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CBM2015-00015, Paper No. 52
CBM2015-00016, Paper No. 53
CBM2015-00017, Paper No. 44
CBM2014-00192, Paper No. 43
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CBM2014-00194, Paper No. 47
CBM2014-00199, Paper No. 47
CBM2015-00018, Paper No. 40

December 10, 2015

RECORD OF ORAL HEARING

UNITED STATES PATENT AND TRADEMARK OFFICE

BEFORE THE PATENT TRIAL AND APPEAL BOARD

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SAMSUNG ELECTRONICS AMERICA, INC.,

SAMSUNG ELECTRONICS CO., LTD., and APPLE INC.,

Petitioners,

v.

SMARTFLASH LLC,

Patent Owner.

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Case Nos. CBM2014-00192, CBM2015-00016

(Patent Number 8,033,458)

CBM2014-00193, CBM2015-00017

(Patent Number 8,061,598)

CBM2014-00194, CBM2014-00199, CBM2015-00015

(Patent Number 8,118,221)

CBM2015-00018, (Patent Number 7,942,317)

Oral Hearing Held on Monday, November 9, 2015

Before: JENNIFER S. BISK; RAMA G. ELLURU; JEREMY M. PLENZLER (via video link); and MATTHEW R. CLEMENTS (via video link), Administrative Patent Judges.

The above-entitled matter came on for hearing on Monday, November 9, 2015, at 10:03 a.m., in Hearing Room A, taken at the U.S. Patent and Trademark Office, 600 Dulany Street, Alexandria, Virginia.

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P R O C E E D I N G S

(10:03 a.m.)

JUDGE ELLURU: Please be seated. Good morning. We are here for the final hearing in CBM2015-0015, CBM2015-0016, CBM2015-0017 and CBM2015-0018, Apple Inc. versus Smartflash LLC.

This is also the final hearing for CBM2014-00192, with which CBM2015-00119 has been consolidated; CBM2014-00193, with which CBM2015-00120 has been consolidated; CBM2014-00194, with which CBM2015-00117 has been consolidated; and CBM2014-00199, Samsung Electronics America, Inc., Samsung Electronics Company, Limited, and Apple, Inc. v. Smartflash.

I'm Judge Elluru. To my right is Judge Bisk. And appearing remotely from San Jose is Judge Clements and from Detroit is Judge Plenzler.

Let's begin with appearances from counsel, starting with Petitioner Apple.

MR. BAUGHMAN: Your Honor, Steve Baughman. With me is my colleague, Jim Batchelder, Ching-Lee Fukuda and Megan Raymond for Apple. And we have with us a representative of apple, Cyndi Wheeler.

JUDGE ELLURU: Thank you. And for Smartflash?

MR. CASEY: Good morning, Your Honor. Michael Casey on behalf of the Patent Owner Smartflash. With me is my colleague Greg Krauss. And with me also is the inventor of the patent.

JUDGE ELLURU: Thank you. I would like to go over how we will proceed today. We will have two sessions of hearings. The first session will commence momentarily and cover the hearings for CBM2015-0015, 16, 17 and 18.

Each party, Apple and Smartflash, will have 75 minutes of total time to present its argument. But let me remind the parties that, pursuant to our previous order, we had dismissed Apple as a Petitioner from CBM2015-00015 and CBM2015-00018, and also from 2015-00016, with respect to claim 1 of the '458 patent; and from CBM2014-00194 with respect to claims 2 and 11 of the '221 patent.

Petitioner Apple has the burden so will go first. Then Patent Owner will argue its opposition to Petitioner's case. And then if Petitioner Apple has reserved any time, Petitioner can use that time for rebuttal.

The second session will commence at 1:30 p.m. and will cover oral hearings for CBM2014-00192, 193, 194 and 199.

Please remember that Judges Clements and Plenzler cannot see whatever is being projected on the screen. So when you refer to a demonstrative on the screen, please

state the slide number so these Judges can follow along and we have a clear transcript.

Also, please make clear at all times to which case and to which claim a particular argument relates.

I will use the clock on the wall to time you and will give you a warning when you are reaching the end of your argument time.

Do counsel have any questions, starting with Petitioner?

MR. BAUGHMAN: Not from Petitioners, Your Honor.

MR. CASEY: Yes, Your Honor, I do. Your Honor, the order that was issued on November 5th -- it says here on the 4th but it was actually I think entered on the 5th -- indicates in footnote 3 and footnote 5 that you will not be hearing any -- sorry, footnote 6, that you will not be hearing any arguments as relates to 15 and 18. So this hearing is actually not for 15 and 18.

JUDGE ELLURU: Is Patent Owner making a request at this time?

MR. CASEY: No, Your Honor. Patent Owner is making the point that Your Honors have cancelled 15 and 18 or have noticed, have informed the parties that 15 and 18 are cancelled.

JUDGE ELLURU: We've dismissed Petitioner from those cases.

MR. CASEY: And the order says that you are not going to hear arguments on 15 and 18. Is that correct?

JUDGE ELLURU: That is correct. Is Patent Owner making a request to make argument with respect to those claims?

MR. CASEY: With respect to those claims, Your Honor, Patent Owner is respectfully requesting that, given that you have already cancelled, that it be given an opportunity in the future to have a separate oral argument. You have already cancelled it.

So statutorily, under 35 U.S.C. 326 (a)(10), the Patent Owner has a right to a hearing on this case.

And the PTAB cancelled that hearing without notice and without conferring with -- or without being in conformance with 325 -- 35 U.S.C. 326 (a)(10).

JUDGE BISK: So why don't you talk about those cases today then.

MR. CASEY: Your Honor, you have already cancelled that case. I can't be requested to prepare an argument in two seconds. You have already made your -- issued your ruling. You can't undo a ruling three seconds before the hearing.

JUDGE ELLURU: We've dismissed Petitioner from those cases as well with respect to certain claims.

MR. CASEY: Yes, I understand, Your Honor. So the issue is whether or not the proceeding is terminated with respect to those -- whether those proceedings are terminated or whether those proceedings are only dismissed with respect to the Petitioner.

So if -- Your Honor cited Progressive and Blackberry as supporting the fact that you can go forward even without a Petitioner. But neither of those cases is actually on point. So the actual proceedings in 15, 18 and the proceeding in 16 --

JUDGE BISK: Excuse me. Why didn't you bring this up before just now?

MR. CASEY: Your Honor, you issued the order on Thursday. The time for a reconsideration hasn't even passed yet.

JUDGE ELLURU: You could have requested a teleconference and asked whether you -- you could have brought this up in a teleconference Thursday or Friday.

MR. CASEY: That may be, Your Honor, but the reality is that you cancelled the hearing without providing notice. You did it too late to actually provide us with the ability to respond.

JUDGE BISK: So when do you want to have a hearing on this?

MR. CASEY: We will have to find out, Your Honor, you will have to look at your calendar, but the issue arises --

JUDGE BISK: Well, you say today is too late. When is not too late?

MR. CASEY: Two weeks. Your Honor, there is a separate issue that has to be addressed at this point, which is if you are going to go forward, the Board has stepped into the shoes of the Petitioner.

325 is supposed to be an anti-harassment statute. It is supposed to prevent exactly the kind of behavior that is now occurring, which is there has already been one final written decision, and now the proceedings continue against the Patent Owner and drive up costs, increase delays, and the Board is now doing on behalf of Petitioner that which Petitioner cannot do themselves, which is continue the proceeding rather than terminate.

JUDGE ELLURU: As we indicated in our order, the record has been closed in these proceedings.

MR. CASEY: Your Honor, the record is not closed. The record remains open because there can be admissions yet. And the record is not closed because statutorily Patent Owner is entitled to a hearing.

You have created a situation where the only way to move forward with the statutory rights that the Patent Owner has is to have a hearing, but the only person who could be standing in the shoes of the Petitioner at this point is the Board. So the Board is both adjudicator and party.

JUDGE BISK: But where are the admissions coming from?

MR. CASEY: They could be an admission of a party.

JUDGE BISK: But there is only you left, the Patent Owner left.

MR. CASEY: That may be, Your Honor, but that doesn't mean the record is closed, nor has Patent Owner waived its right to a hearing.

JUDGE ELLURU: We do this in settlements as well, when parties have settled on the 11th hour, we have proceeded to final written decision.

MR. CASEY: Your Honor, that's under a different section. That's under 327, which expressly provides the ability for the Board to continue to a final hearing even if the parties have settled.

This isn't 327. This is 325. It is essentially an anti-harassment statute. And as I said, the Board is now doing exactly what the Petitioner is prohibited from doing itself, which is causing this procedure to continue on.

The only possible remedy is that, rather than dismissal, this case actually be terminated. This isn't like Progressive where --

JUDGE ELLURU: So you are re-raising the issue of requesting a motion to terminate those cases which we have already ruled on.

MR. CASEY: And, Your Honor, the time period for requesting reconsideration of that has not yet run.

JUDGE ELLURU: Understood.

MR. CASEY: Nor has the time period for requesting essentially that the Chief Judge take action if that is also required.

So the fact is that this ruling came two days before this hearing. And we are where we are because of the order the Board issued, but this is not the doing of the Patent Owner.

JUDGE ELLURU: Thank you. I'm going to confer with my Panel for a few minutes.

(Pause)

JUDGE ELLURU: Mr. Casey, we do have a question for you.

MR. CASEY: Yes, Your Honor.

JUDGE ELLURU: Are you requesting argument on the 325 issue or to argue on the merits of the two cases?

MR. CASEY: Your Honor, if the -- I guess I'm having a hard time. Can you be more specific with your question, and then I can try to answer it.

JUDGE ELLURU: You said that you would like a hearing at a later time. Is that with respect to the merits of CBM2015-0015 and CBM2015-0018 or is that with respect to the 325 issue that we have already ruled on?

MR. CASEY: So, Your Honor, this will play out in two steps. If Your Honors say that you will not grant us a hearing, then that's an issue of essentially preventing a statutory right that is granted to the Patent Owner.

If you say you are going to grant us a hearing, then the only way you can grant us the hearing is if the Board steps into the shoes of the Petitioner and does on behalf of the Petitioner that which the Petitioner cannot do itself.

As a result, at that point -- to lay my cards on the table -- I'm going to ask that the Panel recuse itself because it's going to be on both the same side of the Petitioner and the adjudicator.

JUDGE BISK: Couldn't you; can't you make that argument today?

MR. CASEY: I'm sorry?

JUDGE BISK: And you can't make that argument today?

MR. CASEY: I can certainly make the argument today, Your Honor, that if you step into the shoes of the Petitioner and say that you will grant me a hearing in the future, that you haven't, in fact, put yourself in the position of the Petitioner.

JUDGE BISK: So what do you need the two weeks for, is what I'm trying to figure out?

MR. CASEY: To have a hearing on 15 and 18, Your Honor. If you decide that you are not going to recuse yourself or the Patent Office is going to go forward with the hearing in 15 and 18 --

JUDGE BISK: So wait a minute. This is a different request. What you are asking for is not only a hearing in two weeks but a hearing with a different panel in two weeks.

MR. CASEY: Yes, Your Honor, absolutely.

JUDGE BISK: Okay.

MR. CASEY: And, Your Honor, I will go so far as to say that if you say that you are going to grant the request for a hearing and the Board is saying it is going to step into the shoes of Petitioner, I'm going to request a different hearing for all of today.

JUDGE BISK: Okay. So is there anything that you could argue today that would satisfy one of these two cases?

MR. CASEY: I guess, Your Honor, I need to know whether or not the Board has become the Petitioner or the Board is going to grant a hearing, or the Board is not becoming the Petitioner, and then we can --

JUDGE BISK: Okay. I think I understand what you are saying.

JUDGE ELLURU: And we have another question for you.

MR. CASEY: Yes, Your Honor.

JUDGE ELLURU: How are the arguments in 16 and 17 different -- or how are the arguments in 15 and 16 different from the arguments you are going to make within 16 and 17 with respect to the merits?

MR. CASEY: I haven't decided that, Your Honor. They may not be different in the long run, but you certainly can't ask me --

JUDGE ELLURU: So your arguments have to be based on your briefing and we haven't seen any differences.

MR. CASEY: Absolutely. Your Honor, are you saying that you are not going to grant me a hearing for 15 and 18 or --

JUDGE ELLURU: The Panel has not made any decisions yet. I'm asking you a question with respect to CBM2015-0015 and 16, and why those arguments with respect

to the merits would be different than the arguments you will be making today with respect to CBM2015-0016 and 17?

MR. CASEY: Your Honor, I'm not sure that they would be, but I am not capable of making that decision with zero notice after the Board has already cancelled the hearing on those 15 and 18 last week. I'm not capable of doing that, Your Honor.

JUDGE ELLURU: Thank you. All right. Could we hear from Petitioner Apple briefly to see if it has any response at this point?

MR. CASEY: Your Honor, just so we are clear, they are not Petitioners in 15, 18 or claim 1 of 16 any more. So they have no standing to discuss the issues in 15, 18 and claim 1 of the 16 matter. They are not Petitioners any more. You have already dismissed them.

JUDGE ELLURU: All right. Thank you. We agree. Thank you.

Please bear with us while we confer a little further.

(Pause)

JUDGE ELLURU: Counsel, the Panel has conferred and the Panel has decided to allow the Patent Owner to argue with respect to all four cases, CBM2015-0015, CBM2015-0016, CBM2015-0017 and CBM2015-0018.

MR. CASEY: Your Honor, there is insufficient time to prepare for 15, 18 and claim 1 of the 0016 matter. You have already cancelled those arguments. You can't tell me two minutes beforehand that I have to be prepared for those as well.

I mean, you can tell me that, but I'm going to request a conference. I'm going to request an emergency motion with the Chief Judge. This is outrageous.

JUDGE ELLURU: Your position is understood.

MR. CASEY: Okay. Are you saying that if I don't argue 15 and 18 today, I've waived?

JUDGE ELLURU: I am not saying anything other than that you are entitled to argue those -- we are giving you the opportunity to argue those cases today given the similarity of arguments in all four cases.

MR. CASEY: Okay. So Your Honors are holding a hearing on 15 and 18 today, you are willing to hold a hearing on 15 and 18 today? You have stepped into the shoes of the Petitioner?

JUDGE ELLURU: The Panel has agreed to give you the opportunity, to give Smartflash the opportunity to argue its case in CBM2015-0015 and CBM2015-0018.

MR. CASEY: Okay. Your Honor, I would move that the Panel recuse itself as it has now stepped into the shoes of the Petitioner, because it is doing in 15 and 18 by

maintaining this proceeding that which the Petitioner itself cannot do.

JUDGE ELLURU: Your request is denied.

MR. CASEY: Okay. Your Honor, I also would request that the Patent Owner be given two weeks to prepare its arguments for 15 and 18 and claim 1 of the 0016 patent.

JUDGE ELLURU: You can make that request. Again, we ask that you make that request at another time in written form.

MR. CASEY: Okay.

JUDGE ELLURU: So we will start with Petitioner Apple.

Mr. Baughman, would you like to reserve any time for rebuttal?

MR. BAUGHMAN: Yes, Your Honor. We would like to split our time roughly in half, so if we could reserve half our time, please, which I think is 38 minutes.

JUDGE ELLURU: 33 minutes?

MR. BAUGHMAN: 37 and a half. Thank you, Your Honor.

JUDGE ELLURU: All right.

MR. BAUGHMAN: Good morning, Your Honors. May it please the Board. And, Judges Clements and Plenzler, if I step away from the microphone, please feel free to remind me to wander back. I apologize in advance if I do that.

Your Honors, Petitioner have provided our positions and evidence in these two trials in briefing and I have before Your Honors slide 1 of our demonstratives, Apple's demonstratives indicating the two trials we understand are in play for Petitioner Apple. That is the 00016 and 00017 matters based on Your Honors' order dated November 4th.

To assist the Board in considering the record for which we rely on our papers and the evidence we have already submitted, we propose to discuss in our opening discussion this morning two topics along with any questions, of course, the Board may have.

So after some brief opening remarks, first my colleague, Mr. Batchelder, is going to address the ineligibility of the claims of the '458 and '598 patents that are at issue in these proceedings under the Supreme Court's two-step inquiry mandated in Mayo and Alice, and in particular under the second prong of that test, since Patent Owner has made no argument whatsoever to contest that its claims are directed to abstract ideas under the first prong of Mayo and Alice.

Second, I'm going to address Patent Owner's legally-misguided arguments about preemption which, as the Supreme Court and Federal Circuit have made clear, is not some separate or alternative test for subject matter eligibility

under Section 101. It is certainly not the end run they have suggested in an effort to avoid the mandatory two-step test.

Instead preemption is simply a motivation behind and is completely subsumed by the two-step test applied by the Supreme Court in Alice and Mayo, where the court recognizes that courts are not institutionally well suited to distinguish among different abstract ideas based on judgments about how narrowly or broadly they might be expected to foreclose future innovation.

I will be prepared if the Board should have any questions to address the invalidity of claim 11 of the '458 patent under Section 112 or any of the other arguments Patent Owner has thrown up to try to stave off invalidation of the challenged claims.

Turning to slide 2 of Apple's demonstratives, just to give the Board an overview of the demonstratives we have this morning, we plan to address basically the first half of topics in our slides. We have an appendix with some additional detail that may or may not come up depending on the Board's questions.

Now, there is a relatively narrow list of issues that remains in dispute before us. Before we jump in, I would like to make three brief observations about the kind of arguments and evidence Patent Owner has put before this Board.

The first point is about waiver. This trial begins and ends with application of the Supreme Court's two-part test for patent-eligible subject matter under Mayo and Alice. And Patent Owner has waived any argument with respect to the first part of that test.

It has offered no argument disputing that, as Petitioner demonstrated and the Board agreed in the Institution Decision, the claims at issue here are directed to abstract ideas.

JUDGE ELLURU: Counsel, all specifications and challenged patents are related. Is it your position that the abstract idea of all the challenged claims and all challenged patents is the same?

MR. BAUGHMAN: Your Honor, I think the abstract ideas could be articulated that way.

JUDGE ELLURU: And what is that?

MR. BAUGHMAN: It is the idea of access to content based on payment. I think we actually have a slide addressing this in more detail and how the Board has defined it as well.

Slide 6, please. And here we are talking about the concept of controlling access. The Board has in its Institution Decision in the 0016 matter noted that it is restricting access to stored data based on supplier-defined access rules and payment data.

JUDGE ELLURU: So that's a little different than your characterization. So I'm trying to determine what is your characterization of the abstract idea and do you agree that it is the same in all cases?

MR. BAUGHMAN: Your Honor, we agree with the Board's articulation of the abstract idea and, respectfully, I think more than one person could come up with more than one formal way of stating the abstract idea, but I think the abstract ideas are essentially the same.

JUDGE BISK: Can I ask you, what about the District Court's version of the abstract idea?

MR. BAUGHMAN: If I might, Your Honor, may I ask my colleague, Mr. Batchelder, to help address that question?

JUDGE BISK: Okay.

MR. BATCHELDER: If I could, Your Honor, the Board's --

JUDGE BISK: And then go to the microphone, though, so that we all can hear.

MR. BATCHELDER: Sure. Just give me one moment. Again, James Batchelder, Ropes & Gray, for Apple.

The Board's articulation here restricting access to stored data based on supplier-defined access rules and payment data we think is an accurate recitation of the abstract idea that encompasses the claims.

Let me just point to the magistrate's R and R -- give me one moment, please. And the magistrate pointed to conditioning and controlling access to data based on a payment. A similar concept.

I think the Board's perhaps is more all encompassing because it doesn't require payment. There are some claims that don't actually refer to payment. So I think the Board's is probably preferable in that respect.

MR. BAUGHMAN: And, Your Honor, as far as we have seen, there has been no argument from Patent Owner that this is incorrect as an articulation of the abstract idea and, again, no challenge to the notion that all of the claims are directed to abstract ideas.

So under the scheduling order in both of these trials, page 3, as the Patent Owner's has warned, any arguments in that connection are waived.

JUDGE BISK: And the District Court seemed to find that it was an abstract idea as well.

MR. BAUGHMAN: I think there is actually no dispute anywhere here that these are directed at abstract ideas, Your Honor.

JUDGE BISK: Okay.

MR. BAUGHMAN: And certainly none that has been raised by Patent Owner to this point. And actually we can see this in the table of contents of their Patent Owner

response, in the 00017 matter, that's the '598 patent, Paper 32.

So in 5-A they talk about the two-part test for statutory subject matter. And the next section of their brief, the second step of Mayo. So our argument here is going to focus on what we understand to be the only unwaived aspect of the Mayo test.

The second point we would ask the Board to bear in mind this morning in sifting through the evidence is to focus on that second prong of Mayo and Alice and look at what the Patent Owner did. Instead of offering a substantive detailed argument about why its claims are argued to provide something significantly more than abstract idea in the way the Supreme Court has taught us could make them patent eligible, Patent Owner's focus, it spends most of its time instead offering a series of mistaken arguments about preemption.

