wilcox, PLLC, [Debra Elaine Gunter](#), Findlay Craft PC, Tyler, TX, [Gerard Michael Donovan](#), Reed Smith LLP, Washington, DC, [Stuart A. Shanus](#), Reed Smith LLP, Los Angeles, CA, for Defendant.

### MEMORANDUM OPINION AND ORDER

[WILLIAM C. BRYSON](#), UNITED STATES CIRCUIT JUDGE

\*1 In this patent infringement action, defendant Safeway, Inc., has moved for summary judgment of invalidity on the ground that the asserted claims of Kroy's patent are directed to

ineligible subject matter. Dkt. No. 140. The Court GRANTS the motion.

### I. BACKGROUND

Plaintiff Kroy IP Holdings, LLC, is the record owner of [U.S. Patent No. 7,054,830](#) (“the ‘830 patent”), which relates to a method and system for providing incentive award programs over a computer network. The concept underlying the ‘830 patent is that it creates a computerized means for companies to design or select incentive programs and to provide prizes to consumers who participate in the programs.

Kroy asserts that defendant Safeway, Inc., infringes claims 1, 19, 20, 21, 23, and 24 of the ‘830 patent.<sup>1</sup> The two independent claims of the ‘830 patent are claims 1 and 19. Those claims recite the following:

1. A system for incentive program participation and automated award fulfillment, comprising:

- a host computer coupled to a network;
- a first database accessible from said host computer; and
- an automated award fulfillment application program executed on said host computer for participation in incentive programs of a plurality of providers in communication with an inventory management system associated with each of said plurality of providers wherein said automated award fulfillment application program provides sponsor-selected fulfillment, said automated award fulfillment application program comprising:
  - code adapted to provide a sponsor-selected specific award unit item, said sponsor-selected specific award unit item being tailored to demographic and psychographic preferences of a sponsor-selected consumer user; and
  - code adapted to provide a sponsor-selected geographic location for fulfillment.

19. A method for providing an incentive programs [sic] and automating [sic] award fulfillment, comprising:

- providing a host computer;

providing an incentive program on the host computer, wherein a participant may participate in said incentive program;

providing a database of awards on the host computer associated with the incentive program; and

providing automated award fulfillment of said awards to participants, including

- providing communication with an inventory management system associated with each of a plurality of providers wherein said automated award fulfillment comprises

- providing a sponsor-selected specific award unit item,

- providing said sponsor-selected specific award unit item tailored according to demographic and psychographic preferences of a sponsor-selected consumer user, and

- providing a sponsor-selected geographic location for fulfillment.

\*2 In plain English, claim 1 recites a program-based system for providing incentive awards to consumers.<sup>2</sup> The program, which is run on a “host computer,” has several required features: it contains a database of awards in communication with an inventory management system of the company offering the incentive awards (referred to as a “provider”); it provides for a company that wishes to offer an incentive program or promotion (referred to as a “sponsor”) to select customer awards tailored to the demographic and psychographic preferences of customers selected by the sponsor; and it provides for the sponsor to select the geographic location where the awards can be redeemed. According to Kroy, a sponsor and a provider can be the same entity, in which case all of the functions set forth in the claim are performed by the company that offers the incentive award program. Claim 19 is directed to a method instead of a system, but the limitations of claim 19 otherwise parallel those of claim 1.

The asserted claims that depend from claim 19 add that the database of awards includes awards from a plurality of sponsors (claim 20), that the method comprises the additional steps of “associating an award with the incentive program” and “associating a fulfillment method with the award” (claim 21), and that the method comprises the

additional step of “providing a card comprising memory for storing data associated with a user” (claim 23). The asserted claims that depend from claim 23 add that the data is “a personal identification number” (claim 24), and that the data is “information relating to a user’s participation in said incentive program” (claim 25). The asserted claim that depends from claim 21 adds that “associating a fulfillment method” comprises providing a program that “identifies an award based on the geographic proximity of an award winner to a redemption location of an award in the database of awards” (claim 22).

