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# IP Newsflash



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## FEDERAL CIRCUIT CASES

### Airline Rewards Conversion Method Invalid Under *Alice* and *Bilski*

On September 2, 2014, Federal Circuit Judge William Bryson, sitting by designation in the Eastern District of Texas, ruled that two patents on a computer-based method for converting airline customers' loyalty reward credits are invalid for claiming only an abstract idea under the U.S. Supreme Court's rulings in *Alice Corp. Pty. Ltd. v. CLS Bank Int'l* and *Bilski v. Kappos*. Plaintiff Loyalty Conversion Services sued ten major airlines claiming their frequent flyer programs infringed U.S. Patent numbers 8,313,023 and 8,511,550 which cover a method in which a company accepts transfers of credits to "independent funds." The suits targeted the airlines' various hotel-to-mile partnerships, which allow customers to convert hotel points to airline miles. Judge Bryson ruled that the patents were invalid under *Alice* and *Bilski* because the role of a computer in the claims of the patents was limited to the basic functions of a generic computer that were so simple that they could be performed by a human being without the aid of a computer of any kind. The court characterized the patents to claim "the unpatentable concept of currency exchange, as applied to the exchange of currencies in the form of loyalty award credits of different vendors." Therefore, the patents were invalid because they "do not contain an 'inventive concept' that solves practical problems and ensures that the patent is directed at something 'significantly more than' the ineligible abstract idea itself."

*Loyalty Conversion Systems Corp. v. American Airlines*, case number 2:13-CV-655, in the United States District Court for the Eastern District of Texas.

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## DISTRICT COURT CASES

### Defendants Successfully Challenge Patent Eligibility Under Rule 101 Prior to Claim Construction

The District of Delaware and the Central District of California have both recently invalidated patents under 35 U.S.C. § 101 without first construing the claim terms, instead deciding the cases on the pleadings alone. These software-patent cases follow in the wake of the United States Supreme Court's ruling in *Alice Corp. v. CLS Bank Int'l.*, which invalidated claims to a computer-implemented escrow service because the claims were "drawn to the abstract idea of intermediated settlement, [and] merely requiring generic computer implementation fails to transform that abstract idea into a patent-eligible invention." (Slip. op. at 1).

In *Tuxis Tech v. Amazon*, the Delaware District Court considered a claim directed to a computer-implemented method for up-selling (i.e., seeking additional purchases based on a buyer's initial purchase and preferences). The plaintiff conceded that the notion of up-selling was indeed merely an abstract idea but argued that several limitations – such as an electronic communications device, and the creation of a data element related to the buyer – conferred patent eligibility. Judge Andrews disagreed, dismissing the case on the pleadings while holding that none of the limitations the plaintiff pointed to are "meaningful." For example, the court noted that up-selling via an electronic communications device, as opposed to conducting the sale in a brick-and-mortar store, was not an inventive concept above and beyond the abstract idea of up-selling that is at the heart of the claim. *Tuxis Tech v. Amazon.com*, No. 13-1771-RGA (DDE September 3, 2014). Notably, Judge Andrews dismissed the case at the motion to dismiss stage, prior to a *Markman* hearing; he reasoned that a motion to dismiss is appropriate "if the only plausible reading of the patent must be that there is clear and convincing evidence of ineligibility." (Slip. op. at 3 (internal citations omitted)). In another software-patent case decided this past week, the Central District of California followed Judge Andrew's lead and found invalidity under § 101 at the motion to dismiss stage. The CDCA rejected the plaintiff's argument that the motion to dismiss was premature due to factual disputes; the court instead agreed with the defendant that dismissal is not premature because claim construction is not purely a question of fact.

*Eclipse IP LLC v. McKinley Equipment Corporation*, 8-14-cv-00742 (CACD September 4, 2014) (Wu, J.).

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## PATENT TRIAL AND APPEAL BOARD

### Failure to Address By Patent Owner to Address Co-Pending District Court Decision Results in Denial of Patent Owner's Motion to Amend Claims in IPR Proceeding

On September 2, 2014, the Patent Trial and Appeal Board (PTAB) issued a decision written by Administrative Patent Judge Green that a subset of patent claims challenged during an *inter partes* review (IPR) proceeding were invalid as anticipated by a prior art reference and unpatentable for claiming ineligible subject matter. Further, the PTAB denied the patent owner's motion to amend claims because the amended claims were deemed invalid by the district court and the patent owner failed to explain how the proposed amendment addressed the district court's validity concerns. In September 2012, Ariosa Diagnostics (Ariosa) filed an IPR petition challenging the claims of Isis Innovation Limited's (Isis) U.S. Patent No. 6,258,540 ("the '540 Patent"), which is directed to prenatal detection methods using non-invasive techniques. The PTAB instituted the petition for all challenged claims in March 2013. Subsequently, Ariosa filed a second IPR petition directed to additional claims of the '540 patent, which were joined with the instant proceeding. Prior to the issuance of this decision and Isis's motion to amend the claims, a co-pending Northern District of California District Court proceeding (*Ariosa Diagnostics Inc. v. Sequenom, Inc.* Civ. No. 12-00132), the Court granted summary judgment to Ariosa on the basis that certain claims of the '540 patent were directed to ineligible subject matter under 35 U.S.C. § 101.

A hearing was held before three Administrative Patent Judges addressing the arguments and motions raised by both parties. The PTAB found that Ariosa had standing despite filing a civil action challenging the validity of the '540 patent and that IPR was not barred under 35 U.S.C. § 315(b) based on Ariosa's acceptance of a complaint that was later dismissed without prejudice. After construing the disputed claims of the patent, the PTAB found that Ariosa demonstrated by a preponderance of the evidence that the prior art inherently anticipates the claims 1, 4, 5, 8, 24 and 25 of the '540 patent. However, the PTAB determined that Ariosa failed to demonstrate by a preponderance of the evidence that claims 3, 12, 13, 15 and 18 are obvious in light of the prior art. Finally, the PTAB denied Isis's motion to amend claims 1, 24 and 25 of the '540 patent because, despite the receiving the District Court ruling that these claims were invalid under 35 U.S.C. § 101 prior to file its Motion to Amend, Isis did not address whether its claims met the requirements for patent eligible subject matter and thus did not establish it was entitled to relief. Therefore, the Court found that claims 1, 2, 4, 5, 8, 19, 20, 24 and 25 of the '540 patent were demonstrated to be unpatentable by the preponderance of the evidence, whereas claims 3, 12, 13, 15, 18, 21 and 22 were not shown to be unpatentable.

*Ariosa Diagnostics v. Isis Innovation Ltd.*, IPR2012-00022, Paper No. 166 (PTAB, Sep. 2, 2014).

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