Staying here on the table of contents, after spending three pages on introducing the second step of Mayo, it spends 10 pages talking about preemption, preemption under DDR, preemption under Mayo and Alice, and preemption based on its arguments about non-infringing alternatives.

But preemption is not the test for Section 101 eligibility. We know this because the Supreme Court tells us

so. So the little that Patent Owner does say here makes no difference to the result. The claims are patent ineligible.

And, finally, the third point we ask the Board to bear in mind as it is listening to the arguments today is what evidence actually is before Your Honors in these two trials.

We have from Petitioner the expert testimony of Mr. Wechselberger, confirming that the claims add at most nothing more than routine and conventional material to the abstract ideas we all agree they are directed to. And so they fail the second step of Mayo and Alice for patent-eligible subject matter.

What evidence does Patent Owner offer the Board to rely on? Where is their expert declaration suggesting there is something here beyond what is routine and conventional? Well, take a look at Patent Owner's exhibit list in that same response. You can search in vain. There is no expert testimony here, there's no evidence at all, just attorney argument.

So when the Board is weighing the evidence before it, you will have the testimony of Mr. Wechselberger on the one hand and on the other hand nothing.

With that I will pass the podium to my colleague, Mr. Batchelder.

MR. BATCHELDER: With the Board's permission what I would like to do is address the two-step Mayo analysis

with which the Board is, of course, well familiar. We believe that applying that two-step analysis, the challenged claims all fail.

What I would like to do is provide just a few-sentence overview of what we see as the most salient points under that Mayo two-step test and then drill down into some detail by reference to our slides.

So at a high level Mayo step 1, as Mr. Baughman has just explained, we identified the abstract idea associated with each of the challenged claims in our petition. The Board in its Institution Decision articulated the abstract idea that we have just seen on the slide number 6. And in response Patent Owner said nothing. It identified a two-part test and jumped right to step 2, not responding at all. So any contrary arguments now from the Patent Owner we submit would be waived.

As to Mayo step 2, as Mr. Baughman just referenced, we have unrebutted expert testimony establishing that the claimed components are all old, well-established conventional things were all in the art. The functions they perform are all old conventional things that those old parts always performed and that there is nothing inventive about the combination. Again, that is unrebutted expert testimony.

And of course it is no surprise that that is unrebutted because the basic ideas of these claims, the idea

that you would pay for content before receiving it or that, in the context of a rental, when a rental period expires in terms of time period or number of units of your rental, and your rental rights expire, those basic ideas have been in commerce essentially as long as commerce has existed.

And computerizing those kind of basic building blocks Alice tells us is not enough to survive 101. Internetizing those kinds of basic building blocks Ultramercial tells us is not enough. And that's all that these claims do. That's the overview.

JUDGE BISK: Well, can you explain to me, I guess the hardest issue we have here is we have DDR on one side and we have Ultramercial on the other. They are pretty similar. So we have to figure out what the difference is and figure out for each of these claims are we on the DDR side or are we on the Ultramercial side. And what you just said to me seems like it could almost apply to DDR. So how is DDR different?

DDR, you know, in the dissent in DDR they said, well, you know, taking storefronts and making them special for each person is, you know, nothing new. They have been doing that forever. Whereas the majority said, no, this is something different.

What is the something different in DDR? What is the something different here?

MR. BATCHELDER: DDR is extremely distinguishable. In fact, I think the juxtaposition between DDR and the claims here makes our point.

We've got a couple slides to illustrate this. If I could turn to slide 20, please. I think there is one most important word in DDR, and that's the word "overrides." And it appears in that quote on the top of slide 20. The Federal Circuit says, at the top, "not all claims purporting to address Internet-centric challenges are eligible for patent."

It goes on to say: "The claims at issue here specify how interactions with the Internet are manipulated to yield a desired result, a result that overrides the routine and conventional sequence of events ordinarily triggered by the click of a hyperlink."

And what they are referring to is in DDR the facts were that traditionally the way that the Internet worked when you have a third-party advertisement on a home page is, when the user clicked on that third-party advertisement, they were transported away from the home page to someone else's page.

And what the inventor in DDR wanted to do is keep them on their own home page. And so they created a way to override that traditional Internet functionality.

When a user clicked on that third-party advertisement, instead of being transported away from the home page, they were kept on the home page, but because on

the fly a new page was presented that retained the look and feel of the home page, but also had the product information for the advertised product so that the user could stay on that page and purchase the product.

So it was an override of the way the Internet used to work. And the other cases on this slide 20 elaborate and explain that. The OIP case says "DDR Holdings is limited to claims that recite a specific manipulation of a general-purpose computer such that the claims do not rely on a computer network operating in its normal, expected manner."

And in the IV case, again, they said that the DDR claims "resulted in a departure from the routine and conventional sequence of events after the click of a hyperlink advertisement." So it is an override. It is a departure from the way things used to work.

And here in sharp contrast we have unrebutted testimony from an expert, Mr. Wechselberger, who walks through in rigorous detail exactly why all of the claim components are old, exactly why all the claim functions do exactly what those old parts have always done.

And there is nothing inventive about that combination. I've laid that out in a number of slides beginning with slide 8.

We have Mr. Wechselberger's -- some high level opinion testimony: "The claimed hardware are well known components of a general purpose computer. The claimed steps were well known, routine activities performed by general purpose computers. In my opinion the asserted claims are directed to nothing more than implementing the basic concept of providing access to content based on payment or payment and rules, using generic features present on general purpose computers."

Turning to slide 7 he steps through the hardware -- I'm sorry, slide 9 -- he steps through the hardware, and just merely listing it I think speaks for itself. This is the stuff of general purpose computers. This stuff has been around for decades.

And the specification even goes further at the bottom here of slide 9 and disclaims any reliance on any inventiveness in the hardware. It says: "The physical embodiment of the system is not critical and a skilled person will understand that the terminals, data processing systems and the like can all take a variety of forms."

That's the hardware. What about the functions? Is there any overriding here, any departure in the functions?

Slide 10, again, just listing the functions I think speaks volumes: Receiving, reading, evaluating, retrieving, transmitting, outputting, accessing.

JUDGE ELLURU: Counsel -- and Patent Owner can correct me if I'm incorrect in characterizing this -- but I believe it is Patent Owner's position that some of these claims are directed to putting content data and payment validation means on the same device, for example, a data carrier.

Why isn't that an abstract idea? Isn't that -- why is that an abstract idea? Isn't that a specific way of restricting access to content?

MR. BATCHELDER: I think that takes us to Mayo step 2, Your Honor,that is, putting those things on the same device. The question is, is that inventive? And the answer is absolutely not. That was done in a variety of prior art that we cited to the Board.

JUDGE ELLURU: So you are making an obviousness argument there?

MR. BATCHELDER: One moment, Your Honor. I wouldn't say obviousness in the 102/103 sense, but the Alice discussion of Mayo, and Mayo itself, talks about the step 2 test involving essentially you cleave out the abstract idea and you look at what is left. And the question is, is it inventive, and inventive in a way that adds significantly more?

And here there is nothing inventive about that idea whatsoever. That is, that idea of having a data carrier, having a content and having things like use status data and

rules associated with it, all on the data carrier itself, on the end user device, those are all over the art.

And just for some examples, it was in the Smith reference. It was in the Ahmad reference. It was in the Kopp reference. It was in the Mori reference. And I can -- I'm happy to give you specific citations to all that.

JUDGE BISK: So looking at this chart, though, it doesn't really seem to help me, because I bet if we made a chart like this for the DDR claims it would look similar, but there is no particular function in DDR that wouldn't fit in this chart.

You know, I'm looking at the DDR claim right now, 19, and it has the functions of containing data, displaying data, receiving data, indicating data, identifying data, retrieving data, using data, generating and transmitting. I mean, nothing in there seems particularly inventive either, but somehow when they put it all together they said that this is something new.

And I'm just wondering how we figure out is there something new in -- I mean, we have a lot of claims here and some of them have many more limitations than others.

And I'm just wondering, it is very difficult for us to look, do we do a 103 analysis? Do we look to the prior art? Does override mean it is not obvious or does override mean something else?

MR. BATCHELDER: I think in DDR, I think the language from DDR we looked at from slide 20 and its subsequent treatment in OIP and in the IV case, I think do explain what is meant by an override, that is, to identify something about the way that the Internet worked traditionally.

There it was, again, clicking on a third-party advertisement and what happened to you.

JUDGE BISK: Well, what about in the patent where it talks about what was traditionally happening was that people were having free access to copy media files? There was a lot of piracy going on. There's no doubt about that.

MR. BATCHELDER: Certainly there was and there was also a lot of prior art that addressed it. And the point -- the question in Mayo Step 2 is, is there anything inventive.

JUDGE BISK: So is the thing in DDR there was no prior art, something like that, is that in DDR?

MR. BATCHELDER: Exactly right. And that's why it was an override. And that's why, again, in the language of IV it resulted in --

JUDGE BISK: But I don't think DDR talked about prior art at all; did it?

MR. BATCHELDER: Well, what it says is it overrides the routine and conventional sequence of events ordinarily triggered by the click of a hyperlink. So it said here is how it used to work.

JUDGE BISK: And I'm just wondering what is that, how it used to work? It is a little bit hard for me here to figure out if they are looking at the prior art, and what do we look at to determine that?

MR. BATCHELDER: Well, I do think in addressing the Mayo Step 2 question of inventiveness, you can look at prior art, and I think you should because, again, the notion of a data carrier housing both content and use status data rules associated with that, you know, rules that would read use status data and apply the rules, and having those all on the data carrier, that was all over the art.

JUDGE BISK: So do we have to find the claims obvious first?

MR. BATCHELDER: No, it is not obvious again in the 103 sense, but you do ask whether, when you cleave off the abstract idea, if what is left is inventive. And I do think in answering that question you look at the prior art.

And, again, here we have unrebutted expert testimony opining, in rigorous detail, not just in a conclusory way, but based on a rigorous look at the art that this stuff was all over the art and it is not inventive.

MR. BAUGHMAN: If I could just add, Your Honor, one of the other aspects of DDR is that it is talking about things that are really focused on changing the way the Internet works.

And I know Your Honor mentioned the embodiment of storefronts. Storefronts didn't transport you to another storefront and then back again.

JUDGE BISK: Right, I think that's how the majority distinguish it.

MR. BAUGHMAN: That is how the majority treated it, Your Honor.

JUDGE BISK: Right.

MR. BAUGHMAN: And, respectfully, even apart from looking for things being routine and conventional, the override in DDR is also about being different from pre-Internet problems.

I know Mr. Batchelder has addressed, and will address further, other examples of how the problem addressed in the patents being challenged here existed in the pre-Internet setting as well, both in digital content piracy and pre-digital content piracy. And they are being addressed in the same way, just with a computer or on the Internet.

That's the difference between the limited exception of DDR that the Federal Circuit narrowed in OIP and IV and the quite broad principles of not computerizing or

Internetizing that the Federal Circuit made clear is unpatentable in Ultramercial and the Supreme Court made clear in Alice.

MR. BATCHELDER: Another helpful lens in which to view --

JUDGE BISK: So is the difference -- I'm sorry I interrupted you.

MR. BATCHELDER: No, not at all.

JUDGE BISK: Is the difference here that we are not making a change to the way the Internet works or we are not making a change to the way the computer works; we are making a change to the way people use their tools of the Internet and the computer?

MR. BATCHELDER: Well, I would accept the first part of your question, that there is no overriding of the Internet and how it worked. There is no overriding of computers and how they worked.

But for the reasons that I was summarizing earlier, there isn't even a departure from the way that data carriers combined content and use status data rules. That was in many references, including at least four that we cited to the Board and that Mr. Wechselberger opined about.

JUDGE BISK: Well, assuming, though, that at least some of these claims we have not found them obvious, or unpatentable over prior art, so we can't say whether they

are unpatentable for that reason, you know, so we don't know if they are novel or not. So there is something, they may be seeing something here.

MR. BATCHELDER: I will say that the novelty question for Mayo Step 2 is different than the 103 analysis. That was made clear by the Federal Circuit in the Alice decision that was ultimately affirmed citing Deere and Flook and Mayo, but the two tests really are different.

And, again, with 101 you cleave off the abstract idea and will go with what's left. And you do ask yourself is there something inventive that provides significantly more. And here there is nothing inventive at all. There was nothing that wasn't already in the art.

And, again, when you break down these claims, what they are really doing is saying, well, some of them say you pay for content and then you get the goods.

Others are saying in a rental situation, where rules would be applicable, for example, if your time runs up, your rental rights expire, or if you paid for six uses of a program, you know, like playing six games, when you hit number six your rental rights expire and you have to re-up.

Those are basic building blocks of commerce. And all these claims do is say let's Internetize that. That's nothing new. And as Mr. Baughman pointed out --

JUDGE ELLURU: I will ask the question again: So you're putting the rules and the payment validation system on the same device. Other than doing an obviousness analysis, how is that not inventive? And it is a specific way of restricting access.

MR. BATCHELDER: It is not inventive, Your Honor, because it simply Internetizes the brick and mortar transaction and because, even in the digital space, even in the electronic vending machine space, it had already been done before by many, many references that were cited and discussed by Mr. Wechselberger in his unrebutted opinions saying there is nothing inventive here.

I think there is another lens through which it may be helpful to view DDR, and that is in the language that the Patent Owner pointed to as analogous. I'm looking now at slide 22.

In the left-hand column we have the DDR Holdings claim language that I think really accomplished that override functionality. This is the language that rendered the claim system fundamentally different from the way the Internet used to work in this situation.

And here is the language for '458 claim 6 that the Patent Owner points to. In that claim the Patent Owner says that the analogous language is "code to access the stored data

when access is permitted." That's not analogous in any way whatsoever to the DDR language that is pointed to here.

The DDR language overrides the way the Internet used to work in this situation. The language pointed to by Patent Owner just does what has always been done. It is just accessing stored data when access is permitted. That's all over the art.

And the '598 patent, as you see on the right-hand column of slide 22, Patent Owner pointed to no language as being analogous or in parallel to that DDR language.

In contrast, the claims of Alice are actually much better aligned with the claims here. And we've got a couple different ways to look at that.

Slide 23 compares the components and the functions. And you will see component-to-component and function-to-function lines up with Alice pretty darn well. But, Judge Bisk, to your point, looking at the claims as a whole can be useful, too. We've done that on slide 24.

And here we colored the claimed hardware and functions. And when you tease that stuff out of the claim on the left, which is challenged claim 6 of the '458, there is really precious little left, certainly nothing inventive left.

And if you compare that to Alice on the right, it is actually much more particularized. In the data storage limitation, for example, it requires information about a first

account for a first party independent from a second account maintained by a first --

JUDGE BISK: Can I interrupt you?

MR. BATCHELDER: Of course.

JUDGE BISK: To be fair, some of the challenged claims are more complicated than the ones you have on the left here, if I'm correct.

So if it is just about being complicated and detailed, then maybe some of the claims that we have here would work.

MR. BATCHELDER: No, I certainly agree. My point about Alice is that there is quite a bit more particularity here, more detail, in the claim on the right --

JUDGE BISK: Yes.

MR. BATCHELDER: -- and that was found patent ineligible. And the reason is, to address your question, that particularity, you know, limitations that might narrow is not the question asked in Mayo step 2. What Mayo step 2 asks is, is it inventive? Is it inventive to add significantly more?

Because just narrowing, for example, to a field of use, that's not enough. And there is nothing inventive when you cleave off the abstract idea in claim 6, nor is there anything inventive for the reasons laid out in the petition and in Mr. Wechselberger's analysis in any of the challenged claims.

So, yes, some are longer but none have anything that is inventive when the abstract idea is cleaved off.

That brings us to the preemption arguments, unless the Board has any further questions at this time.

JUDGE ELLURU: Judges Plenzler and Clements? There aren't any.

MR. BATCHELDER: I will ask Mr. Baughman to speak to preemption then.

JUDGE ELLURU: Thank you.

MR. BATCHELDER: Thank you.

MR. BAUGHMAN: Just to add a quick citation, Judge Bisk and Judge Elluru, to the questions you were asking about storing in one place or having these rules and sort of a tally of what is going on or what the access is permitted in one place, I will just call Your Honor's attention to the Wechselberger declaration that is throughout there.

But as an example, paragraphs 83 and 84 of Exhibit 1220, talking about the basic building blocks that these represent. He is talking about try-and-buy software that expires after a certain number of uses. That's obviously embodied where the software is.

And he actually talks, I think it's interesting, about a multiplex movie theater with the tickets. So all of the operations are happening inside the theater. You have a ticket for "Spectre" at 7 o'clock and you can't wander into

"Driving Miss Daisy" at 5:00 with that ticket because you have a piece of information on the ticket that has that restriction written on it, and there is a function within the movie theater, a bouncer, an usher, who prevents you from going into the theater that you are not authorized to use.

This is in paragraph 84 of Mr. Wechselberger's declaration. So the suggestion that this is some kind of special-to-the-Internet problem is just false.

Turning to preemption in slide 26, I think it is helpful to begin where the Supreme Court did in Mayo. They were invited to do the kind of analysis that Patent Owner is arguing is the law, and the Supreme Court said, no, we're not going to do that.

So the quotation on the left side of slide 26 -- this is from Mayo, page 1303 -- Prometheus, the Patent Owner there, argued the particular laws of nature it was claiming were narrow, they were specific, they should be upheld, and they encouraged the court to "draw distinctions among laws of nature based on whether or not they will interfere significantly with innovations in other fields now or in the future."

And what did the Supreme Court say? No. "Our cases have not distinguished among different laws of nature according to whether or not the principles they embody are sufficiently narrow." And this is understandable. Courts and

judges are not institutionally well suited to do this, to make the kinds of judgments needed to distinguish among them.

So the court went on to say: "The cases have endorsed a bright-line prohibition against patenting laws of nature, mathematical formulas and the like, which serves as a somewhat more easily administered proxy." That's the Mayo two-step test.

How do we know this? Well, Mayo says so. The Federal Circuit says so in Ariosa, which issued before the Patent Owner response but is not addressed in the Patent Owner response, "questions on preemption are inherent in and resolved by the Section 101 analysis." Once we do Mayo, once we follow the Mayo framework, "preemption concerns are fully addressed and made moot."

The Board has recognized this in the Cambridge Associates case, 2014-00079, Paper 28 at 19. The Board said we don't need to do this. We don't need to compare the different mathematical comparisons that are claimed and see how much preemption happens because we have done the analysis under Alice and Mayo.

And that's the answer here. The test is the test. Preemption is a concern that motivated the test in the beginning, that's what we have from the Supreme Court here, but it is not the test. The test is the test. Once you have

done it, you are done. That's what Ariosa says. That's what the Board said in Cambridge Associates.

Turning to slide 27, what does Patent Owner invite you to do? He wants you to ignore the test. Patent Owner says claims are statutory. That means they meet 101, if they don't completely preempt everything. That's what they say DDR says.

That's not what DDR says. DDR, quoted on the right here, DDR applied the Mayo two-step test. And the Supreme Court -- I'm sorry, the Federal Circuit made that clear in Ariosa as well: "The absence of complete preemption" --

JUDGE ELLURU: Counsel, I'm sorry to interrupt.

MR. BAUGHMAN: Yes, Your Honor.

JUDGE ELLURU: But you have three minutes remaining in your initial time.

MR. BAUGHMAN: Okay. Thanks, Your Honor. I'll be quick. I appreciate it.

Ariosa said the same thing: "The absence of complete preemption does not demonstrate patent eligibility."

The court said the same thing in OIP, the fact that the claims don't preempt all pricing optimization doesn't make them any less abstract.

So simply put, this idea of preemption is not an end run, it's not a substitute, it is not a get out of Mayo free card.

And turning to slide 28, a couple more assertions Patent Owner throws out. Well, because Apple says it doesn't infringe, the claims aren't totally preempted -- preemptive, and, therefore, they are eligible, and the fact that there are non-infringing alternatives, that somehow makes them patent eligible as well. Not true.

The Federal Circuit made that clear in Ariosa, by showing alternative uses that doesn't change the conclusion. The court made that clear in Bancorp v. Sun Life, arguing non-infringement doesn't detract from the affirmative defense of 101. And the Supreme Court made this clear in Alice and Bilski, saying that being specific and being narrow doesn't change the result.

So simply put, there is no end run available to Patent Owner here. The Mayo two-part test is the test for Section 101 subject matter eligibility and, because the challenged claims fail that test, they are unpatentable.

With that we would reserve our time, unless there are other questions.

JUDGE ELLURU: None here. Thank you.

MR. CASEY: Your Honor, at this point in the hearing, last time we took a break, just to make sure that we don't need to take a break?

JUDGE ELLURU: Pardon me?

MR. CASEY: At this point in the hearing last time we took a break.

JUDGE ELLURU: Understood. We're going to proceed. Thank you.

MR. CASEY: Okay. So, Your Honor, we have fallen into the world where the Petitioner is worried that these claims are going to preempt so much that no one will be able to ever implement systems that control access to content based on content. And that's just not the case.