The ‘830 specification acknowledges that “[i]ncentive award programs, in which companies contract with sponsoring companies for programs to promote sales of the sponsoring companies’ products or services, are well-known.”<sup>830 patent</sup>, col. 1, ll. 30–33; col. 7, ll. 51–53. Such programs “offer awards and incentives to modify behavior of individual customers and to direct the consumers to some pre-determined action, such as purchase of products or services upon visiting a retail site, viewing advertising, testing a product, or the like.” *Id.*, col. 1, ll. 39–42.

The specification states that traditional, non-computerized incentive programs have various drawbacks for sponsors, including the costs of generating and administering the programs, tracking the participation of consumers in the programs, and fulfilling the awards or prizes won in the programs. <sup>830 patent</sup>, col. 1, line 65, through col. 2, line 10. Traditional incentive programs also have drawbacks for consumers, such as the difficulty of tracking participation in multiple programs. *Id.*, col. 1, ll. 49–64. The specification further points out that non-automated incentive programs, such as promotional mailings and coupon distribution and redemption systems, can be expensive and cumbersome to operate, and can result in low consumer participation because of distribution and redemption problems. *Id.*, col. 2, ll. 24–56.

According to the specification, the introduction of digital computers and computer networks has eliminated “some of the inconveniences of conventional incentive programs, particularly those that relate to data tracking and manipulation.”<sup>830 patent</sup>, col. 2, ll. 57–60. Although acknowledging that computers have been used in connection with incentive programs in the past, the specification asserts that known computer incentive programs “address some, but not all of the drawbacks of traditional promotions.” *Id.*, col. 2, line 64, to col. 3, line 1. In particular, the specification states, computer-based systems have been used to merge

information for various promotions and to track consumer participation in incentive programs. *Id.*, col. 3, line 3, through col. 4, line 9. However, according to the specification, “none of the existing systems address all of the problems inherent in known incentive programs, particularly the problem of the need for an incentive program system that conveniently tracks participation while offering automated generation of incentive programs and automated fulfillment of awards won in incentive programs.” *Id.*, col. 4, ll. 11–16.

\*3 The specification also acknowledges that computerized incentive programs are offered on the Internet, but it asserts that such systems “are generally offered by a single sponsor and are generally limited to offering consumers the ability to participate in incentive programs,” while not offering sponsors “the ability to conveniently generate incentive programs, to track participation of consumers in multiple incentive programs, or to provide for automated fulfillment of awards.” *Id.*, col. 4, ll. 17–24. Such systems, according to the specification, also lack efficient means for fulfilling awards promised in promotional campaigns. *Id.*, col. 4, ll. 25–32. In summary, the specification states that the prior art did not satisfy the need for an incentive program and award fulfillment system “that provides easy access to consumers who have standard computer hardware and software, that permits sponsors to build or purchase incentive programs easily and efficiently, and that provides for convenient tracking of participation and convenient, automated award fulfillment.” *Id.*, col. 5, ll. 37–43.

The advantages of the patented invention, according to the specification, are that it provides “consumer access to expanded incentive programs, using a conventional computer”; it permits “sponsors to build, buy, store, modify, offer, track and administer incentive programs”; and it permits sponsors and retailers “to offer improved award fulfillment for participants in incentive programs.”<sup>830 patent</sup>, col. 5, ll. 47–54. The specification touts the Internet’s “increased processing power and ability to access remote users” who have “standard equipment such as a personal computer, without requiring specific hardware or software” and its “dynamic opportunities to transmit, store and retrieve data, so that new or different incentive programs may be conducted on a much more frequent basis than is the case with traditional paper systems.” *Id.*, col. 5, ll. 55–65. According to the specification, the invention permits consumers to participate in incentive programs by connecting to a website located on a server of a host system. *Id.*, col. 6, ll. 1–5. It also permits sponsors “to list incentive programs on an

Internet site, to obtain prepackaged incentive programs from a host, to build incentive programs using computer software provided by the host, to associate prizes with incentive programs offered through the site, and to fulfill awards won by consumers.” *Id.*, col. 6, ll. 13–19. In addition, the invention envisions the creation of databases of items that permit automated fulfillment of specific items as incentive rewards. *Id.*, col. 6, at 24–27, 40–45.

## II. DISCUSSION

Safeway argues that the asserted claims of the '830 patent are directed to an abstract concept—the idea of conducting inventive programs and fulfilling the awards in those programs through the use of general purpose computers and networks such as the Internet. The claims are therefore invalid under 35 U.S.C. § 101, according to Safeway, because they fail to recite patent-eligible subject matter.

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 interpreted section 101 to bar the issuance of patents on “laws of nature, physical phenomena, and abstract ideas.” *Diamond v. Chakrabarty*, 447 U.S. 303, 308, 100 S.Ct. 2204, 65 L.Ed.2d 144 (1980). Safeway contends that Kroy's claims are unpatentable because they are drawn to the abstract idea of using incentive award programs to promote sales. Reciting the use of computers to implement that abstract idea does not rescue Kroy's claims, Safeway argues, because “[u]sing a computer to apply the ancient idea of incentivizing a customer to buy more products through awards and prizes does not turn a basic business method into patentable subject matter.” Dkt. No. 140, at 1–2.

### A. Patentable Subject Matter Under 35 U.S.C. § 101

Over the past several years, as a result of a series of decisions from the Supreme Court and the Federal Circuit, the law of unpatentable subject matter has developed to the point that it is possible to discern a number of governing principles applicable to cases such as this one. The Supreme Court's decisions in *Bilski v. Kappos*, 561 U.S. 593, 130 S.Ct. 3218, 177 L.Ed.2d 792 (2010), *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, — U.S. —, 132 S.Ct. 1289, 182 L.Ed.2d 321 (2012), and *Alice Corp. Pty. Ltd.*

*v. CLS Bank International*, — U.S. —, 134 S.Ct. 2347, 189 L.Ed.2d 296 (2014), deserve particularly close attention in determining whether the patent in this case is directed to unpatentable subject matter under section 101.

### 1. Recent Supreme Court Decisions

#### a. *Bilski*

\*4 In *Bilski*, the Supreme Court addressed the patentability of an invention claiming a method for buyers and sellers of commodities to hedge against the risk of price fluctuations. As the Court explained, claim 1 of the application at issue in *Bilski* described a series of steps instructing how to hedge against risk, and claim 4 put the concept articulated in claim 1 into a simple mathematical formula. Claim 1 in *Bilski* provided as follows:

- (a) initiating a series of transactions between said commodity provider and consumers of said commodity wherein said consumers purchase said commodity at a fixed rate based upon historical averages, said fixed rate corresponding to a risk position of said consumers;
- (b) identifying market participants for said commodity having a counter-risk position to said consumers; and
- (c) initiating a series of transactions between said commodity provider and said market participants at a second fixed rate such that said series of market participant transactions balances the risk position of said series of consumer transactions.

130 S.Ct. at 3223–24.

The Supreme Court characterized the claims in *Bilski* as efforts to patent “both the concept of hedging risk and the application of that concept to energy markets.” 130 S.Ct. at 3229. Applying principles drawn from several of its prior decisions, the Court held that the inventions claimed in *Bilski* “are not patentable processes because they are attempts to patent abstract ideas. *Id.* at 3229–30. The Court pointed out that the basic concept of hedging, or protecting against risk, is a fundamental economic practice long prevalent in our system of commerce and taught in any introductory finance class; as such, the Court held, it “is an unpatentable abstract idea.” *Id.* at 3231. “[A]llowing a party to patent the principle of risk hedging, the court explained, would pre-empt use of this approach in all fields, and would effectively grant a monopoly over an abstract idea.” *Id.*

The Court added that the prohibition against patenting abstract ideas “ ‘cannot be circumvented by attempting to limit the use of the formula to a particular technological environment’ or by adding ‘insignificant postsolution activity.’ ” 130 S.Ct. at 3230, quoting *Diamond v. Diehr*, 450 U.S. 175, 191–92, 101 S.Ct. 1048, 67 L.Ed.2d 155 (1981). Accordingly, after holding the two principal claims to be unpatentable because they were drawn to the basic concept of hedging, the Court held that the remaining claims were merely examples of “how hedging can be used in commodities and energy markets,” and were therefore also unpatentable. “[L]imiting an abstract idea to one field of use or adding token postsolution components,” the Court explained, “did not make the concept patentable.” 130 S.Ct. at 3231.