JUDGE ELLURU: Mr. Casey, could we start with the abstract idea issue? Do you agree that the challenged claims in all of the challenged patents are directed to an abstract idea?

MR. CASEY: Your Honor, the patentee hasn't taken -- hasn't said it is or isn't, has not presented any --

JUDGE ELLURU: And so we're asking you now, do you -- what is your position with respect to whether the challenged claims are directed to an abstract idea?

MR. CASEY: Absolutely not, Your Honor. If you are asking me whether or not there -- we can do it claim-by-claim. This is the problem. The Supreme Court

wants you to do the analysis. And if you are asking me are we -- is it an abstract idea? No, it is not necessarily an abstract idea. It depends on what Supreme Court precedent means at the time. Today I would say it is not an abstract idea.

JUDGE ELLURU: But you did not make that argument in your briefing. Do you agree?

MR. CASEY: I did not make that argument in my briefing, Your Honor, but that doesn't change the fact that this is a question of law and you are going to have to decide that issue.

JUDGE ELLURU: Thank you.

MR. CASEY: So, Your Honor, Judge Bisk's question about the steps being generic, and with reference to claim -- paragraph 10 -- sorry, slide 10, Petitioner --

JUDGE BISK: Excuse me. I don't think we got any copies of your slides.

MR. CASEY: Your Honor, I'm just putting up the Patent Owner's -- the Petitioner's slides.

JUDGE BISK: Oh, Petitioner's slides. Okay.

MR. CASEY: If I said Patent Owner, I apologize.

JUDGE BISK: Are these Apple's slides?

MR. CASEY: This is Apple's. And for the people who are remote, Judge Plenzler and Judge Clements, this is slide 10 of Apple's demonstratives.

The argument that they make in response to what Judge Bisk was asking earlier is every claim function is supposed to be generic and well known because it recites receiving, reading, evaluating, retrieving, transmitting, outputting, accessing and storing.

That's what computers do. Apple has just said that there is no such thing as a patentable computer claim for --

JUDGE BISK: So what in your claims is the overriding factor that corresponds to that in DDR?

MR. CASEY: What is -- I'm sorry, Your Honor?

JUDGE BISK: What is the overriding inventive concept?

MR. CASEY: The overriding inventive concept is being able to store the access rights for the use status data with the content and provide what is not a brick and mortar approach.

You heard counsel say that this has happened in the brick and mortar environment for a long time, and that Mr. Batchelder said this is all over the art. Well, what you haven't heard is anybody say that this all happened in one place.

Much to your comment earlier, Your Honor, really what they are trying to do is say you can combine these

things, ala 103, without any motivation to do so. Just say that it is there and that's enough. Everything is out.

JUDGE ELLURU: Counsel, do you agree that the challenged claims have different scopes?

MR. CASEY: Yes, Your Honor, of course.

JUDGE ELLURU: And how come you don't make arguments that were specific to each claim and differentiate arguments based on specific limitations of each claim?

MR. CASEY: Typically we did, Your Honor. For example, claim 6, we talked about 6 and then talked about the additional elements of 8 and 10. Sometimes it wasn't necessary, Your Honor.

The reality is that, for example, claim 6 was the '458 patent, is patentable by itself. The additions of 8 and 10, while helpful and -- are yet further evidence of a particular embodiment of a system that accesses -- that provides access to data, is patentable based on its reliance on 6 alone. I look like I've lost you.

JUDGE ELLURU: I think so, because I didn't really see any specific arguments that were directed to specific claim limitations. So I'm wondering if your arguments are directed to the subject matter.

MR. CASEY: Well, Your Honor, I think the subject matter as a whole is patentable but, for example, looking at the 0016 response, talking about -- well, claim 1 is

not for today. Looking at the paragraph crossing 18 and 19, in the middle of 19, Petitioner says claim 8 and its dependent claims -- sorry.

JUDGE ELLURU: And what paper are you referring to?

MR. CASEY: Patent Owner's response, Your Honor, page 19. Patent Owner states claim 6 -- and it is about 12 lines down -- claim 6 and its dependent claims 8 and 10, however, recite that the use rules, use status data and the stored data are all stored in the same data carrier.

This is not a brick and mortar problem. This is -- this isn't a movie ticket at the movie-plex.

JUDGE BISK: What about pay-per-view television?

MR. CASEY: What about it, Your Honor?

JUDGE BISK: Is it more similar to that?

MR. CASEY: No, Your Honor, I don't think so because the access rights actually are stored somewhere else, if there is one, right, it is not stored on the local data carrier. And, in fact, you have been told that there are pieces all over, all over the art, but they don't put them all together, and they can't, which is why they didn't get these claims knocked out under 103 in earlier proceedings.

This is what you are being asked to do, is to focus on receiving, reading, evaluating, retrieving, ignore that DDR

had the same kind of things, and then just say, because it is implemented on a computer and it uses some generic -- some steps that could be reduced down to generic steps, such as receiving, reading and evaluating, that somehow patentability has gone out the window.

That's just not the case, Your Honor. There couldn't be DDR if that was the case.

JUDGE BISK: What about, the expert said something about restricted playback, DVD --

MR. CASEY: I'm sorry, Your Honor. I had a hard time hearing you, and since I can't see your lips moving --

JUDGE BISK: I'm sorry, I'm a little bit short. The expert talks about restricted playback DVD disks.

MR. CASEY: Yes.

JUDGE BISK: So they have some kind of restrictions on the DVDs and where they can be played and how many times they can be played?

MR. CASEY: Your Honor, I don't know that there is anything on a DVD that restricts how many times it can be played. I don't think that that actually exists.

JUDGE BISK: Okay. So if there was, would that be more similar?

MR. CASEY: I would have to see the specifics, Your Honor.

JUDGE BISK: Okay.

MR. CASEY: But the reality is that Petitioner itself has said that there were lots of techniques out there for accessing data, and yet they didn't solve the problem of putting the use status data and the media -- and the data item on the same medium.

JUDGE BISK: One thing that's bothering me, well, both arguments to me seem like there is a problem. And it seems like on the one hand we have an argument that almost any computer software is not patentable, but what you are saying right now almost is anything that is not obvious is patentable.

MR. CASEY: Absolutely, Your Honor.

JUDGE BISK: Anything that is not obvious is patentable, is what you are saying?

MR. CASEY: Absolutely, because it is substantially more. Right? And here is the predicament that the Supreme Court has put you in: How do you know more versus substantially more?

JUDGE BISK: Right, we are in that predicament, and it seems like there must be a difference. They can't reduce to the same thing.

MR. CASEY: Well, they could if the Supreme Court didn't think it through, but the reality is that you heard Mr. Batchelder talk about DDR and that the overriding was

the important part, that something behaved differently than it would have otherwise.

I would take exception with that. The court may say that it thinks there is overriding but, if you look at the step that Mr. Batchelder put on the screen, step 4 of DDR says using the retrieved -- the data retrieved, automatically generate and transmit to the web browser a second web page that displays information associated with the commerce object associated with the link that has been activated, and the plurality of visual elements visually corresponding to the source page, which means the overriding, which is going on, isn't really an overriding.

They haven't sent you somewhere else and had an ability to bring you back. They have tricked you.

JUDGE BISK: Right, and I think that was the point.

MR. CASEY: They have shown you data that is local and made you think that it is remote.

JUDGE BISK: I think that was the point, that that was different than how the Internet normally works, and that's why it overrides the normal functionality.

MR. CASEY: But it is not actually different, Your Honor. It is clicking on a hyperlink that's still on your local website.

JUDGE BISK: Right.

MR. CASEY: It takes you to your local website.

JUDGE BISK: Right. I think that was the point that the majority was trying to make in that case.

MR. CASEY: Yeah, so what it is saying is if there is something that you can point to that is different, whether or not it is overriding isn't really the issue, right, it is, is it different, because otherwise you get into a situation where a Petitioner can pick from a hundred different references.

You could have as specific a claim as you wanted and as long as the Petitioner could pick -- could find 100 separate references, each that have one element, it can say these are all conventional.

JUDGE BISK: So can we step away from DDR for a minute and talk about Ultramercial instead?

MR. CASEY: Sure.

JUDGE BISK: Because Ultramercial is the other side, and it seems that it is very easy to compare your claims to those in Ultramercial. Ultramercial, in fact, is, you know, giving content based on watching an advertisement where yours is giving content based on some sort of payment rules.

And so it seems like there is an analogy there to be made.

MR. CASEY: So, Your Honor, I think one of the distinctions, and we would have to look at the individual

aspects of the claims for each of these things, is that the concept in Ultramercial that they were trying to do was a payment concept, right, it was exchanging viewing time for money, exchanging viewing time for money. That happened in televisions, Your Honor, right, that's not -- that's a typical financial exchange. People watch television commercials and the networks exchange viewing time.

JUDGE BISK: But they didn't get to specifically tailor.

MR. CASEY: That may be, Your Honor.

JUDGE BISK: There are differences there, too.

MR. CASEY: There are differences there between what and what?

JUDGE BISK: Between what was happening in the television viewing world and what was happening in the patented invention.

MR. CASEY: Your Honor, I can't tell you all of the different places that the Petitioner or the Defendant looked at for prior art and whether or not there was other arguments that this prior art was somehow properly combinable.

You will notice from the analysis, that Mr. Wechselberger, when it comes to the 101 analysis, never says that there is any motivation for doing what he did in terms of putting the pieces together. All of the --

JUDGE BISK: Wait, wait. I'm sorry. You lost me.

MR. CASEY: Sorry. Go ahead.

JUDGE BISK: Motivation for, what are we talking about, 101?

MR. CASEY: Exactly, Your Honor. Under 101 what Mr. Wechselberger did was grab pieces and didn't tell you why those pieces needed to go together.

JUDGE BISK: What pieces did he grab?

MR. CASEY: When he said all of the elements were conventional, and Mr. Batchelder told you lots of these things, lots of these pieces existed in the prior art. Nobody said --

JUDGE BISK: So now we need a motivation to combine in 101?

MR. CASEY: So, Your Honor, that certainly raises the issue of, if you don't, isn't 101 simply the new end run around 103?

JUDGE BISK: Well, in Ultramercial, though, they didn't talk about motivation to combine.

MR. CASEY: That may be, Your Honor. There may have been a single place where they looked at the activity that was being computerized, I guess is the right way to say it.

JUDGE BISK: So I'm just trying to figure out what you are saying differentiates your claims or your subject matter from those in Ultramercial?

MR. CASEY: So, Your Honor, I would say it is the use of the access rights on the same medium as the content. So if you look at Ultramercial, for example, the content that you want didn't get transferred over to you until you had paid the fee. Why? Because once over to you they didn't have a way to control it. They didn't have a way to control access to it.

So to the extent that you look at something like claim 6, which is a data access device, and it recites the elements, if it has use rule data, indicating permissible use of data that's already on the carrier -- yes, Your Honor?

JUDGE ELLURU: Counsel, your argument is that all of the things have to be in the same place. What are all of those things and are you saying that all of the claims are directed to that?

MR. CASEY: Your Honor, so far we are trying to just go claim-by-claim. So far I think we've only talked about claim 6, right, claim 6, and I said 8 and 10 were dependent on that so we didn't present different arguments.

So if I have been more broad than talking about claim 6, I apologize. So far we've just talked about claim 6.

And claim 6 recites code to retrieve use rule data remain permissible use of data stored on the carrier.

JUDGE ELLURU: So you are saying that argument isn't applicable to the other claims?

MR. CASEY: No, Your Honor, I haven't said that. I would have to switch claims and go read them directly to you. I'm not saying that.

I think that every claim pretty much does say that the -- at least all of the claims that we're talking about this morning, do say that the access -- there is some sort of access control information that is up stored in the same carrier as is here.

JUDGE BISK: And what is that access control information?

MR. CASEY: So it's use rules, Your Honor, or use status data. The elements are distinguishable between the different claims.

But, for example, looking at claim 6 of the '458 patent, there is a data access device and then in the program store there is code to retrieve use status data, indicating use status of data stored on the carrier, and there is code to retrieve use rules data, indicating permissible use of data stored on the carrier, and there is code to evaluate the use status data using the use rules data to determine whether

access is permitted to the stored data and code to access the stored data when access is permitted.

But all of those things -- sorry, Your Honor.

JUDGE BISK: So they have their expert testifying that he is aware of geographical restrictions on content. For example, it was well known that DVD movie disks were authored with codes that restricted playback to DVD players that were sold in geographic regions that matched those codes, and that access to sporting events, such as North American football by satellite TV subscribers, is often constrained by blackout rules based by geographic boundaries.

So it sounds like the DVD players, I'm sorry, the DVD movie disks had some kind of codes on them with geographic restrictions. That sounds like access rights. And they have the content.

So what is it that they are missing to be a precursor?

MR. CASEY: To be a precursor?

JUDGE BISK: A precursor to what you are saying makes -- is the overriding factor of your subject matter. I have written down you said that the thing that makes your overriding so that it is patentable is that you store content with rules in one place.

MR. CASEY: Correct, Your Honor.

JUDGE BISK: And isn't that what the DVD movie disks are doing?

MR. CASEY: I don't recall the specifics of that particular section you are citing to, Your Honor.

JUDGE BISK: Okay.

MR. CASEY: But I'm not aware that the -- so if I could, there is a distinction between the use rules and the use status data.

JUDGE BISK: Okay.

MR. CASEY: And so I don't hear in that discussion that the expert is saying that there is both a use rule and use status data.

JUDGE BISK: Okay. So now both of them have to be -- so what you are actually saying is it is not just with rules, but you have to have rules and status data?

MR. CASEY: In claim 6, yes.

JUDGE BISK: Okay. And why does that make such a big difference to make it this patentable subject matter?

MR. CASEY: Because it allows you to see how data has been used and apply use rules that indicate whether there is permissible use of the data that is stored on the carrier.

JUDGE BISK: But doesn't the DVD movie disk seem to be doing that?

MR. CASEY: One second, Your Honor.

JUDGE BISK: I'm sorry, this is from Dr. -- I don't know how to say his name -- Dr. W I'm going to call him.

MR. BATCHELDER: Mr. Wechselberger, Your Honor.

JUDGE BISK: Yes. Paragraph 84. It is on page 46 to 47 of Exhibit 1020.

(Pause)

MR. CASEY: Yes, so, Your Honor, I think that the distinction is the ability to have both the use status data and the use rules that combine -- that are together combined to determine whether or not access is permitted to the stored data.

So, for example -- I hate to do this off the cuff -- but, for example, a time at which the movie was rented and a rule about how long it could be used for, right, so there is a distinction of use status data and use rule.

As I understood what you just said -- and I apologize, I don't have the Wechselberger thing handy -- but it sounds like there is a use -- at best there is a use rule that says this can only be played in Zone 1. But that doesn't provide you with the ability to control access to the stored data using both the use status data and the use rules.

So does that answer your question, Your Honor?

JUDGE BISK: I think so.

MR. CASEY: So it is a distinction that ends up being important, right? It is the difference between a static medium that doesn't get updated, doesn't have a -- doesn't track the use, so that you can do other things that are important, like limit rentals for a particular period.

And this isn't like the brick and mortar situation where it is a movie ticket. Right? The data itself, the movie, isn't on the ticket. You are not putting the ticket on the movie and associating them together. Right? There is no brick and mortar equivalent to this despite what the Petitioner has stated.

I'm sorry, Your Honor, you look like you wanted to ask a question.

JUDGE ELLURU: Not right now. Thank you.

MR. CASEY: So the -- if I could jump back to the issue of preemption, because it is one of the important issues, the Patent Owner -- the Petitioner put up slide 26, Judge Plenzler and Clements, slide 26 of the Petitioner's slides, which talks about the Supreme Court's decision in Mayo and then talks about Ariosa and Capital Associates.

The decision in Mayo, if you see what is being -- sorry, Your Honor, the autofocus is misbehaving. There we go. So in Mayo they are talking about not abstract ideas but they are talking about judges being not good at looking at --

the judges are not institutionally well suited to making the kinds of judgments needed to distinguish among different laws of nature, mathematical formula and the like.

They are talking about laws of nature, not an abstract idea, not computer code. We're not talking about the same kind of beast here. The judges may be poorly -- some judges, not Administrative Patent Judges -- but regular Article III judges may not be good at distinguishing one formula from another, but there is nothing said that they are not good at looking at abstract ideas.

And as a result, the application of Ariosa, which is first cited in Petitioner's reply, is again citing to not a computer case but essentially a biological case. And the issue with Ariosa was they didn't know if you could make another way to do what they were trying to do.

JUDGE BISK: The Supreme Court has been using Mayo in computer cases.

MR. CASEY: They have, Your Honor, they have, but they haven't created the bright-line rule for computer cases the way they may have for other areas, where they are not good at deciding whether or not laws of nature are similar, whether or not there is going to be preemption.

But what we have here, Your Honor, is a situation where even Petitioner's own expert agrees that there are other

ways to do these inventions. And Petitioner itself has said there are non-infringing alternatives as well.

Those are indicative of the underlying problem. Petitioner wants you to ignore the evidence, the best evidence there is, that you can do this other ways, in favor of a bright-line rule that only approximates what we are looking to decide. What we're looking to decide is, is there preemption? Are these claims so broad that they cover all of the ways that you can do this?

And I don't think that even Petitioner can say that it does. Their own expert agrees that there are lots of other ways you can do these -- talking about the claims in general -- there are lots of other, based on the limitations that exist, there are lots of other ways that you could implement this. So it gets back to your earlier discussion with Petitioner about, when you start putting in the specifics, when does it go from being an abstract idea to an implementation of an abstract idea that no longer has preemption concerns?

And that's really the test that you are left with, Your Honors. You have virtually no guidance. The only case that says that these claims are patentable is DDR. And Petitioner's -- and Patent Owner's claims are very close to DDR. How do you decide between those and Ultramercial's?

We have given you a mapping, and it is the best that you can do. There is no other case to map it against.

There was a recent Board decision, Net One versus Google, where they looked at the fact that there were specifics recited in the claim that made it sufficient to not have 101 be instituted.

You are in the same boat, Your Honor. There are specifics here that keep this out of 101. The specifics are the things that make this an Internet-styled problem. Petitioner has said that the issue of data piracy isn't limited to the Internet. It is not. It was made worse by it.

And it doesn't take away from the fact that these claims are still -- that's the environment that they grew up in. The fact that they don't say Internet doesn't mean that the important issue of putting the use rules, the use status data and the content together on the same medium wasn't the answer to that problem, the problem that was proliferating and may have been a little dormant until the Internet came along.

But you have before you the kinds of claims that are solving a non-brick and mortar problem. This is not a movie ticket. It is not buying a big box appliance at a store. It is a problem that came up in the area of computer-specific problems. Why? Because it is the only type of invention where the thing that is of value can be reproduced for nothing. It is unique, unique to the computer world in that respect.

If I want to steal this chair and sell knock-offs of this chair, I have to make this chair. If I want to do the same with the microphone, I have to make the microphone. If I want to steal data, I just have to copy it, and it doesn't cost me any more than the computer I already have.

That's why this invention is so important and that's why it is so different and why you can't simply say we are going to ignore these things and we're going to focus on receiving, reading, evaluating. That doesn't tell you anything, Your Honor. That doesn't tell you anything besides it is on a computer.

I would say if those are all of the steps that are necessary, ask Apple what computer doesn't do all those steps. There isn't a step there that isn't performed by all computers.

So as a result, Your Honor, using the best test that is out there, Patent Owner described alternative embodiments or additional structures -- sorry, I said that badly -- Patent Owner described the structures of the claimed embodiments so that you can see that preemption is not the concern that Apple would have you believe, that Petitioner would have you believe.

The main important factor is that there are lots of ways to control access to data that don't necessarily use "use"

rules and use status data on the carrier. And, as a result, the preemption concern isn't the real concern.

The real concern is rewarding the inventor who came up with the solution that has made access control for the Internet world with use status data and use rules and made it commercially viable, rewarding that person.

Instead, what you are being asked to do is disregard that the Patent Office has already said these claims are patentable, disregard that the District Court judge has already said similar claims are patentable, and disregard that the only thing that the Petitioner can really point to is a series of generalized computer steps that it can't really distinguish from DDR, where the claims were found to be patentable.

And as a result, Your Honor, this Board should find that, in fact, the claims are directed to statutory subject matter, as other people already have. You have the benefit, Your Honors, that this decision has already been made once by the Patent Office. The decision on whether or not these claims are patentable is a legal question, a legal question that was decided by the Patent Office.

JUDGE BISK: You mean in the prosecution?

MR. CASEY: During prosecution, yes, Your Honor.

JUDGE BISK: Yeah, every case that comes before us is -- every case that we hear in these trials has been cited in prosecution already.

MR. CASEY: So actually, Your Honor, I would say that that's probably not true because most of the cases that -- the traditional case that you have heard is a case of new prior art being applied against certain claims, and the Examiner hasn't had a chance potentially to see that combination of prior art.