The *Bilski* Court addressed the “machine-or-transformation” test that the Federal Circuit had relied on to determine whether a claim was drawn to a patentable process. The Court held that the machine-or-transformation test, which asks whether the process at issue “is tied to a particular machine or apparatus or it transforms a particular article into a different state or thing,” 130 S.Ct. at 3225, is a “useful and important clue” in determining whether some claimed inventions are patentable under section 101, but is “not the sole test for deciding whether an invention is a patent-eligible ‘process.’ ” *Id.* at 3227.

#### b. *Mayo*

In *Mayo*, decided two years after *Bilski*, the Supreme Court revisited the issue of patentable subject matter. The claims in *Mayo* were directed to methods of optimizing the therapeutic efficacy of certain treatment protocols for an immune-mediated gastrointestinal disorder. The claims were embodied in certain diagnostic tests, and the patentee claimed that the unlicensed use of those tests infringed the claims. The method recited in the claims included the steps of administering a particular form of the drug thiopurine to a patient, determining the amount of the drug in the patient, and then, if the drug was present in the patient’s red blood cells in less than a particular concentration, concluding that the amount of the drug given to the patient should be increased, while if the drug was present in the patient’s red blood cells in more than a particular concentration, concluding that the amount of the drug given to the patient should be reduced.

\*5 The Supreme Court held that the claims in *Mayo* were unpatentable under 35 U.S.C. § 101. The Court began with the proposition that the claims were drawn to laws of nature

— “namely, relationships between concentrations of certain metabolites in the blood and the likelihood that a dosage of a thiopurine drug will prove ineffective or cause harm.” 132 S.Ct. at 1296. The question to be decided, as the Court described it, was “whether the claims do significantly more than simply describe these natural relations.” That is, “do the patent claims add *enough* to their statements of the correlations to allow the processes they describe to qualify as patent-eligible processes that *apply* natural laws?” *Id.* at 1297 (emphases in original). The Court held that they did not. Instead, the Court held, the steps in the claimed processes, other than the natural laws themselves, “involve well-understood, routine, conventional activity previously engaged in by researchers in the field.” *Id.* at 1294.

Although the technology in *Mayo* was quite different from the technology at issue in this case, the *Mayo* case nonetheless bears significantly on this case in several respects. First, the Court restated the point made in *Bilski* that the fact that an abstract idea (like a natural law) is limited to a particular “field of use” or added “token postsolution components” does not make the concept patentable. 132 S.Ct. at 1301. Second, the Court stated that merely implementing an abstract idea, such as a mathematical principle, “on a physical machine, namely a computer,” is not a patentable application of that principle. *Id.* Third, the Court emphasized that the risk of preempting later inventive contributions—a risk that underlies the policy against allowing patents on abstract ideas or laws of nature—is not avoided simply because the abstract ideas or laws of nature at issue “are narrow laws that may have limited applicability.” *Id.* at 1302. Finally, discussing the line between natural laws and the patentable inventions that employ those natural laws, the Court noted that a process that focuses upon the use of a natural law must “contain other elements or a combination of elements, sometimes referred to as an ‘inventive concept,’ sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the natural law itself.” *Id.* at 1294.

#### c. *Alice*

Four years after *Bilski* and two years after *Mayo*, the Supreme Court again returned to the issue of unpatentable subject matter in *Alice*. The *Alice* case was similar in many respects to *Bilski*, with the important difference that *Alice* involved claims to methods and systems of doing business implemented on a computer.

The claims at issue in *Alice* were drawn to a computerized system for mitigating “settlement risk,” i.e., the risk that only



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