But that's not the situation we have. It is why reexaminations do not allow you to raise issues that were already decided before the Patent Office.

Where is the justice in obtaining a patent from the Patent Office and then being told by the Patent Office we know better than that Examiner and that Examiner, who is given administrative correctness, made a mistake and, as I understand it, those Examiners have made mistakes in 100 percent of all CBMs ever instituted. Really? 100 percent?

Your Honor, you are being asked to ignore the things that make claims special and reduce them down to just those things where somebody can say it is abstract. Why is it abstract? Because it benefits the person who just spent $30,000 on this proceeding and wants to get out of infringement.

There are 48 cases that have been filed against seven patents. 48. Rough math, $1.3 million in fees. You are being asked to disregard that this office has already decided this issue, the District Court has already decided this issue, and that you should substitute your judgment for the examiners who have already been there.

Now, not on prior art that is new, not on some other issue of -- an issue that wasn't before the Patent Examiner. This isn't an issue that was before the Patent Examiner. It is the very first thing they have to do. 101 says don't even start this process unless you know that it is actually statutory.

And, Your Honor, I believe that this Panel, the Panels in general, the PTABs, was never supposed to review 101. I understand there is case law that goes the other way. All right. Versata says, hey, this would have to be hypertechnical to not apply -- to say that 101 can't be applied in these proceedings.

But you know what, Your Honor? It doesn't have to be hypertechnical. It just has to be a plain reading of the statute.

JUDGE BISK: Well, I don't think we can do anything about that where you have binding authority.

MR. CASEY: I understand, Your Honor. But I'm trying to make sure that, A, it is preserved, because I keep

hearing waiver, waiver; and, B, that it is on the record that there are aspects to this procedure which are simply unconstitutional.

I mean, this is beyond the statutory authority of what this Board can do. And it is in the briefs and I've made the point, but it is something to be considered, Your Honor. This isn't one piece in isolation. This is how the entire process is going, the utilization of 48 proceedings against seven patents and being told at one point we will do 103 and then we will drag it out and we will do 101 and then we will drag it out and we will do 101 again.

This process, Your Honor, is not providing the just, inexpensive resolution of these issues. It has been abused. And I'm not sure what you can do about it, Your Honor, but somebody has got to do something at sometime.

So if I could, Your Honor, I would like to reiterate a few major points.

Mr. Batchelder said that the claims were -- that the limitations of the claims were all over the art. But he has not told you how they would be combined. He has not told you that they are all in one place. The reality is that Petitioner wants to do under 101 what it can't do under 103.

Mr. Batchelder also told you that the storefront of DDR didn't treat -- storefronts previously didn't do what DDR does, which is direct you to keep you at a local site when you

are selling somebody else's products. I don't know how he got there. I think there are lots of retailers that sell more than one good.

He also said that what the Patent Owner is trying to do is to patent one of the basic building blocks of business. And that's not the case. As you can see by the fact that the claims don't preempt lots of uses, we're not saying all uses, Your Honor, I heard Mr. Batchelder say, or Mr. Baughman say, that we said that DDR required -- that DDR was to be read to mean as long as all embodiments weren't preempted.

The quote, there is a quote from DDR that says essentially that, Your Honor. We're not saying that that is what the current rule is. We're saying that the Petitioner said in its petition there is a preemption concern because it is going to preempt all possible uses. And that's not true. It is not going to preempt all possible uses. Their own expert says it won't.

And as I mentioned before, this is a -- the claims are directed to a new special problem. It maybe didn't start with the Internet but certainly got exacerbated by the Internet, and that is the rampant data usage without access control.

And that's a technological problem, Your Honor. It is a technological problem from the standpoint that when

you have the right solution, this problem is addressed in a way that wasn't addressed before.

So, Your Honor, we've talked a lot about claim 6 of the '458 patent. I would like to also address claims 1, 2, 15 and 31 briefly of the '598 patent so that nobody can say that I somehow waived those.

So if I could, Your Honor, I will use, again, Petitioner's slides. Your Honors who are remote, slide 34 of Petitioner shows claim 1 of the '598 patent as well as claim 2, claim 15, and claim 31 -- no, it doesn't yet show 31.

So, Your Honor, again, the distinction here is you have a content data memory, a use rule memory and the process that is coupled to these has at least one content data item in the content data memory and at least one use rule in the use memory.

And, in addition, in claim 2 the code further includes code to provide access to the at least one content data item in accordance with the at least one use rule. And then, for example, in claim 15 it further recites a content access pin memory to store PIN number for controlling access to the data content memory.

So this isn't an attempt to patent the access control systems in general, right, there are specific limitations that are required by the claims that prevent this

from being the -- which causes it to meet the step two of Mayo. Right? It becomes more.

It is the use of the use rule memory and the content data memory together that enables it to address the technological problem that is so rampant on the Internet.

So, Your Honor, the brief also lays out the admissions by Mr. Wechselberger. Petitioner put up a slide showing expert testimony on one side and no testimony on the other side. Mr. Wechselberger's testimony was relevant to both sides, so I think that actually you need to look at his admissions about what was not precluded and what you could do with the claim systems.

And for claim 31, there is reading use status data and one or more use rules from the parameter memory and then evaluating the use status data using the one or more rules to determine whether access to the content is permitted.

So, again, Your Honor, there in claim 31 there is use status data and there are use rules together. And so I think that that is what you were asking about in terms of specifics.

One of the last issues, Your Honor, is --

JUDGE BISK: Can I ask a question on this claim?

MR. CASEY: Of course.

JUDGE BISK: So this claim doesn't have use status data that I can see. It just has the use rule data and the content data.

MR. CASEY: Claim 31, Your Honor?

JUDGE BISK: Claim 1 that you were talking about.

MR. CASEY: Oh, I'm sorry.

JUDGE BISK: So you were saying that it has use rule memory and content data memory, and that's what makes it patentable, but I don't understand why that is not just like that DVD.

MR. CASEY: Your Honor, the DVD doesn't actually have an interface for reading data from and to the portable data carrier.

JUDGE BISK: Okay. So now that's the thing that makes it patentable subject matter?

MR. CASEY: That's certainly one of them, Your Honor.

JUDGE BISK: Okay.

MR. CASEY: And, in addition, Your Honor, one of the things that you are pointing to, or one of the things that we can point to as well is the program store, right, you've discussed a DVD, and I don't believe from what you quoted for Mr. Wechselberger that the DVD itself has any code on it

that does anything, or at least he hasn't said it does. He hasn't said that it actually meets this limitation.

JUDGE BISK: Right, but we are not doing a 103 analysis or a 102 analysis.

MR. CASEY: So, Your Honor, I guess my question to you is, how many references are you proposing we can look at? Are you saying that Mr. Wechselberger --

JUDGE BISK: I'm just trying to see if this kind of idea was done before, or if this is a whole new thing --

MR. CASEY: I understand, Your Honor.

JUDGE BISK: -- as in Ultramercial, where apparently there was nothing that they saw that before had taken a hyperlink and, instead of going to a whole new website, went to the same website. I'm looking for that kind of new idea.

MR. CASEY: Fantastic, Your Honor. So let me put it to you this way: The DVD is a static piece of data by itself. That's it, data. Right? There is no program store. There is no -- as far as I know from what Mr. Wechselberger was alleging, there isn't any code on there that is going to do these things. Right? There isn't code for storing at least one content data item into the content memory and at least one use rule into the use rule memory.

Let's put it this way: It is a DVD. It is an optical disk. Right? How is the optical disk going to write to itself? Where is the code that --

JUDGE BISK: So you are saying that what is patentable is that this thing can be updated?

MR. CASEY: That's certainly one of the aspects, yes, Your Honor. You are asking for what's the --

JUDGE BISK: I'm looking for what is that overriding thing, like the automatically generating the website in the same place. It keeps changing.

MR. CASEY: The portable data carrier itself is not just a static thing, Your Honor, but it is a dynamic thing, something that lets you update it, something that has a program store on it.

I was just trying to address your single DVD question and maybe I answered it too narrowly. But that is, yet again, a major difference. It is an active system versus a passive system. That's the best way I can describe it.

JUDGE BISK: Okay.

MR. CASEY: So, in addition, Your Honors, I would again tell you that the comparison of the '458 claims with DDR is most telling. It shows you that just because something uses reading, writing and evaluating doesn't mean that it is not patent eligible. It is. DDR shows us that.

And, as a result, you are left in the unenviable position of trying to decide more versus substantially more versus how many things are in how many references and where do you pick from?

I feel for you, Your Honors. You've got no real guidance. But that's where we are. And the best way that I can show you that it is patentable is to show you how this is close to things that are known to be patentable. DDR, Network-1. If there were other examples I would point you to them.

I will also tell you that Mr. Wechselberger never says that he looked at anything that was patentable and used that analysis in deciding whether or not the things that he says are unpatentable --

JUDGE BISK: I don't think that we probably put any -- much weight on an expert's opinion of 101 anyway.

MR. CASEY: So, Your Honor, one of my last positions, one of my last points, is that there is a motion to strike the testimony of Mr. Wechselberger on the issue of 101. He is not competent to discuss the legal issue of whether or not this meets statutory subject matter.

He can tell you about the things he thinks are existing. But just because he tells you that something is existing doesn't mean that he is in a position to tell you whether or not something meets 101 statutory guidance.

And the last thing, Your Honor, is claim 11 of the '458 patent has been challenged under 112.

JUDGE BISK: You just said there was a motion to strike?

MR. CASEY: I'm sorry, a motion to exclude. I apologize.

JUDGE BISK: Okay.

MR. CASEY: So the briefs raise the issue or discuss the issue, but just to be sure, the claim is definite the way it is written. Even Petitioner in its proceeding in the District Court didn't argue -- Your Honor, did I lose you?

JUDGE BISK: Yes, you did. What claim are we talking about being definite?

MR. CASEY: Claim 11, Your Honor.

JUDGE BISK: Oh, yes. Okay.

MR. CASEY: Of the '458.

JUDGE BISK: Yes. Okay.

MR. CASEY: In proceeding 00016. The definiteness of this claim is shown by both the Examiner having said it was definite, the Petitioner not having argued it was definite -- indefinite below and, in fact, having used the use rules and use status data interchangeably.

So I think that -- if I can have one second to make sure that I don't have any other wrap-up?

JUDGE ELLURU: Of course.

MR. CASEY: Your Honor, I don't know if I'm allowed to reserve my remaining time but I would like to do so.

JUDGE ELLURU: No, you cannot. Thank you.

MR. CASEY: Okay.

MR. BAUGHMAN: Your Honors, while we are waiting for the slides to come up, respectfully preemption is not the test here. Apple has never argued that it was. Apple has always contended, we've been clear from the Board from the beginning, that we take the position in litigation that we don't infringe these claims.

But what we haven't heard actually is Patent Owner saying that it takes the position that Apple does, that Samsung does, that HTC does, that Google does, that Amazon does. We have not heard Patent Owner talking about that.

But, respectfully, the scope of preemption is simply not an issue in this case. And if we could call up slide 26, the suggestion that the law of Mayo is limited to non-computer inventions was resolved soundly in Alice.

Alice applied it to computer inventions. And the notion that the theories here, laws of nature, mathematical formulas and the like doesn't include abstract ideas is simply not a credible reading of this case law.

If there is any question for Your Honors about whether preemption is somehow different for computer

inventions, on the lower right the Board in CBM2014-79 applied this in Cambridge Associates, a computerized invention.

Next slide, please. The Federal Circuit in OIP applied this to a computerized invention as cited in the bottom right.

Next slide, please. The Federal Circuit applied this in Bancorp, a computerized invention. So the notion that anything but the Mayo step -- the Mayo two-step test is the test is simply not supportable in the law. As much as Patent Owner would like to avoid it, that is what this hearing is about.

I would like to come to that in a minute but I will try to address a few of the other scattered points before we get there.

I don't think that Patent Owner is asking this Board to declare what it is doing unconstitutional or it is asking the Board to overrule the Versata Federal Circuit case saying that the Board is in a position to rule on Section 101 validity, but the argument it is making about estoppel based on prior examination would mean that you could never hear a Section 101 case. The Federal Circuit has made quite clear that you can. I think we are hearing a concession on that point from the Patent Owner.

As for the District Court, I didn't hear Patent Owner squarely argue, and I don't think it is in his papers, that we are prevented from making the argument here on 101. Of course that was a different factual record. Mr. Wechselberger is talking here about prior art examples that we didn't actually have in hand at the time of the declaration that was at issue there.

We understand that --

MR. CASEY: Objection, Your Honor. Whether or not they had something in hand is well beyond the record. I don't quite understand why this is being raised at this point, but I object.

MR. BAUGHMAN: I think that is in the record that Ahmad was something we did not have in hand, Your Honor. If I'm mistaken on that, Your Honor, I'm not trying to put in front of the Board a fact that wasn't in hand.

A different standard is applied in District Court. We put before the Board a decision from Judge Gilstrap about the evidentiary standard for facts underlying Section 101. Yes, Your Honor?

JUDGE BISK: I have a question about the District Court decision.

MR. BAUGHMAN: Yes.

JUDGE BISK: It seemed like the District Court in its decision on 101 was talking about a specific claim and a

specific patent when it was saying that it was patentable under 101.

Do you know what claim was that?

MR. BAUGHMAN: Your Honor, I'm not sure it is clear, but I don't have the --

JUDGE BISK: Okay.

MR. BAUGHMAN: -- report recommendation in front of me. It is true that there were a large number of claims, not the same set of claims, by the way, at issue here.

JUDGE BISK: Right. Okay. Like it was not one of the ones that we're talking about today?

MR. BAUGHMAN: I don't believe it is a coextensive list.

JUDGE BISK: Okay.

MR. BAUGHMAN: It was again under a -- I don't think it is undisputable that it is a different record, that declaration evidence is different.

JUDGE BISK: Okay.

MR. BAUGHMAN: Judge Gilstrap has in a case we've put before Your Honor, that is Paper 34 in Exhibit -- excuse me, in the 00016 proceeding, applies clear and convincing to underlying Section 101 factual issues. Here we've applied preponderance of the evidence.

It is a non-final decision that is not only non-final but it is being appealed. So the suggestion that the District Court somehow controlled the Board here is not correct.

As to indefiniteness, turning to slide 47, this is in our papers, but slide 48, the issue here is claim 11 in the '458 patent. We have claim 11 reciting said use rules without an antecedent basis. We have use rules data and the use rules data in the preceding claim that is ambiguous as to whether it is meant to introduce use rules or to refer back.

The Board recognized that the only evidence on this issue is from Mr. Wechselberger about what a person of ordinary skill would understand. It is ambiguous. And under the case law cited by the Board and the Institution Decision cited by Petitioner in our papers, that ambiguity means it is invalid under Section 112.

And the notion that because it came out of examination, that exempts it somehow, I think is not something that could ever be supported.

Turning to the motion to strike, just briefly. Mr. Wechselberger clearly is testifying about what was known, what is routine and conventional. That is a factual predicate that has been used by the Federal Courts in deciding Section 101 questions. We have this in our briefing.

For example, the Federal Circuit noted in Versata v. SAP -- this is 793 F.3d at 1334 and 1336 -- that we are

affirming the Board's reliance on the Petitioner's expert determining the claimed steps were all known, routine and conventional.

So the notion that that is not appropriate for the Board has already been decided and against Patent Owner's position.

Turning to the actual test here, the Mayo two-step test, I think we are hearing some new arguments here. I'm going to try to focus on the ones that were briefed. I think we're hearing a lot of assertions that Internetizing turns this into a patentable invention, that this is somehow unique to the computer world.

If we turn to slide 43, it is not so. Even in the patent itself it talks about CDs having a watermark protection. This is digital data. It doesn't have to do with the Internet. Copying was possible. Copying had pre-Internet solutions that were addressed even in the specification of the patent.

And in paragraphs 83 and 84 of Mr. Wechselberger's declaration, as Judge Bisk was asking about, it does talk about DVD zoning, but it also talks a little higher in that paragraph about promotional software trials. And I think I heard counsel saying there was no indication about time and how long something could be used.

Well, if you take a look at paragraph 84 of Mr. Wechselberger's declaration, this is in the 1220 exhibit, there is a parallel paragraph. I can get the number if Your Honors need it in the other one.

JUDGE ELLURU: We have it.

MR. BAUGHMAN: It talked about time-limited promotional software trials, and certain users are able to try software in a time-limited period without incurring a license fee.

So certainly the notion of time fuses and storing in a software program the ability to time-bomb itself or blow itself up after a certain number of uses was in the prior art. It is discussed in Mr. Wechselberger's declaration.

These are pre-Internet or apart-from-the-Internet uses, and Mr. Batchelder will address some of the other prior art examples as well.

JUDGE BISK: So are you saying that those would have had the equivalent of use rule and use status data and --

MR. BAUGHMAN: Yes, Your Honor.

JUDGE BISK: -- and code to do that?

MR. BAUGHMAN: And in order to know how long you have left on a -- sorry to interrupt, sorry.

JUDGE BISK: And code to do those things, programming code?

MR. BAUGHMAN: The code is coming with the try-and-buy software. An analogy would be the AOL disk you used to get. I mean, it knows how much time you have left and it must be storing that.

But the idea here is not a 103 analysis or a 102 analysis. It is whether these ideas were known before the Internet, whether they are routine and conventional.

And the solution here, Patent Owner's sole argument, as I hear it, is that this is somehow very DDR-like because it is completely unique to the Internet context in which it is arising. That's simply not true.

I think I heard the suggestion that these pieces were being isolated, there is no testimony from Mr. Wechselberger to connect them.

If you take a look at slide 15, Mr. Wechselberger not only talks about the features and functions. He talks about their combination being well known in the art. I think we cite paragraph 28 here on slide 15. We also point to paragraph 84 of his declaration for that.

And, again, I think there is a suggestion here, and I don't -- again, I may be mistaken -- I don't think we heard the suggestion in briefing from Patent Owner that somehow 103 arguments that Petitioners have made elsewhere are somehow affecting the 101 analysis here, and respectfully, again, that's waived, but they are different tests.

Mayo itself makes clear, 132 Supreme Court at 1304, that 102 and 103 are different. The court acknowledged that there was some overlap in some cases with the 102 novelty inquiry, but it is not always so.

And the government was suggesting that the novelty -- "the novelty of a component law of nature may be disregarded when evaluating the novelty as a whole." You could use 102 and 103 instead of 101.

The Supreme Court said we're not going to do that. 102 and 103 say nothing about treating the laws of nature as if they were part of the prior art and applying those sections.

So it is talking about the test here, which is once you have identified the abstract ideas, what is left? What is the something more? It is not taking the abstract ideas and trying to run those through a 103 or 102 filter, but extracting them and seeing what is left.

It is clear from the Alice test, at 2355, first we determine whether the claims at issue are directed to one of the patent-eligible concepts. If so, we then ask what else is there? I mean, that's literally the words of the Supreme Court. What else is there?

And it talks about looking at an ordered combination to determine whether the additional elements, the what else, transform the nature of the claim into a

patent-eligible application. So it is a completely different inquiry from 102 and 103.

That's why the Supreme Court in Mayo said we're not pushing this task off on 102 and 103. They can't carry the weight.

The same thing happened in Ultramercial, at 715 and 716, the court found the older combination of steps recited an abstraction, and then looked at what was left, and it said that adding routine additional steps -- jumping ahead -- does not transform an otherwise abstract idea into patent-eligible subject matter. It was insufficient to supply an inventive concept.

And I think if Your Honors take a look at what is in Ultramercial, talking about getting guidance from the case law, the test is, as much as Patent Owner might regret it, the Mayo two-step test. And there is plenty of case law giving guidance about it.

And if you take a look at Ultramercial, for example, the court made quite clear that things like an activity log, counting the total number of times which the sponsor message has previously been presented, making sure that's less than the number of times that ad is supposed to run, that didn't transform anything into a patent-eligible invention.

It's taking a look at what is left and using the guidance of these cases that are much more analogous to this invention in DDR to decide but they are clearly not.

And with that I will pass the podium to Mr. Batchelder, who will talk about some of the prior art that also demonstrates that these were routine and conventional.

MR. BATCHELDER: I thought it would be helpful to take a bit of time to step through a couple of the examples of the prior art that Mr. Wechselberger pointed to in support of his opinion testimony that there is nothing inventive here when you tease out the abstract idea and look at what is left in the claims, and particularly in response to Patent Owner's contentions just now about what was invented.

One reference I think is useful to look at it is the Kopp reference, K-o-p-p. It is Exhibit 1210 and it is U.S. Patent Number 5,940,805. And I'm looking, for example, in Kopp, well, the title of it is "Method Of Selling Data Records" --

JUDGE BISK: Is this an exhibit?

MR. BATCHELDER: Yes, it is. It is Exhibit 1210. Shall I proceed?

JUDGE BISK: Oh, yes.

MR. BATCHELDER: Thank you. So the title is "Method Of Selling Data Records As Well As Vending

Apparatus, Memory Device, Chip Card, And System For Selling Telecommunications Software."

And the abstract in the right-hand side of the cover page refers to "a vending apparatus is used to sell data records."

The second line refers to a payment device. The third and fourth line, "a device for limiting the extent of utilization, and an interface device sends a release signal to the control device."

And then the next sentence, "the device for limiting the extent of utilization only permits the storage of data records in the memory device to a predetermined extent." And it allows it to play, as it says at the bottom there, "if it receives a release signal from the payment device." That's in the second-to-last line.

So then in the reference itself, in column 5, starting at line 3 through line 9, I'm going to read three passages here with your patience.

There it says: "The storage process is configured in such a way, that the stored data record is only released to a predetermined extent for future use. In this case the limitation of the utilization includes preventing the copying of the data record from the chip card to another chip card, and if necessary limiting the extent of utilization of the data record."

And then in the paragraphs beginning around line 16 of that same column, down to line 30, it explains that the content and the rules are all together on the end user device.

It says: "Next, data regarding the extent of utilization are entered into the data record to be sent to the chip card. These data contain information about the number of possible utilizations of the data record, the length of time during which the data record can be used, or the time limit up to which the data record may be used." So the rules and restrictions are actually on the card that contains the data.

And then in line 25 it says: "The thus changed data record is then sent via the interface device to the chip card." So the data record, the content, is changed, is infused with the rules themselves. And this is the very concept you just heard Patent Owner say was inventive much later in the art.

And then in column 6, if you could, line 41, that paragraph: "Before the security device" -- and that device is stored on the same end user device -- "before the security device allows the reading of a data record, it checks the recorded data" -- well, that's the use status data, again, it's the very same device -- "it checks the recorded data in the record regarding the extent of utilization of the data record. If the extent of utilization of a data record has been exceeded, it does not permit the record to be read."

Again, that's a rule. You have defined this rule as data specifying a condition under which use or access can be permitted. This is an "if" statement. It is a condition. It is checking the rule against the use status data all in the same device, all in the same place.

Patent Owner said that was inventive. When they did it, it just plain wasn't, as Mr. Wechselberger explained at great length, according to Kopp, among many others.

One more example, perhaps at the risk of beating a dead horse, but the Ahmad reference, A-h-m-a-d, which is Exhibit 1233, and it is U.S. Patent Number 5,925,127, is also instructive. The title is "Method And System For Monitoring The Use Of Rented Software."

And I will just read a couple passages from Ahmad. At column 11, please, the paragraph beginning at line 43, it says: "Alternatively, the SM may track the number of uses of the program module if the program module is rented for a specified licensed number of uses. The SM may track the number of uses of the program module by setting an internal counter, similar to the above-described internal timer, when the program module is first used. Upon each subsequent licensed use, the counter will add one count."

So, again, you have content plus a counter that is registered on the end user device counting the uses as they happen.

And then in column 12, starting at line 19, those couple of sentences, it says: "After completing the required rental form, the user downloads the desired program module, CICO" -- that's check in check out -- "module 120, and the Software Monitor to the hard disk drive of his or her computer." So this software monitor is downloaded and resides on the end user device just as the content does.

Again, the argument was made that that was inventive in the challenged patents, and it simply wasn't. And Mr. Wechselberger cites these two among many other references to explain that not only is this just Internetizing these basic ideas of rental and purchase, which have been around for millennia, but it is doing what had already been done in the digital form in this kind of space with the mobile data carrier, in the art. There is nothing inventive here.

The Patent Owner also pointed to the idea generally of separate memories, perhaps, or different kinds of data being stored in memory as inventive.

And I would submit that in Alice itself -- if we can just put up our slide 24, which has the Alice claim language, claim 26 of the '375 patent being challenged in Alice -- in the data storage unit limitation, which is the fourth row down, there was having stored therein two different kinds of information, information about a first user account for a first party. That's A.

And then, B, information about a third account for a second party. So two different kinds of data being stored on the same device. That was in Alice itself.

There is also a bevy, of course, that Mr. Wechselberger cited to describing different memories and different memory types. I think the most pointed example may be from the Stefik reference, and figure 12 of Stefik. This is Exhibit 1214 at figure 12, there you go, at the top.

If we could just blow that up, you have, at the bottom of figure 12, descriptor storage 1203, and then you have content storage 1204. And Stefik describes that those could be the same, they could be different. It even gets into the detail of how they could be different kinds of memory devices themselves.

But in Stefik, content memory and descriptor memory are stored. The descriptor storage includes usage rights, so, again, the rules themselves are being stored that indicate "rights granted to a recipient of a digital work." And they "define how a digital work can be used and if it can be further distributed."

So these rules, these limitations are in descriptor storage, they are saved in memory, and there is content storage also saved in separate memory or together in the same memory, either one. That alternative is disclosed in Stefik.

And there are many other examples of separate memory. Accenture, the Accenture case is another one. It had a database for storing information related to an insurance transaction. And that included a claim folder which, in turn, was decomposed into several files. That was on the one hand. And on the other hand there was a separate task library database for storing rules.

The SmartGene case that we also cited, which is Federal Circuit 2014, and the cite is 555 Federal Appendix 950, you had a first knowledge base and you had a second knowledge base and you had a third knowledge base.

The first stored regimens. The second stored expert rules for evaluating those regimens. And the third stored advisory information. These are applying the rules to the regimens.

So having rules, having use status data, having them stored in memory, having the rules used to evaluate the use status data to determine whether access is going to be granted, again --

JUDGE BISK: Can you give the cite for that case again?

MR. BATCHELDER: For the Accenture?

JUDGE BISK: Yes.

MR. BATCHELDER: Yes.

JUDGE BISK: Oh, that was the Federal Circuit case?

MR. BATCHELDER: Sure. It's in our --

JUDGE BISK: I'll be able to find it. Sorry.

MR. BATCHELDER: I'm sorry?

JUDGE BISK: I'll be able to find it. No problem.

MR. BATCHELDER: Okay. Accenture -- let me just give it to you while I have it.

JUDGE BISK: Okay.

MR. BATCHELDER: It's 728 F.3d 1336, and then the jump cites are 1338 and 1344 through 46.

So these ideas that Patent Owner pointed to, not inventive under any stretch. And Mr. Wechselberger, again, in unrebutted testimony walked through this art, explained that these things were out there, they had been done before in the pre-digital context, in the digital context, before the Internet and in the post-Internet world, and there is nothing inventive, when you tease out that abstract idea, there is nothing inventive claim-by-claim-by-claim. And he summarizes that.

And if we can put up our slide 15. So as we pointed out in our petition at the top, we said: "Whether viewed separately or as an ordered combination, the challenged claims simply recite the concepts of paying for

data and/or controlling access to data 'as performed by a generic computer.'"

And then Mr. Wechselberger, again, in unrebutted testimony: "In my opinion the challenged claims are directed to nothing more than implementing the basic concept of providing access to content based on payment data or rules, using generic features present on general purpose computers."

He goes on to say: "By Smartflash's claimed priority date of October 25, 1999, the elements of the challenged claims were all well-known in the art, and their combination as claimed was also well-known."

And then in deposition at the bottom he was asked a question about this and he said: "You can build patent-eligible claims by doing inventive steps on top of plain and ordinary, generic, well known and conventional components and actions. There just aren't any in these claims."

That's his testimony and that's unrebutted. And that testimony about what was conventional, what was known in the art, that does deserve respect in the 101 context.

And the Versata/SAP case actually made very clear that the Board's attribution of more credit or credibility to one expert versus another in exactly this kind of issue was important.

I will just add also that with Alice and Accenture -- maybe we could just put that Alice claim back up. I used it to talk about separate memories, but Alice also, as does Accenture and Ultramercial, it also applies rules.

Slide 24. Thank you. So if we look at the purple limitation towards the bottom, it would be the third from the bottom, Alice claimed that, after ensuring that said first party and/or said second party have adequate value in said first account, respectively, then you generate an instruction.

So there is a rule being applied in Alice. And you had to evaluate data to apply that rule to come up with a result. And, again, that idea, generic, well known, conventional computers have evaluated data and applied rules forever.

And in Accenture, it also was rules being explicitly applied. And Accenture, the claim that I'm looking at, at claim 1 of the patent at issue there, which is Patent 7,013,284, and in that claim 1, one of the things that was required was a task library database for storing rules. That's right around line 38.

And then toward the bottom, the "wherein" clause, right around line 50, it says: "Wherein the event processor is triggered by application events associated with a change in the information, and sends an event trigger to the task engine which, in response to the event trigger, the task engine

identifies rules in the task library database associated with the event and applies the information to the identified rules to determine the tasks to be completed."

So taking rules, applying them to data to come up with recommendations and decisions, including whether access can be permitted, that was all over the art and, indeed, it is even in the case law.

So, again, really what Patent Owner is pointing to is simply Internetizing an old world problem. That's exactly what was done by the Patent Owner in Ultramercial. The Internet was required in those claims, but the court said that's not enough. You are not overriding anything, as was done in DDR, you are just putting on the Internet these things that have already been done.

That summarizes my remarks, unless the Board has any further questions.

JUDGE ELLURU: Nothing here. Judges Plenzler or Clements? Thank you, counsel.

MR. BATCHELDER: Thank you.

JUDGE ELLURU: Thank you, counsel. This argument has been very helpful. These cases have been submitted. We will take a break until 1:30 p.m. when we start with the second session.

(Whereupon, at 12:21 p.m., the hearing was recessed.)

P R O C E E D I N G S

(1:34 p.m.)

JUDGE ELLURU: Good afternoon. Thank you for your patience. This is the oral hearing for CBM2014-00192, 193, 194 and 199. Each party, Samsung and Smartflash, will have 75 minutes of total time to present its argument in all four cases.

Petitioner Samsung has the burden so it will go first and then Patent Owner will argue its opposition to Petitioner's case and then, if Petitioner Samsung has reserved any time, Petitioner can use that time for rebuttal.

Would counsel please make their appearances, starting with Petitioner, please.

MR. RENNER: Yes, Your Honor. This is Karl Renner for Samsung. I'm here joined by co-counsel, Tom Rozylowicz, Andrew Patrick and Yao Wang, and we have a representative of Samsung, Julie Han.

JUDGE ELLURU: Thank you. And for Patent Owner?

MR. CASEY: Good afternoon, Your Honor. Michael Casey on behalf of Smartflash LLC. With me is Greg Krauss. Also with me is the inventor, Patrick Racz.

JUDGE ELLURU: Thank you.

MR. BAUGHMAN: Your Honor, for the joint Apple Petitioners, Steve Baughman from Ropes & Gray, and with me is counsel Ching-Lee Fukuda and Megan Raymond.

JUDGE ELLURU: Thank you. Petitioner, are you ready? Counsel, will you be reserving any time for rebuttal?

MR. RENNER: Yes, Your Honor. I would like to reserve about half of our time, as well as five minutes, Your Honor, for the Apple Co-Petitioner.

JUDGE ELLURU: Thank you.

MR. RENNER: May it please the Board. I'm Karl Renner on behalf of Samsung here to discuss the proceedings, CBM2014-00192, 3, 4 and 9.

Today, Your Honors -- slide 2, please -- I will discuss the patents '221, '458 and '598, respectively, as well as the claims therein, and some housekeeping matters, before we turn to the 101 ineligibility ground that is pending in each of these proceedings involving these patents.

And then we will turn to the Ginter reference as it is applied to the '221 patent, in particular claims 2 and 11.

Next slide, please. Across the variety of different proceedings, and at the outset we think it is important to again remind the Board that we are confronted with a record that is informed by the unrebutted testimony of just one expert, Dr. Bloom.

Smartflash had every opportunity to offer testimony on its view of different positions, that include the interpretation of the prior art as well as the predicate for 101 grounds. It did not do so.

As a consequence, as it was at the time of institution, the evidence continues to compel application of 101 and 102 grounds to the claims that are pending.

Slide 4 now. Here we show pictures briefly of the three patents to remind us to spend just a moment. You have heard this morning a lot about two of the patents in this proceeding, the '458 and the '598 patents. They share a specification with the '221. They have claims similar in scope to the '221 as well.

Simply, as the Institution Decision had recognized, these patents speak to the proposed solution to an age-old problem, that is piracy, and as the Institution Decision further recognized, piracy of copyrightable content and data is not new. It has been a business problem for ages, applying to CDs and other conventional media.

The Institution Decision at 11, it indicates: "The problem being solved by the claim 32 is a business problem, data piracy." That was in reference to the '221 patent. Dr. Bloom makes this clear in his declaration as well, turning to several third-party references that acknowledge the issue. Paragraph 124, for instance, makes this clear.

And with the purpose of the patent relating to an age-old business problem, and with the specification acknowledging the disclosure -- a conventional computer element, and a conventional manner being used, for the purposes of solving such a problem it would be surprising not to find 101 problems or prior art problems. The record here does not surprise.

Slide 5, please. As you can see, there are five patent claims in dispute here. All five have grounds pending on them for 101.

Two of them, on the '221 patent, also are subject to 102 Ginter grounds. As we previewed, we will begin with the 101.

Slide 6. Here we briefly provide an overview of the Alice test, we are all familiar with it, the two-step test that's administered via Mayo. In assessing this, Your Honors concluded at page 14 of the Institution Decision that the '221 patent makes clear a very important concept, and, that is, that the heart of the claimed subject matter is restricting access to stored data based on supplier-defined access rules and validation of payment.

JUDGE ELLURU: Counsel, is it your position that the abstract idea in all of the challenged claims is the same?

MR. RENNER: Thank you, Your Honor. That's a great question. It's our position, Your Honor, that this abstract idea does capture the abstract idea of all of the claims.

That said, different of the claims might have different expressions of the abstract idea for different parties.

Moreover, to the extent that a particular claim adds a particular feature, it is not our position that that feature would expand beyond the abstract idea.

It is instead our position that the abstract idea might engulf that claim feature. We have to look at each feature as we go, but this is the baseline of the abstraction idea.

Smartflash offers neither evidence nor arguments to the contrary, that is, to rebut the point that was made in this -- that the heart of the claimed subject matter is this combination of restricting access to stored data based on two things: Supplier-defined access rules and validation of payment.

A question then per Alice, as you can see, is singular. Are there additional elements, additional elements beyond that abstraction that transform the otherwise ineligible claims?

So mind you, for Stage 2 analysis we consider only elements that are additional, those that are beyond the abstract idea.

We don't consider supplier-defined access rules any longer or validation of payment, nor their use in restricting content. Those are part of the abstract idea and those are now washed away for purposes of 101 analysis in Stage 2. We only look beyond those. And this is an important concept.

With that in mind, slide 7, please.

JUDGE BISK: I'm sorry, can you tell me again what exactly the abstract idea is?

MR. RENNER: Certainly, Your Honor. The abstract idea, if you look at page 14 of the Institution Decision, and actually go to slide 10 and you will be able to find an articulation of it. In fact, sorry, it is further down the line than this. Slide 18 is an example.

In the center of slide 18 you will see "The Board:" and I will read from that: "The '598 makes clear that the heart of the claimed subject matter is restricting access to stored data based on supplier-defined access rules and validation of payment."

This appears in each of the different decisions for institution, Your Honor. This particular statement is drawn from, of course, the '598 patent, though we show you in the

slides surrounding this that the same statement appears in each of the Institution Decisions.

And it is the acknowledgment that we have two things present, that is, defined access rules and validation of payment, and they are being used to restrict access, and that's abstract.

JUDGE BISK: What if the abstract idea didn't use those particular words?

MR. RENNER: Sorry, Your Honor?

JUDGE BISK: Then you're saying that -- I'm a little confused about your argument here. So it seems to me what you are saying is the more specific the abstract idea, the less we're going to look at, the less limitations in the claim we're going to look at to see if they bring in something extra?

MR. RENNER: In essence, yes. It is less a drafting exercise, however, Your Honor, than it is an exercise in articulating what is, in fact, the abstract idea that creates a Stage 1 issue for a claim in the Mayo analysis.

Now, you have to append that in some way, of course, but the concept of, let's resolve what is that abstract idea, once you have that -- if I could return to slide 6, please -- once you have that we see, and this is why we quoted this section of the decision from Alice -- I'll wait because it's good to look at together.

So it says here we consider this after Stage 1, the quoted section here, says: "We consider the elements of each claim both individually and as an ordered combination" -- to do what -- "to determine whether the additional elements" -- important words, additional elements -- "transform the nature of the claim into a patent-eligible application."

It is not that we consider the entirety of the claim all over again. We don't start at zero. We first look to see what is abstract about the claim and then what is left over. The remainder is what we end up comparing.

And in this sense a 101 analysis, it's our position, is quite different than a 103 or a 102 analysis. There is a variety of ways they're different, but one of the core differences as between them is this notion of you are not comparing the entirety of the claim any longer when you are trying to figure out whether there is transformation. You are looking at the delta.

Now, we submit that you got it right. The Institution Decision got it right. It indicated what the abstract idea was, restricting access on two specific things.

JUDGE BISK: What about, the District Court had a different definition of abstract idea.

MR. RENNER: Yes, Your Honor.

JUDGE BISK: I don't think it used the words payment validation, so does that mean if we went with the

District Court's abstract idea, now suddenly payment validation is something that we look at to see if it transforms?

MR. RENNER: Your Honor, yes. If, in fact, you found that the abstract idea was not consuming of that concept, then that concept would be available for Stage 2 of deliberations. We don't believe that to be the case.

In fact, we've heard from counsel again and again in the papers that they believe it is the combination of a couple of things, the rule and the content, ironically, that makes the invention come alive. You know, I'm paraphrasing, of course.

So here we have part of this taken away, the rules themselves being used for purposes of access. That's not very interesting at all. That's part of an abstraction. In fact, it is our position that you don't stop there.

It is not just the rules. It is the content itself as well. The payment data, the payment validation data, these four concepts do come together, yes, but they are, number 1, in the prior art, and we'll talk about that, and, number 2, they are abstractions.

This is putting data in a place, this isn't very interesting, and, moreover, this replicates what has been done in commerce for years but for the fact you are now putting it

on a computer. It is important -- and we will talk about DDR and Ultramercial, of course -- it is important to think about.

JUDGE BISK: I'm sorry, I can't get past this because I feel like you are making abstract idea much more important than it has been in any of the other cases.

For instance, in DDR I don't even think they settled on what the abstract idea was. They said it is hard to figure out, it might be this, it might be that, but it doesn't matter.

But I feel like you are saying that -- and I read the cases to say we need to find out, is this an abstract idea, but it is not so important what it is, but you are saying that it is incredibly important to what it is?

MR. RENNER: That's correct.

JUDGE BISK: And it doesn't seem like we had a lot of briefing on what it was. Why did the District Court come up with a different abstract idea? If this is so important, I feel like we need more analysis about what is it, what is the abstract idea.

JUDGE ELLURU: To follow up on Judge Bisk's question, has this argument been made in your briefing, that it depends on the abstract idea?

MR. RENNER: Your Honor, there has not been discussion of step 1 because it was not contested whether or not there was an abstraction, nor what the abstraction was.

JUDGE ELLURU: You didn't argue what the abstraction was and how that affected our analysis, correct?

MR. RENNER: Your Honor, we presented an abstract idea in our petition and then, Your Honor, we saw what your decision was and we have applied it ever since.

So we have treated the terms that go beyond this in our analysis of 101. We believe our briefing is consistent with that, Your Honor.

JUDGE ELLURU: And I just want to clarify. Your position is that you do agree with us on what the abstract idea is in these challenged claims?

MR. RENNER: That's correct, Your Honor.

JUDGE ELLURU: And that abstract idea -- I don't know that we've been explicit in our DIs as to what that abstract idea is -- what is the abstract idea in the challenged claims?

MR. RENNER: So, Your Honor, the abstract idea is the heart of the invention. It is restricting access to stored data based on supplier-defined access rules. Supplier-defined access rules are used to restrict access to data, as is the validation of payment.

JUDGE BISK: And this is the same for every single claim?

MR. RENNER: It was articulated in each of the Institution Decisions, Your Honor. We think that, and you will see when we look at the specifics also --

JUDGE BISK: I'm not comfortable, though, relying on the Institution Decision for anything. It is a preliminary decision. It is not evidence of anything and it is not a final decision on anything. It is not binding on anybody. So I would rather have something else rather than something that was written there.

MR. RENNER: Yes, Your Honor. Well, in our petitions we actually articulated an abstract idea. I would have to hold a briefing on that, please, but we will get that in front of you, Your Honor. We think it is consistent with the articulation that Your Honors made.

The question we have --

JUDGE BISK: For every claim, so every claim has the same exact abstract idea?

MR. RENNER: This is the point, so perhaps let's go to slide 16, I believe, 17 -- no, 16. Your Honor will see that the claims, there were four limitations that were at issue in our proceeding. There were four different limitations that were brought forward by the Patent Owner as justifying 101 eligibility.

In slide 16 through 18 we address each of the four elements that were brought forward. There were also, you know, more sweeping statements that these weren't limiting.

And, Your Honor, to your earlier question, before I move forward with this, in the declaration at 126 and also in our petition at page 23 we described enabling limited use for paid for and/or licensed content as the abstract idea that we had set forth.

JUDGE BISK: Okay. So those don't use the words user-defined access rules or validation of payment?

MR. RENNER: That's correct, Your Honor.

JUDGE BISK: So now, according to what you said earlier, those things we look at to see if they transform the claim?

MR. RENNER: If you were to go back to the abstract idea that we had articulated, that would be correct, Your Honor.

JUDGE BISK: Okay.

MR. RENNER: We stand before you believing that Your Honors have done a better job than we did in the petitioning process, and accepting of the abstract idea that was articulated in the Institution Decisions, but you seem to grasp all those concepts as we understand them.

Now, if you look at slide 16, again, the '221 patent, we see, first, we see that the focus was made on just a few features that we've highlighted here.

We're highlighting these because we wanted to compare them to what we believed to be the accurate abstraction first, and then look at them to see whether they are further abstract, and then look at them to see whether maybe they are transformed of themselves.

Together it is our opinion that these limitations are nothing more than receiving, in response to validation, content and access rules. That's what the limitations say there on the slide.

Let's break that down. In these functions we see nothing of substance really more than what the Board has already declared, we believe properly, as abstract. And yet you were asked in Step 2 to identify additional elements as per Alice. There being none, we believe that there can be no transformation.

And to be clear, the elements involve payment validation. This is a concept that was clearly recognized as abstract and, of course, endorsed by Your Honors in the Institution Decision.

JUDGE BISK: I have a question. So Patent Owner in other circumstances has said that what brings this subject matter into patentable territory is that the user

rules -- use rules, use status data and content data are all in one device.

What is your response to that?

MR. RENNER: Our response is several fold. Number 1, we are talking about data, just simply the storage of data. Where it is stored we believe isn't going to transform something that is non -- that is non-abstract, abstract from being non-abstract. So I think the storage of data itself is not a sufficient basis by which you would make a patent eligibility decision, number 1.

Number 2, the labels that are applied to those data don't change the answer to number 1.

And, number 3, we see that even if you were to move through abstraction and go to Step 2 of the Mayo analysis, that prior art exists that meets exactly that stated storage, and for the purposes that are stated no less.

In fact, the Ginter reference, as you know, in this proceeding is pending and the Ginter reference we believe puts all four elements in the same place, that is, on the user's carrier.

JUDGE BISK: But Ginter isn't -- we're not going forward on all the claims.

MR. RENNER: Correct.

JUDGE BISK: All right. So does that mean only some of the claims?

MR. RENNER: Your Honor, the claims that are not subject to Ginter -- well, the claims that are subject to Ginter include the limitations we are talking about. They include the storage. They include a combination of elements. They include the content, the payment, payment validation data. Okay.

They include all of these concepts on the storage. And so Ginter has been applied against claims. Ginter also we know, and maybe we will just go ahead there and see it, figure 8 of Ginter. Tom, please move us to slide 27.

We can see Ginter when it delivers, in response to a request, it delivers a container, and the container includes not only the content but use access rules.

And Ginter tells us at column 65, at the end of this column, tells us that that is delivered to the user. The user in Ginter, of course, is carrying a data carrier called PEA, Personal Electronic Appliance.

JUDGE BISK: So because it is in Ginter that means that it's conventional? Is that the same?

MR. RENNER: Because it's in Ginter, we believe that means it's not transformational.

JUDGE BISK: Not transformational.

MR. RENNER: The court has left us in a bit of a pickle in terms of what some of these terms mean, I will grant

you, but what we believe is, if something is in the prior art, that it can't be transformational.

Whether it can -- whether there can be a distinction that is drawn out of some non-substantive issue or not between a particular piece of prior art, there can be no question that this concept, the concept that the patentee is standing on, that you bring together these types of pieces of information onto a user-held media, that concept, that's in Ginter.

And if it is in Ginter -- and we've talked about other non-prior art, you know, pending uses of this, as you've heard before, but if it is in Ginter, the reference that is actually on record and we're talking about today, then it can't be transformational. That's our position.

JUDGE ELLURU: But is it your position that it is different from an obviousness analysis?

MR. RENNER: Our position is it goes beyond an obviousness analysis. We know from the Flook case, Your Honor, Parker v. Flook, that there is an assumption that a patent is actually valid even that it's beyond the prior art before there is even a 101 analysis.

If that's the case, it has to be that 101 goes beyond 102 or 103. And that would make sense. You don't want to collapse those completely.

I mean, our position in full on this, Your Honor, to make a fuller picture of this, is you first start out with an abstract idea. You carve away what that is. You are left with what you are left with. You compare this to the state of the art to determine whether there are transformational differences.

Now, that's just entirely different than a 102 or 103 analysis. It might be that the comparison looks similar between that which was left and the state of the art. There might be some similarities in that. But even the corpus of what is being compared differs.

And here you see this figure from Ginter, figure 5B. It shows us, as labeled at B, that the content -- this is on slide 27, again -- that this is a container that is delivered by Ginter to the user in response to a request. Not only a request, but in response to payment validation that occurs.

And this container has in it the content which is referenced at B, shown here in the small dashed box, and it also has below that three different types of access rules. So access rules, there is no question in Ginter, make their way all of the way to the user device, the same user device from which payment data was read and given to a clearinghouse by Ginter, and the same device that received back from that clearinghouse an object that included the validation.

Now, this all makes sense, and I know we're moving now to our 102 argument, this makes sense in terms of prepayment, this is what Ginter is describing for us, because in a prepayment scenario, of course, when you submit payment you have to get something back. In an electronic world that would be some kind of electronic object.

That payment is validated by a clearinghouse and it is given back by way of an object, the object that the user is able then, because of the prepayment scenario, to be used by that user to actually collect on what he prepaid.

How does the user do that? They submit it to the content supplier. This is what Ginter is telling us.

So we are still on the 101 analysis. I want to not get too deep into what Ginter is telling us, but I want to make sure that Your Honors are comfortable with the notion that what we have here is the stated big deal, the stated transformational item, if it is there. The stated driver for this patent is the collection-specific pieces of data at the user device. And those exist in Ginter.

In the same way in the declaration, we have our expert, Dr. Bloom, having testified to more of a real world prior to or alongside an Internet application. He used Toys "R" Us as an example that struck him.

And he said in a Toys "R" Us store you might want to rent something -- you might want to buy something or

rent something, a Moon Bounce for the day. You go to the register. What do you do? You submit a payment. You ask for the device. They don't have it at the register, don't have it right there.

In goes the payment. It is validated, comes back and you get a receipt. You take your receipt over to the customer service or some other part of the facility, but the receipt is telling you you've got a Moon Bounce, you've got, you know, authorization. You've got identification of what it is. And the limitations, the access rules are right there as well.

The user is holding this in his hand, his hand plus this ticket. He has got what the goods are. This is not Internet. It is not computerization yet. You walk that over and you hand that to someone. You now convey to the supplier what you have, your authorization, the identification, the access rule.

They take it and they give you back your Moon Bounce. So now you've got conveyed you're holding the item that you had validated payment for.

Now, that's almost a silly example you might think, but it illustrates the point that before computerization, before Internet, this is how the world works. Naturally when you add computers, of course you are going to, instead of

giving him a ticket, you're going to give him a dongle. You're going to give him some kind of electronic device.

That's all we're talking about here. The same transaction occurs otherwise. The subject of the transaction, now it's a piece of data as opposed to a Moon Bounce. These are not transformational events. This is computerization of that which was once done manually. This is what Ultramercial tells us not to give patents on, Your Honors.

JUDGE BISK: Although, piracy, we don't have the piracy problem with the Moon Bounce.

MR. RENNER: Pardon me?

JUDGE BISK: We don't have a piracy problem with the Moon Bounce.

MR. RENNER: No, Your Honor.

JUDGE BISK: So really the problem that it is trying to solve doesn't really go beyond data. I'm having a hard time making these, you know, non-data analogies because everybody agrees that this patent, I believe everybody agrees that this patent was to make it harder to pirate data.

MR. RENNER: Sure. If I may, Your Honor.

JUDGE BISK: Yes.

MR. RENNER: I agree. Certainly the Toys "R" Us is not a data piracy issue. It is provided to give you a sense of how pedestrian the activities that are claimed are.

Now, the claim is what matters here. Go back, please, to slide 10 will do the trick. The claims are what matter. And when we think about the claims themselves, they don't claim an issue of data piracy. They claim that the data is stored in a specific place. Right? And the claimed subject matter then doesn't go past this.

So you have data access terminals with data carriers and interfaces. They are storing the data, but there is nothing in this claim, not claim 1, not claim 2, not 11, not 32, and not in the other patents either, that is limiting this invention to data piracy.

I understand your concern. I have the same concern. This kind of takes it over to the preemption. The claim here goes well beyond the basis for which novelty is said to exist.

And I can appreciate the struggle that that creates, but that's a struggle that is born of claim drafting. It is a struggle born of over-claiming, Your Honor. And it is a struggle that we can see bear out right here before us.

Now, again, we have Ginter, please be reminded, Toys "R" Us aside, we have Ginter. And Ginter is all about access rights. It is all about exactly the same thing, which is why we brought that to bear as a prior art reference, in addition to looking upon it as something that helps us

understand that these features themselves is not going past what would be ordinary.

If I may, I would like to go to slide 16. Your Honor, I've skipped some slides that relate to the idea that the computer elements themselves, they are not novel. And there is really no debate over that on the record. They are called out as conventional in the record.

And so we've moved past those. We've moved past the idea that the general notion of function here is of interest. Again, those same computer elements were said to be used in a conventional manner. So the general ideas of function are not interesting either.

And we're really directing your attention -- and, again, 16 through 18 -- at the features that were argued by Patent Owner to be the ones that will carry the day or not on 101.

Now, you've seen this element. This is from claim 32. And this does speak certainly to the idea that a data carrier, having the rule loaded onto the data carrier, after validation data was made for payment data. No question on those two items.

We believe that the Board had, as we mentioned, articulated properly abstractions, the abstract idea. And as such we believe this claim really doesn't go any further than a proper articulation of the abstract idea.

And, Your Honor, to the extent there is any difference between this claim and the abstract idea, either that we presented in our petition or that Your Honors may embrace otherwise, we believe those aren't anything beyond abstract.

We're talking about storing data. We're labeling the data but we're storing the data. And the notions of data piracy, they are just not here in the claim. There is nothing in the claim that says that you do things that will actually stop data piracy. They simply are storing some data in a place.

They don't even talk about the nexus between the rule as a governing rule and the data but, one or the other, they don't have these kinds of details. And we have undisputed testimony from Dr. Bloom that is referenced here that the subject matter of 32, it covers a limited use of paid for/licensed content, and it fails to meaningfully limit that coverage.

Finally, as to these features of claim 21, these are, as we earlier articulated, these are met in the prior art. They are met in the Ginter reference.

And other than computerization, we believe they are met by examples that are numerous, of Toys "R" Us, you know, going to a movie theater, punching a ticket, where the movie theater itself is the place, is the medium itself where

the movie exists or it resides. Blockbuster. There is a variety of examples you could go to.

Now, if we could move to slide 17, and in slide 17 we see from the '458 a feature that was at issue. Here at the wherein, the user rules permit partial use. So other than the partial use, there is really nothing added by this limitation.

We are troubled by the notion that you would move from patent ineligibility to patent eligibility based on partial use data, that it be part or whole. This is going to be -- is this what we are made of in terms of our eligibility? We don't believe so.

Again, we think that even to the extent this goes beyond the articulated or proper abstraction that is applied to the claims generally, we think this also is abstract, the notion of having partial use or non-partial use data. Moreover, this, again, does not devoid the prior art.

Next slide, please. The '598 patent is even worse. The limitation that was pointed out in the '598 patent is code to provide payment data to a payment validation system. Again, not only is this well apart of all of the prior art we're talking about, the notion that this extends beyond any articulation of abstract idea is difficult.

We think that it is well aligned with the abstract idea that Your Honors found. And we think that, to the extent you are considering this claim alone in your

abstractions, you would have to engulf this claim, that you are going to provide payment data to a payment validation system.

JUDGE ELLURU: Counsel, you've used up about 30 minutes of your time. I want to clarify as to whether Apple is going to also make argument on direct, because they will not have an opportunity to make rebuttal unless they also make the argument on direct.

MR. RENNER: Pardon me. Because?

JUDGE ELLURU: Apple will not be able to make an argument in rebuttal unless it also makes an argument in direct, and you had saved five minutes, and I just want to make sure that you are aware of that.

MR. RENNER: We had planned on them making their statements in rebuttal, Your Honor.

JUDGE ELLURU: But there would be no rebuttal.

MR. RENNER: I understand your point. Your Honor, I will continue and then if -- pardon me one moment, please.

Your Honor, before I step down, we're going to have Apple make a few comments as we had planned. We will just pull it up in the direct as opposed to in the rebuttal.

JUDGE ELLURU: Thank you.

MR. CASEY: Your Honor, can I ask for clarification as to what proceeding they are going to speak

on? My understanding of the order is that Samsung was to present the arguments on behalf of itself and the Co-Petitioners.

JUDGE ELLURU: We are going to give Apple an opportunity to, for a few minutes, to make argument on direct if it so chooses.

Samsung also has the choice to argue on behalf of Apple if it so chooses. However, there will be no rebuttal on the part of Apple unless it was also made in direct.

MR. RENNER: Thank you, Your Honor, for clarifying. So as we move through, let's please go to slide 19, and just to make a note that, when we're trying to make a comparison between DDR -- which has been, of course, at everyone's mind -- and the claims that are at issue here, we see that this does not, in our opinion, speak to a computer problem, a problem with the computer age.

The claims here are speaking to an age old problem, piracy. They are, of course, addressing the solution -- a solution to that problem that has been presented for a computerized world, but it is still the same old problem of piracy, imported in today's world.

As opposed, I will grant you, to the DDR case, where the problems being addressed there are with respect to the delivery of web pages. There is no analogue outside of the Internet age for DDR's technology.

And to your point earlier, Judge Bisk, the court had a difficult time even finding an abstraction that would apply to DDR. We think this also distinguishes DDR from the current case.

JUDGE BISK: Well, here we have at least three abstractions that have come up. We have your initial proposed abstraction, we have the one that we used in the Decision to Institute, and we have the District Court's.

MR. RENNER: And, Your Honor, I would submit to you if you asked 100 people for whether they could articulate an abstraction on almost any topic, you would probably have around 99 different answers.

JUDGE BISK: Right, which is what makes me so nervous about making it so important to the second step.

MR. RENNER: Which is fine. We say it is more of a conceptuality. We have the Patent Owner themselves telling us that these various pieces of data, and in particular they are focused on the content and the rule together, this is what they are telling you is important why they get to the piracy solution.

And we think, Your Honor, the abstraction should be related to that point. But I understand your concern, Your Honor. I would just identify to you that in DDR it was an invention that was really not well suited for an abstraction

analysis, which led you into the step to, and almost forecast, the failure that was going to happen in DDR.

Now, compare that to the present case and also to the Ultramercial case, where a broader abstraction was able to be articulated in the Ultramercial case because the case was quite clearly abstract and that allowed us to do a comparison of that which is remaining -- and in Ultramercial there was a lot remaining -- element-by-element, to see whether or not there was something that transformed.

Let's go to the next slide, please, number 20. When we look at the DDR element, I think it is important with this in mind to focus on what is being claimed there, automatically generating and transmitting to the web browser a second web page.

It is true that you could focus on using the data or automatically generate. It is the entirety of that limitation that when you read the decision came through and gave pause. And when you look comparatively to the limitations that were mapped up against -- not by us, this is by the Patent Owner in their response -- you see very generic articulations of that which is being put before you. It is all code to, it is retrieve data, write the retrieve data, receive at least one access rule, and write that access rule.

There is no generation of things. You are not creating a web page. You are not generating content. Not

that that is a prerequisite, but you can see the difference between these elements, it seems to us.

Next slide, please. So unlike the claims in DDR that were rooted in computer technology in order to overcome a problem specifically arising, it says, in the realm of computer networks, the Smartflash claims are in substance directed to nothing more than the performance of an age old abstract business practice.

Now, before we get too deep, let's go to slide 23. I do want to touch on Ginter. We think the record is quite good on Ginter. We're happy to discuss it and certainly entertain questions, but I did want to point out that claims 2 and 11 are met by Ginter. I want to make sure before we break that we give you a sense of this.

So if you go to slide 25, please, what you will find is that the arguments relating to Ginter don't relate to the preamble, to the limitations 1, and 1(a), 1(b), 1(c), 1(d), 1(e), or claim 11.

Rather, you see that the Patent Owner focused on just three limitations, 1(f), 1(g) and claim 2, with 1(f) relating to code to receive payment validation data, 1(g) relating to code responsive to payment validation data. It is going to read and then write the data that you get. And claim 2 being about transmitting the payment validation data.

Next slide, and the slide after. Earlier we showed you -- this is slide 27 -- that Ginter is about delivering the content of the container, that it includes both the content and the access rule together. Ginter is clearly a solution to data piracy.

Next slide. We can see operationally that Ginter uses a terminal, an access terminal -- it's called out as electronic appliance 600 -- for pulling payment data from within the memory cards that are docked therein. These are the memory cards the user has. We talked about this. They are called PEAs.

It is going to negotiate the validation of the same with the clearinghouse. The clearinghouse is some device that's able to validate, or not, data that comes in, that is, payment data, and is responsible for retrieving content from data suppliers.

And that would be the external object repository or the VDE server is discussed in Ginter, and writing this back to memory cards.

So Ginter describes the VDE server and its interactions with the terminal to receive requests or payment validation data along with the requests in the event of a prepayment.

Next slide, please, 29. When you see this PEA, what is a PEA? It is a device that the user has. It has got an

SPU on it, it has got a CPU on it, and it has got a memory on it. The operations of Ginter describe in prepayment, for instance, that you draw the payment data, as earlier described, off of the PEA.

You send this up to a clearinghouse and you return to that clearinghouse a validation. In a prepayment situation that goes to the user. In a prepayment situation, the user has to submit something to the data supplier to get the data. So, again, the payment goes up and the supplier gives back the data.

JUDGE ELLURU: Counsel, I just want to note, I'm sorry to interrupt your presentation, that you have used up 40 minutes of your presentation time.

MR. RENNER: Thank you, Your Honor. Just a moment longer.

So I would like to cite to you column 230:20 to 24 -- to 42, where Ginter explains the PEA may have the form factor of a smart card that can be inserted into another electronic device; 229:17 to 28, where the PEA includes a means for storing information in bulk, clearly not just payment validation; 289:67 to 292, and 161:42 through 162:6, which described a container being sent to the end user and the option to being sent to the SPU, respectively.

So, Your Honor, in the briefing we've mapped each of the Ginter claim elements, 1(f), 1(g) and claim 2.

I think I will yield the rest of my time, however, and reserve for rebuttal, after having Apple counsel say a few words, unless there are questions that you have before I sit down.

JUDGE ELLURU: None from me.

MR. RENNER: Excellent. Thank you.

JUDGE ELLURU: Thank you.

MR. BAUGHMAN: Your Honors, being respectful of the Samsung Petitioner's time, I'm going to be very brief and raise just three quick notes for the Board.

First, I want to point out that the Institution Decisions here invited Patent Owner to provide a record on the second prong of Mayo.

If you take a look at the Institution Decision, Paper 9, in CBM --

JUDGE ELLURU: Can you just be clear about what claims you are discussing?

MR. BAUGHMAN: Yes, Your Honor. This is the '221 patent, CBM2014-00194.

JUDGE ELLURU: And I do want to make note before you go any further that you are estopped from arguing the respective claims 2 and 11.

MR. BAUGHMAN: Understood, Your Honor. I think only 32 for the '221 patent. And I believe this is a general statement about the record, on page 15, where the

Board says: On this record Patent Owner has not shown that all other potentially technical additions to the claims add anything other than what is purely conventional, and the linkage of existing hardware devices to existing payment validation processes also appears to be well known, understood, routine and conventional.

And we have no evidence from Patent Owner to attempt to change the evidentiary record that the Board laid out in its Institution Decision. This was an invitation that was ignored.

The second point I want to note very quickly is that Patent Owner has failed to show that the functions, technology or their combination were anything other than routine and conventional in the record.

The patent says, for example, the details of the storage memory that we've heard about so far this morning were unimportant, they didn't matter, and in the '598 patent, for example, and that's at column 12, lines 29 to 32, we have Dr. Bloom testifying about the conventional-ness of the material beyond the abstract idea.

And there is no override here. If you look at paragraph 128, for example, it talks about mimicking the physical world.

And in the Patent Owner's response, that's again in the '221 matter, Paper 7 at 8, the Patent Owner says that for

claim 32, Your Honor, it omits the specifics on how payment is made.

And, finally, the last point I wanted to just raise is that the inquiry we're looking at here -- and, Tom, if it is possible to show slide 6 -- under the Alice case, the quotation here that what -- the something more you are looking for is an "inventive concept." And, respectfully, under any articulation of the abstract idea here, you won't find it in these claims.

Thank you, Your Honors.

MR. CASEY: Good afternoon, Your Honors. So, Judge Bisk, you started us with a discussion of how do we know what the abstract idea is. And you are quite right, that the abstract idea keeps changing.

Apple tells you it's one thing. The District Court tells you it's something else. You have decided it is a third thing, and Samsung said it was something, a fourth.

JUDGE BISK: And I don't think you have given us your proposal. Is that right? I just want to make sure I'm not missing anything. You have not proposed an abstract idea?

MR. CASEY: Your Honor, the problem is that there really isn't an abstract idea. This is a structure. These are structure claims when it is a data access terminal.

JUDGE BISK: But you didn't -- is this in your briefs? I don't think you argued anything about abstract idea in your briefs.

MR. CASEY: We did not, Your Honor, we did not.

JUDGE BISK: Okay.

MR. CASEY: Because the remaining steps answer this. But Your Honor has provided Petitioner the opportunity to discuss what the abstract idea should be, and I feel it would be appropriate to allow Patent Owner the same chance to make sure the record is clear.

The -- may I, Your Honor?

JUDGE BISK: Right, and your answer is that there is no abstract idea?

MR. CASEY: There is no abstract idea, Your Honor. Your Honor, they could have --

MR. RENNER: Sorry, Your Honor. My apologies. We would object as we believe this is a new argument. Your Honor, we would believe it inappropriate for counsel to speak of the abstract idea, its existence, or its articulation, although we, of course, you know, understand Your Honor.

JUDGE ELLURU: Thank you, counsel. We note your objection and the Panel will decide whether it is new argument or not.

MR. CASEY: So, Your Honor, the abstract idea, to answer your question before, could have just been a system or it could be a restricting access to stored data based on supplier-defined access rules and payment data, as we mentioned in the Institution Decision, or, for claim 32, it could be a data access terminal for retrieving data from a data supplier and providing the retrieved data to a data carrier, the terminal comprising each and every single element of the claim.

That would make it easier. Right? Under Petitioner's rules, or Petitioner's proposal, you would then be able to ignore everything that wasn't in the abstract idea and say, if there is nothing left, then it is not patentable. But you can't simply say we get to wave our hands and say what is patentable.

One important issue to note, Your Honor, is Petitioner has changed its position on what the abstract idea is between when they filed the petition and when they filed their reply, which means Dr. Bloom's testimony about whether or not the abstract idea is known is irrelevant to the abstract idea that you proposed or that they are now proposing in their reply.

Dr. Bloom said that the abstract idea was controlling access to data -- sorry, it was enabling limited use

of paid for/licensed content. So under that definition, there is a lot more elements that you have to look at. Right?

There is no structure that's described there. So every piece of structure that Petitioner now wants to ignore actually is not part of the abstract idea.

The abstract idea doesn't say anything about structure. So it is discussion about claim 32 and the structures in claim 32 are irrelevant. It wants to, in its reply, now make the argument that we get to look at only those things that Your Honors didn't use in the abstract idea.

Your Honors could have said it is subject matter that is restricting access to stored data, period. But Your Honors went on to say based on supplier-defined access rules. Why not access rules?

This is Judge Bisk's question, and I agree it is a difficult question. You are starting out with half an answer by simply saying what the abstract idea is. But this is structure. This isn't an abstract idea. It's structure.

The Supreme Court has a problem with that. I can't resolve that for you. They haven't figured out how to make this work.

But to your question, Judge Bisk, what you proposed as the abstract idea is not the same as what the District Court proposed and it is not the same as what Petitioner is now telling you what it should be. So I don't --

JUDGE BISK: I thought the --

MR. CASEY: I'm sorry, what Petitioner said it should be in the first place. All right. I misspoke. You're right. You are correct, Your Honor.

So one thing is for sure, though. One of the issues that they raise is an analysis of what is not in the abstract idea. If we look at claim 32, claim 32 says: "Code responsive to payment validation data to receive at least one access rule from the data supplier and to write the at least one access rule into the data carrier, be at least one access rule specifying at least one condition for accessing the retrieved data written into the carrier, the at least one condition being dependent upon the amount of payment associated with the payment data or to the payment validation system."

I submit to you that Petitioner has never shown that that element is in the prior art. Petitioner cites in its petition to a number of paragraphs of Dr. Bloom that do not ever say that the condition is dependent on the amount of payment associated with the payment data forwarded to the payment validation system.

JUDGE BISK: So can we talk about 199, the 199 case for a minute?

MR. CASEY: Sure, Your Honor, whichever order you want.

JUDGE BISK: Because in that case it seems to me -- so what happens if we find anticipation of claims 2 and 11? Does that mean that by definition they are 101 ineligible?

MR. CASEY: I have -- if you find --

JUDGE BISK: Anticipation.

MR. CASEY: -- that there is anticipation?

JUDGE BISK: Yes.

MR. CASEY: Then their 101 analysis would fall. I don't know that you would have to reach the issue if you found that there was a straight 102 anticipation, Your Honor.

JUDGE BISK: What about for the other claims, though, because if we found claims 2 and 11 anticipated, wouldn't that mean that we found that the payment data and the use -- well, what is in claims 2 and 11? Let me look.

Basically wouldn't we have found that the basic pieces of data are stored on the one device along with the content?

MR. CASEY: If you found that this claim is anticipated, Your Honor, I don't know that you would spend the time to do a 101 analysis.

JUDGE BISK: What about the other claims, though, that's what I'm saying?

MR. CASEY: For claim 32 there is no anticipation argument being made.

JUDGE BISK: Right. But if we found claims 2 and 11 anticipated by Ginter, then does that inform our 101 analysis of claim 32 at all?

MR. CASEY: Maybe to the extent that they are all overlapping elements, Your Honor. But certainly, as I just pointed out, there is at least one element that has not been alleged to be present in any of the other claims.

JUDGE BISK: And that's now the thing that is the inventive concept? That's the thing that is getting us over?

MR. CASEY: Absolutely, Your Honor. That would certainly get us over because, as Mr. Baughman said --

JUDGE BISK: And tell me again, just so that I'm clear, what is that element now that is getting us over?

MR. CASEY: Sure, Your Honor, I will put it up for you. So, Your Honor, it is the second-to-last limitation, code responsive to the payment validation data, and it ends by saying "the at least one condition being dependent upon the amount of payment associated with the payment data."

JUDGE BISK: Right, and which part of that are you pointing to?

MR. CASEY: The last, the very last part that says "the at least one condition being dependent upon the amount of payment associated with the payment data."

JUDGE BISK: So this is the part that is the inventive concept. Just for this particular claim?

MR. CASEY: Certainly, Your Honor, it is one of the inventive concepts, but even the idea, even the element of code responsive to the payment validation data, to retrieve data from the data supplier and to write the retrieved data into the data carrier.

JUDGE BISK: But those are in claims 2 and 11, right?

MR. CASEY: I'm sorry, Your Honor. So you are still saying if you found --

JUDGE BISK: Yes.

MR. CASEY: I would have to match, but assuming that they are exact fits, it would inform your decision on whether or not there are additional elements in claim 32, yes.

JUDGE BISK: And we have final decisions that have found these two claims obvious?

MR. CASEY: Yes, Your Honor, you do.

JUDGE BISK: Okay.

JUDGE ELLURU: I just want to understand your position. Is it your position that the inventive concept is anything that is missing in the prior art?

If an element allegedly is missing in the prior art, is that what you are saying is the inventive concept?

MR. CASEY: So, Your Honor, I think that the term inventive concept is a terrible misnomer.

JUDGE ELLURU: But we still have to make sense of it, because that is the law.

MR. CASEY: So the law, Your Honor, is looking at the two-part test and, look, when there is an element that is missing, it is certainly indicative of the inventive concept, but I would not say that you can divorce the idea of the combination of elements being a portion of the inventive concept.

So, Your Honor, the fact that no one else ever combined elements A, B, C and D, but yet A and B and C and D were separately known, could mean that the combination of A, B, C and D is the inventive concept, even though the elements separately were known. And, in fact, it happens all of the time.

JUDGE BISK: Are there any Federal Circuit cases or even District Court cases where something like that was found patentable?

MR. CASEY: Your Honor, I do not know that there are such a case, but it is analogous to the situation of obviousness. Right? It is what we look at all of the time. A and B were known. C and D were known.

JUDGE BISK: Right. I understand that argument. It's 101 that's kind of problematic to me.

MR. CASEY: Your Honor, as someone -- one of the things that Mr. Renner said was you could ask 99

different people, maybe he even said 100 different people, what the abstract idea was, and you get 99 different responses.

JUDGE ELLURU: Does Alice require us to identify something as --- such matters as an abstract idea or does it require us to characterize that abstract idea or does it just require us to identify it as directed to an abstract idea?

MR. CASEY: So, Your Honor, I would question how you could know that it is directed to an abstract idea if you didn't know what the abstract idea was. I don't think you can do one without the other. Right?

And the problem is, the more elements that you say are part of the abstract idea, the narrower the focus becomes. And the fewer elements you say, the broader it becomes.

JUDGE BISK: I would say that that's what DDR did; wouldn't you?

MR. CASEY: What is what DDR did, Your Honor? I apologize.

JUDGE BISK: They said there was an abstract idea but they didn't say what the abstract idea was.

MR. CASEY: I think that they punted on it to some extent as well, Your Honor, yes. I think that they said it is implemented on the computer and, therefore, it is not a physical thing. It must be an abstract idea.

JUDGE BISK: Right.

MR. CASEY: Which, frankly, is a troubling thought, but essentially every single computer invention is going to be considered an abstract idea.

But returning to the idea that computers receive, transmit, process, and that's it, or those kinds of words, if you have -- if there is case law that says receiving and transmitting and manipulating isn't enough, then it is essentially saying that every computer invention is going to have to move to Step 2 of the Mayo test.

I don't agree that it should. I think that you should look at things on their merits, the structure of this, but the code to do X, Y and Z.

JUDGE BISK: Do you know of any cases where a computer program, software type case, has been found to not be abstract since Alice?

MR. CASEY: Not be abstract? No, Your Honor, I don't. I take that back. I think the Federal Circuit, I don't know, but I think that the Board just decided that, in Network-1 v. Google, that it wasn't abstract because the exact type of search that was being used was recited in the claim.

JUDGE BISK: Was that a -- okay. That was an IPR, I guess, or a CBM, I guess?

MR. CASEY: It was, indeed, a CBM, Your Honor, and the Board elected not to institute under 101. I can try to get you that cite.

JUDGE ELLURU: We can find it. Thank you.

MR. CASEY: So I don't know where this leaves us, Your Honor. Was there still a question?

JUDGE BISK: Let's talk about anticipation of claims 2 and 11 for a little bit. I'm looking at your brief, and I was a little confused about your argument about the element you called 1(f).

MR. CASEY: Okay.

JUDGE BISK: Which is code to receive payment validation data from payment validation system, or from the validation, payment validation system, I believe.

MR. CASEY: Yep.

JUDGE BISK: Okay. So your argument seems to be that Petitioner has equated administrative response object with the payment validation data, but sometimes in the patent, in Ginter, administrative response object does not include payment validation data. Sometimes it is used for something else. And that seems to be the only argument. Is that right?

MR. CASEY: The fact is that I don't believe that the Petitioner has ever shown that the administrative object that is returned is payment validation data, Your Honor.

JUDGE BISK: Okay. So here when I'm looking at it, it just says an administrative object does not always contain payment validation data. And then you cite to testimony that confirms that.

But it never says, you never say that Petitioner never shows that it never has payment validation data.

MR. CASEY: Your Honor, even if it sometimes had payment validation data in it, if the payment validation data wasn't -- if the retrieval of the data from the data supplier and writing of the retrieved data into the data carrier was not in response to the payment validation data, the fact that --

JUDGE BISK: Well, wait a minute. This is 1(f). There is no response anywhere. It is just code to receive payment validation data from payment validation source.

MR. CASEY: Oh, I'm sorry, Your Honor, 1(f).

JUDGE BISK: Yes.

MR. CASEY: As I said, I believe that it is the Petitioner's burden to show that the thing received from the payment validation system is, in fact, payment validation data.

And one of the, probably the most telling points about this is if you look at slide 32 of Petitioner's slides today, they say that the "Board agreed that Ginter, at a

minimum, renders 1(f) obvious," which means that the Board didn't previously find that it was anticipated.

In fact, the decision went around that issue after significant discussion about whether or not it does. And the Petitioner's expert has not been able to show, his testimony does not show that Ginter discloses code to receive payment validation data from the payment validation system, in the same access terminal, that is, that all of the other elements are founded.

Does that make sense, Your Honor?

JUDGE BISK: So you are saying even if it does show payment validation data, that it is showing that within a different embodiment?

MR. CASEY: Or it is being sent somewhere else. Like, you could have a payment validation data that isn't sent to the data access terminal and, therefore, the payment validation terminal does not receive payment validation data.

You can't just say there are objects, some objects are received by the data access terminal and, by the way, some objects have in them payment validation data. That's not a linkage of the claim language.

And the reason this doesn't happen, Your Honor, is -- not to relitigate past cases -- but because Patent Owner believes that Ginter doesn't actually disclose prepayment in

order -- prepayment of objects, of the data objects of the retrieved data that is written into the data carrier.

And, as a result, it wouldn't disclose receipt of payment validation data and then subsequent use of the payment validation data to cause certain other things to happen.

So maybe there's an easier way to do it, Your Honor, and that is to read F and G together rather than to say somehow they are separate. It first has to be received and then it has to be used.

So they both have to be there. And if they are both not there it kind of moots the anticipation point.

JUDGE BISK: Okay. I was just trying to figure out exactly what you were arguing for that one particular objection.

MR. CASEY: So, Your Honor, I think that the testimony of the expert is clear that just because an administrative object is received, it doesn't mean that it is an administrative object that has got payment validation data in it.

And so to simply say, for the expert to simply point to a situation where an administrative object is received, the expert is not actually making the final linkage that is necessary. And that was the intended point. And if I wasn't clear, I apologize.

JUDGE BISK: I see. Thank you.

MR. CASEY: So, Your Honor, we were talking about claim 32. And if I could go back to it for a second?

JUDGE BISK: Sure.

MR. CASEY: In the petition, in the section crossing pages 28 and 29 of the petition, Petitioner says that claim 32 is similar to claim 1, but further recites the limitation we already talked about, which is the code responsive to the payment validation data that does all those things where the condition is dependent upon the amount of payment associated with the payment data, or to the payment validation system.

The petition then turns and says that that limitation requires nothing more than that content must be paid for based on an actual use. But it doesn't say that the access right was based on the amount of -- the payment that was -- sorry, the payment data that was forwarded to the payment validation system.

And, in fact, if you look at the testimony of Dr. Bloom, Dr. Bloom agrees -- sorry, Your Honor, I closed my page. I'm looking at the -- I'm sorry, Your Honor, I was looking at 199 versus 194. Of course I can't find it. It's not alleged to be anticipated.

So, Your Honor, the testimony of Dr. Bloom is that this element isn't taught because the only portion of the

prior art that they talk about relating to this is the ASCAP rights. ASCAP is a recording industry that collects royalties.

And I asked Dr. Bloom, and it is described in page 19 of the Patent Owner's response, whether or not -- I said: Does the ASCAP reporting requirements change whether the same record was bought for $10 or $12? And he said no.

ASCAP doesn't have anything to do with rights that are dependent on the amount of payment associated with the payment data forwarded to the payment validation system.

And the reason it doesn't is because of the same issue we've been discussing, which is ASCAP wasn't trying to fix the computer-specific issue and, as a result, they were simply trying to count it.

And we'll see the same issue arise in several of the other claims where there is no analogue in the physical world for the things that are happening in the very computercentric world.

So, for example, if we turn now to claim 11 of the '458 patent. Petitioner has it on slide 11. I can show it to you if you prefer. Claim 11 says: "Wherein said use rules permit partial use of a data item stored on the carrier and further comprising code to write partial use status data to the data carrier when only part of a stored data item has been accessed."

Again, it's not a -- it doesn't have the -- in the ASCAP world there is no analogue. If you play half the song, you don't get to say I'm changing the -- there was no partial use data that was collected. So the reality is that the claims are distinguishing and they very closely mirror that of DDR. They have elements that don't have analogues in the regular world.

And as a result they are at least patentable under the second step of Mayo. It is what makes them different and what addresses the computercentric process.

So we have the same issue with claim 7 of the '598. I can show you that one as well. Your Honors, it is slide 2 of Petitioner's slides. It is a portable data carrier further comprising payment data memory to store payment data and code to provide the payment data to a payment validation system.

This doesn't have an analogue in the real world. Your system that was a portable data carrier that had the access rule and had the content memory doesn't also have a place to store the payment data to a payment validation system.

We heard about getting a receipt and bringing that to a big box store, and saying I want a Moon Bounce. Well, you can't have the Moon Bounce in -- you don't have the

access rights in the Moon Bounce. That's not the way this works.

So it is a problem with trying to equate real world things to structures and systems that are designed to deal with computercentric problems.

So, Your Honor, I think that one of the issues that that brings back up is a point that was made earlier, where it was alleged that the functions were conventional and, therefore, you could ignore the functions.

Well, the functions aren't conventional where they deal with access rights that are based on partial use, access rights that are based on the amount of payment that was made. So these aren't conventional functions and they can't simply be ignored.

It is important to note also, Your Honor, that the only claims that are at issue for 102 are 2 and 11 of Ginter, and I think that we've discussed why those claims are not actually anticipated. Elements 1(f) and 1(g) show that Ginter itself does not anticipate, nor does the Board's previous findings indicate that it should have been anticipated.

The reality is that Ginter is directed to a different type of system operating in a different fashion and, therefore, its differences are both important and prevent any finding of anticipation.

So as a result, Your Honor, one of the other things that I would like to talk about is the testimony of Dr. Bloom in general. As noted in our proceedings and as a reminder, the parties have agreed that the transcript that is Dr. Bloom's second day can be made non-confidential.

I haven't seen that that has happened yet, but I want to make sure that before I say anything about what Dr. Bloom testified about in more detail that the Board hasn't changed its mind as to the confidentiality. Okay.

So Dr. Bloom is an employee of a company called SiriusXM who has a product that is very similar or has many elements in common with the elements we've been discussing in the claims. As a result, Dr. Bloom is not an unbiased witness.

Now, you may hear Petitioner say there are reasons that you need to discount that he might be biased, but there is a real reason to be biased. The testimony that he gave about a system that has similar features to his own products, for which he is a VP, raise the issue of whether or not there isn't a reason that he would want to see these same claims held to be invalid.

So I think it is important to note that Dr. Bloom is not an academic. He is not somebody who doesn't have an interest. He appears to have all of the motivation in the

world to want these claims gone for the same reasons that the Petitioners do.

So looking at Petitioner's arguments on slide 16, they say that the undisputed Bloom testimony is that the subject matter of claim 32 covers enabling limited use of paid for/licensed content and fails to meaningfully limit that coverage.

Your Honor, as we've seen in our discussion on 32, there are lots of ways that one can enable limited use of paid for/licensed content and not infringe the claim. Therefore, there are -- this allegation that the Bloom testimony is undisputed is incorrect.

So, for example, Your Honor, the response in the petition includes the discussion on preemption under DDR, beginning on page 25.

And Dr. Bloom agreed, with respect to the '221 patent, that claim 2 of the '221 patent does not preempt all effective uses of enabling limited use of paid for and/or licensed content. He agreed claim 11 doesn't either. And he agreed that claim 32 doesn't either.

Now, again, this is the abstract idea that Dr. Bloom was testifying about before the Board even said the abstract idea is something else, that the abstract idea is restricting access to stored data based on supplier-defined access rules and payment data.

So even the broader concept, let alone the narrower concept, is not preempted to a level that should be causing the Board concern. And, in fact, on page 27 I asked -- if you look at the testimony altogether, I didn't try to bore Your Honors with all of it, the summary questions for the embodiments of the claims were discussed with Dr. Bloom, and, as it relates to claim 32, Dr. Bloom admitted that there were at least nine other ways that you could implement, you could build a data access terminal at claim 32, but without some features, and still meet what he was considering the abstract idea of enabling limited use of paid for and/or licensed content.

With respect to claim 2 he agreed that there were at least six ways to do it. And with respect to claim 11, he said there were lots. So the preemption concern, which is the true underlying thing that we need to be looking at, the Judges have taken shorthand or created bright-line rules in order to deal with the fact that they don't know what Dr. Bloom knows, and what Dr. Bloom has testified about, when other embodiments would not be covered by the claims but still achieve the result -- I said that badly, Your Honor.

Dr. Bloom's testimony shows that preemption, which is the underlying real test, is not an issue. And you don't need to resort to bright-line rules. You can look at the straight testimony of the Petitioner's own expert.

And, frankly, the question ought to be, how many is enough? Is two enough? Well, if they are commercially viable, Ariosa said, well, we're not sure that these are commercially viable or the technology will even work, so we can't really count that.

There is no allegation that the other systems, the other way to do this won't work. This is a computer invention. This isn't an unpredictable art where you are measuring genes. Is a lot enough? Is six enough? Is nine enough?

I would say, Your Honor, that even if two or three is not enough, four or five it darn well better be, and if you are at nine how are we actually worried about preempting? But the test is whether or not future innovation is going to be foreclosed.

And Dr. Bloom said he never even did that analysis, not that he wasn't sure, he didn't even do the analysis. So how can Dr. Bloom be relied on to tell us how much future innovation is going to be proposed, and isn't it enough that he said there are lots of different ways you could do this otherwise, and still enable limited use of paid for and/or licensed content?

The recent case of Network-1 vs. Google is essentially indicative of the same kind of thing. You say

enough of the details so that you are not excluding a significant enough amount, you are not abstract.

It is more, it's substantially more. If four is more, then nine is substantially more. So, Your Honor, I would point out that this is the perfect case to show that the underlying preemption concern is imaginary. The people who want to challenge this patent and want to say it is abstract can do it one of the other nine ways. Don't do it this way. But you are not hearing them say that that is what they want to do.

You are hearing them say we want to say your way isn't worthy of coverage, despite how many other ways there might be, we want to do it your way because it is not abstract. It has a concrete advantage.

Judge Elluru, it looks like you had a question.

JUDGE ELLURU: No.

MR. CASEY: I'm sorry.

JUDGE ELLURU: Thank you.

MR. CASEY: Misunderstood. So as I mentioned, Your Honor, on page 31 of the brief, for 00194, we talk about claim 2 being at least six different ways and there are more ways to use paid for and/or licensed content, that would be data access terminals as described in claim 2.

Similarly, for claim 11, we step through various portions of the claims. You will see, Your Honor, that most

of the limitations of the claims are not necessary to achieve the result that they are claiming to want to achieve, which is enabling limited use of paid for and/or licensed content.

If I can take these things out and I still have the -- my system still does this, they are not necessary. They are not a part of the abstract idea. They are part of an implementation of the abstract idea. And when you can do it time and time again in every single limitation or many of the limitations of the claims, you come to the conclusion that the claim isn't to the abstract idea. The claim is to an implementation.

JUDGE BISK: Well, what about Ultramercial? Ultramercial is a pretty detailed claim.

MR. CASEY: So, Your Honor, I would say that I would love to know how many different ways the Defendant, or Petitioner, said the system could be done otherwise? How many different other ways did their own expert say you could do this instead? All right?

In a computer-implemented -- I don't have the claim of Ultramercial in front of me, but if the claim of Ultramercial used a ton of words which meant that there still was only one way to do it, then it is not an analogous case.

You can use lots and lots of words to describe the way a system has got to be done, and then find out that there

is still one and only one way to do it. But that's not the case we've got.

The case we've got is there are lots of ways to do this. The Petitioners just don't like that Mr. Racz got there first. The Petitioners don't like that the Patent Office agreed that this wasn't an abstract idea but it was an implementation of, for example, a data access device. They don't like it because they have products that this might affect.

And this isn't something, Your Honor, where you need to take my word for it. Of all of the claims that we've talked about, look at what the report and recommendations said about claim 32. It is one of the claims that is involved. It is one of the claims that was litigated. And it is one of the claims that was found to be valid and infringed.

JUDGE BISK: What did it say -- you mean in the 101 report?

MR. CASEY: In the 101 recommendation.

JUDGE BISK: What did it -- I didn't see anything specifically about claim 32.

MR. CASEY: It said that all of these things aren't simply, aren't simply pieces taken in the abstract but, when put together, they have a fixed, tangible result.

JUDGE CLEMENTS: On page 18 it also said that the general purpose of the claims, conditioning and controlling access to data based on payment is abstract.

Did the R and R get that right or wrong?

MR. CASEY: I'm sorry, Your Honor, I turned away when you started and I don't think the audio started right away. Could you say that one more time?

JUDGE CLEMENTS: Well, you were referring to the R and R, and on the top of page 18 of the R and R it says that the general purpose of the claims, conditioning and controlling access to data based on payment, is abstract.

Did the R and R get that right or get that wrong?

MR. CASEY: So, Your Honor, I think that what you read is devoid from the structure that is being claimed. So it may be abstract, the idea of controlling access, but the implementation, the structures that are put together and the conditions under which those structures operate, including the code that is utilized by those structures, is not abstract.

Does that answer your question?

JUDGE CLEMENTS: Well, are you telling me that the R and R got it wrong?

MR. CASEY: I'm not saying that the R and R got it wrong, Your Honor. In fact, I'm trying to say that I think that there is a distinction between describing a structure that isn't abstract and describing a ge-neral process which might be abstract.

If I can pull up -- maybe you can read it one more time, the language. But the language wasn't for a structure.

The language was for a desired result, I think is what you said.

JUDGE CLEMENTS: Yeah, I mean, this is -- the Magistrate's analysis under step 1 of Mayo, and I'm just wanting to know whether it's directed to an abstract idea, and she concludes that the general purpose of your claims, conditioning and controlling access to data based on payment is abstract.

So all I want to know from you is whether you agree with that part of the R and R or disagree with that part of the R and R?

MR. CASEY: I agree, Your Honor, that the conditioning and control access by itself, just in the way it was written, is abstract. But I don't think that the Judge was saying that the implementation of the claims was abstract. I think she was making a distinction between the claims and the general concept that she needed a summary of the claims for.

Is that fair?

JUDGE CLEMENTS: Well, there is no doubt that she went on to do Step 2 of the analysis --

MR. CASEY: Yep.

JUDGE CLEMENTS: -- in subsequent pages. Would you agree with me that this is her conclusion in Step 1 of the analysis, she concluded that this was an abstract idea?

MR. CASEY: It appears that she did, Your Honor, yes.

JUDGE CLEMENTS: Okay. And do you think she got that right or wrong?

MR. CASEY: Your Honor, I think that looking at the individual claim limitations, I think that she could very easily have said the claims themselves were not abstract, that they were directed to specific structures.

JUDGE CLEMENTS: Okay. Thank you, Mr. Casey.

MR. CASEY: And if I haven't answered your question, Your Honor, I apologize. Ask it again and I will try to -- you looked like I didn't answer your question. That's why I'm concerned.

JUDGE CLEMENTS: Well, I'm not sure you did but I'm not sure I'm going to get an answer, so I don't think we need to belabor it here in your remaining minutes.

MR. CASEY: Okay. So, Your Honor, I can simply say I think it is fair that we can ignore the first step, if that makes your issue easier, and concentrate on the second step.

And under the second step, the report and recommendations set out all of the reasons why this is statutory subject matter, at least the claims that were at issue.

JUDGE ELLURU: Counsel, what do you mean by we can ignore the first step?

MR. CASEY: We don't have to reach a decision as to whether or not under Step 1 of Mayo it is or isn't an abstract idea. The brief doesn't set out whether or not it is or isn't an abstract idea, Your Honor, under Step 1.

It essentially assumes that it is an abstract idea, and moves on to the second step, because otherwise you wouldn't need to go to the second step. Right?

But the idea was to show Your Honors that, even assuming that a court would find or this Board would find that it is an abstract idea, it is, nonetheless, statutory by applying the second step of Mayo.

So it is trying to reduce the number of issues where we need to discuss things by saying, if it is statutory under the second step, it doesn't matter what happened in the first step. It doesn't.

JUDGE ELLURU: Thank you.

MR. CASEY: So, Your Honor, with the time that I have left, so if you look at slide 17 of the Petitioner's slides, the Step 2 that we were discussing was do the additional elements transform? And they cite the exemplary limitations of the '458 patent.

And they say that use rules permit partial use of the data items stored on the carrier and further comprising

code to write partial use status data to the data carrier when only part of a stored data item has been accessed.

And they cite, the Board said that the '458 patent makes clear that it considered the heart of the claimed subject matter to be restricting access to stored data based upon supplier-defined access rules and validation of payment.

Well, you can have systems, Your Honors, that are based on supplier-defined access rules and validation of payment that don't use "use" rules, that permit partial use and don't use code to write partial use status data to the data carrier.

So for Petitioner to say, to ask, the hub of the question, did the additional limitations transform, the answer is yes. This is a limitation that isn't anywhere in the art, or at least not in the art that they apply. So the answer to this question is a resounding yes.

And the fact that the Board found that restricting access --

JUDGE BISK: But is that the test, transform; it just means that it is not in the prior art? Is that what you are saying?

MR. CASEY: Your Honor, I think you can find a lot of ways to show that something is transforming. The synergy between elements can be a transformation, but certainly one method is to say that there is an element that is

missing from the prior art and, if it is missing from the prior art, what else does it do if it doesn't transform?

JUDGE BISK: Well, it means to transform it from an abstract idea.

MR. CASEY: I'm sorry, Your Honor. One more time.

JUDGE BISK: It needs to transform it from an abstract idea.

MR. CASEY: And I think it would transform it from the -- if you assumed that restricting access to stored data based on supplier-defined access rules and validation of payment is an abstract idea, even if that is an abstract idea, the utilization of use rules that permit this partial use and storing that partial use status data into the data carrier does transform that.

Why? Because it isn't the thing it only was before. It is something that now has an additional use. You can track whether or not someone has played half a game. You can track whether or not someone has watched a movie but not finished. Yes, Your Honor?

JUDGE ELLURU: I think the question was, is that inventive or take it -- transform the abstract idea, because it is missing in the prior art, allegedly missing in the prior art, because that teaching is allegedly missing in the prior art? And you haven't answered that question.

MR. CASEY: I'm sorry, Your Honor, I tried to. The answer is, if it is not in the prior art it is definitely transformational. Otherwise, we are in a world where we are simply chocking up limitations and saying, nope, doesn't count, doesn't count, doesn't count. We, whichever Board this is or whichever District Court this is or whatever the person, the ITC, we get to make, without any real knowledge as to how we are going to apply this, rules or guesses on which ones, which things, even though they are not present, we get to continue to discount.

Well, the partial use of a data item, yeah, that is something. It can be implemented in concrete code. But I'm just not feeling it today, it is Tuesday, it is out.

Well, wait a minute. How are we getting here, where we are talking about adding limitations and saying, no, it still doesn't count?

How many limitations do there have to be? How detailed does it have to be? And if this isn't transformational, Your Honor, what is? And I get the sense that that is what you are asking me. And I'm saying --

JUDGE BISK: Your answer of anything that is not in the prior art is feeling, so, this is easy then, this is just obviousness, or this is just anticipation. Why are we all struggling with this so much? Why don't we just make 101 into anticipation or obviousness and go home?

But clearly that's not what the Supreme Court meant. That's not how the Federal Circuit is treating it. I think if we just reduced everything to 102 or 103, we have a problem.

MR. CASEY: So, Your Honor, I would tell you that if we reduced everything to 102/103 we would have no problems whatsoever, because we all agreed that if all of the elements are known --

JUDGE BISK: I think the Supreme Court might object to that because I don't think that is the test that they set out, and we need to follow the Supreme Court.

MR. CASEY: Well, I agree with you that that isn't the test that the Supreme Court set out.

JUDGE BISK: Right. I thought you're telling us that's what we should do, even though we have to follow the Supreme Court's test.

MR. CASEY: Your Honor, I was answering your question about would we be okay if we limited it to -- if we concentrate on 102 or 103 only, and we would. And I agree with you --

JUDGE BISK: Is that the law? That's not the law, though.

MR. CASEY: That is not the law, Your Honor. And how we got here --

JUDGE BISK: So how is what you are telling me different than that? So you are saying what you are urging me to do is not the law?

MR. CASEY: No, Your Honor. I'm saying that -- you asked whether or not this particular limitation is transformational. And it absolutely is.

JUDGE BISK: And you said the reason is, is because it is not in the prior art?

MR. CASEY: That is correct, Your Honor.

JUDGE BISK: And I'm saying how is that not 102 or 103?

MR. CASEY: Because under Bilski, under -- let's go all of the way back to Benson. Under Benson, even though the steps weren't in the prior art, they said not patentable. It is the abstract idea.

And if they had said but here is one other thing that wasn't in the prior art that allowed the Judges to say, okay, you are not going to preempt everybody from performing this algorithm, then it would be okay.

JUDGE BISK: But they didn't say that. I don't think there has been a case where they said that.

MR. CASEY: I'm sorry, one more time, Your Honor.

JUDGE BISK: There hasn't been a Supreme Court case, though, where they said that.

MR. CASEY: Where they said because something is not in the prior art it is now patentable? There has not been a case where the Supreme Court has found a limitation that it couldn't say it doesn't count, I'm going to ignore it, and now I'm left with only what is in the prior art.

That's the problem we have, is that the Supreme Court has selectively decided when it is going to ignore things. And I don't think that this should be ignored.

Now, I don't think a lot of other things should have been ignored either, but that's a factual question and not a legal question. The legal question is, is this transformational? And I think the answer is yes. Everything that is not in the prior art should be transformational.

But that doesn't mean that the Supreme Court is going to see it my way. How else are we going to define patentability if we can simply say I'm going to continue to ignore limitations? I'm not saying that they don't do it, Your Honor. They do.

But this one, when you look at it in terms of the functions that are achieved because of it, the fact that it doesn't have a brick and mortar equivalent, the fact that it provides additional other aspects that are directed towards the computer version and not simply the computerization of something old, that's what makes it transformational.

This particular element happens to meet all of those rules. And maybe I didn't make that clear the first time. It is all the things that that particular limitation does that make this like DDR and make it distinguishable from a lot of other places, a lot of other claims.

JUDGE PLENZLER: I just want to make sure I understand here. You know, when we are talking about claim 11 depending from claim 6, right, if we just treat claim 6 separate and we just look at the limitations of 11 here, what does the partial use add, though?

I see your arguments for claim 6, right, and for everything going on there, but once we get from 6 to 11 we're talking about now just figuring out if something has been partially used or not, how do you get to an inventive step there?

MR. CASEY: Because, Your Honor, let's take the context of the DVD, all right, talking about a DVD and whether or not it might have access rights associated with it, was the discussion that Judge Bisk was raising this morning.

You can't say that that disk is going to track whether or not it has been partially used. Right? And it is one of those things that doesn't have a brick and mortar equivalent and is directed towards the computer world where it is trying to solve a problem.

And I think that's what we have to look at each and every time. It is not the computerization of something old. It is the result. It is the element that shows you that the problem being solved is a computer-based problem.

JUDGE PLENZLER: So do you need to have a brick and mortar equivalent? I mean, is that a requirement somewhere?

MR. CASEY: No, Your Honor, I don't think so, but I think that the point was that Petitioner has said that because there are some other aspects that they believe have brick and mortar equivalents, and because things like DDR talked about a brick and mortar store, that has all of a sudden become the focus, it is one way to show that something is not directed to an abstract idea, but I would hazard a guess it is not the only way.

It's just given that there are so few cases that have enabled us to untangle what is or isn't directed towards statutory subject matter, that people analogize to the brick and mortar response of DDR because it is there.

Unhelpful? You don't look like that helped you.

JUDGE PLENZLER: Well, I mean, I understand your explanation. I just look at the language of DDR and, right, it talks about not all claims addressing an Internet-centric challenge are eligible for a patent and then it

goes into overriding the routine and conventional sequence of events.

And I'm just trying to understand, because I see the claim charts, right, in these various responses that you have mapping the claim elements, but I'm just struggling with how this, in claim 11, for example, in this case, 192, how the partial storage or storing partial usage override some kind of routine or conventional sequence that you would expect?

MR. CASEY: So, for example, Your Honor, looking at the DVD that we were just talking about, it overrides the inability of the DVD to track whether or not it has been partially used. Right? It is not the -- the regular DVD, when you put it back in, it can't tell you whether or not you are still supposed to be playing it.

You went and you bought it. You went and rented it at Blockbuster. You are supposed to use it for two days. And now it is the third day and you are still using it, or you had the right to play the whole thing, and it doesn't know that you have or haven't played the whole thing.

It is one of those computercentric problems, Your Honor, and this gets us back to a bit of what Judge Bisk was saying about data piracy is a computercentric problem. This isn't piracy in general. We're not talking about people who are stealing a chair and then making copies and selling copies.

This is data piracy in the digital world where we are trying to prevent people from making the free copies. We're not duplicating chairs and tables. We are freely copying data unless there is a way to fix it.

JUDGE BISK: But in Ultramercial it was advertising on the Internet, right?

MR. CASEY: It was, Your Honor.

JUDGE BISK: And that one was not patentable.

MR. CASEY: But, Your Honor, again, you have to look at this all claim-by-claim, and maybe we should have had Ultramercial up there also. All right. I took the one that shows how you can see that it is patentable.

Ultramercial, if there weren't enough elements, then the Supreme Court is going to say this is -- well, let me back up. I believe that the rationale the court used was to say advertising already existed and people already played commercials before they got content.

This was the computerization of that process. There isn't an equivalent argument to make for the claims that are at issue here.

JUDGE BISK: I think there is because if you look at the Ultramercial -- I'm actually looking at the Ultramercial claim on the computer, and unfortunately I can't show it on the screen, but it is 11 steps, all of which are fairly detailed

about how the advertising is going to be created on the Internet.

So clearly when they reduced it down to -- let's see what they say in Ultramercial. They say that the method as claimed refers to a transaction involving the grant of permission and viewing of an advertisement by the consumer. Whoops, the grant of access -- I lost my place. Sorry.

Anyway, they really, really generalize this abstract idea and didn't go at all into the details of it. If we did that, I don't see that there is a difference.

MR. CASEY: Your Honor, I think that if you said, if you went really broadly, we are back to our discussion about receiving, transmitting and manipulating, and the broader you go, you could take DDR and do the same thing. Right?

And so you are in the unenviable position of trying to figure out where the line is and you are doing it without a lot of guidance, but there are markers. One of them is DDR. One of them is Ultramercial. One of them is Bilski or Alice or Mayo.

And you are left with trying to decide when enough is enough. And this is why the courts should not be for preemption. Preemption is an objective way, accountable way in many cases, of determining is this abstract or not.

One of the things -- the reason we are worried about abstract is because you are going to preempt stuff. But when you have evidence that you are not actually going to preempt as much as the Petitioner is really worried you are going to preempt, then you can say this is Chicken Little saying that the sky is falling, and we're not able to -- the whole world is going to stop because future innovations are going to be foreclosed.

It's not the case. Look at preemption, and the courts not being well suited or allegedly saying that they themselves are not well suited to determining these things, only shows the greater importance of an objective person like the Petitioner's own expert saying there are lots of other ways to do this. That's the equivalent of saying don't worry, this isn't abstract, this is an implementation, people will work around this, or people will ultimately license it.

But this is a lot like Network-1, that is the next, the next data point that Your Honors have to work with, and one of the few ones. There is enough here to say preemption isn't the issue. Preemption isn't an issue. Preemption isn't a concern. There are other ways to do this.

And the fact that some of the other recent precedent looks and says I can't tell whether or not this would really be preempted or not, like in Ariosa, where they said,

well, it is not really clear that this test is going to work so we are discounting it.

Nobody has done that here. Nobody has said, oh, it is not clear but this is still going to work. Why? Because we can take elements out of the claim and still have the result.

Maybe that's the easiest way to describe it, Your Honor, the fact that we are not saying take out an element and put in something else and are you still able to achieve a result, but simply can I start taking stuff out? How much can I take out of this claim and still be covered by what someone is saying is the abstract idea, and then start putting it back. Right?

When you put back three elements, four elements, five elements, it is an indication that you are not covering the abstract idea. You have just put in the same kind of extra descriptive information that was in Network-1 where it said it was this kind of algorithm. Well, I'm telling you it's this kind of code. It is the code that does things like have use rules, permit partial use of a data item stored on a data carrier.

JUDGE ELLURU: And I want to understand your position on that, counsel. So you agree that, or is it your position that there was in the prior art use rules on DVDs; it

is just there was no use rule that restricted based on partial use?

MR. CASEY: Your Honor, we talked earlier about the information that is on a DVD. And I need to try to continue to make the distinction between -- a DVD is a data carrier that doesn't have any code and it doesn't run anything. So it is not updated. And so for sure the DVD does not have partial use data that is written to it.

JUDGE ELLURU: But do you agree that the idea of restriction, whether it be time limit or geographic location, was a restriction on the DVD?

MR. CASEY: So, Your Honor, again, the distinction is, given that the DVD itself didn't have the code, there must have been something else that the DVD would be put into that would do -- that would analyze the data on the DVD and make a determination in what you are calling an analysis. Right?

The DVD itself can't do any processing. The DVD doesn't have a processor in it. It doesn't have code in it that the processor runs that does X, Y and Z. It is just vacant.

JUDGE ELLURU: Thank you.

MR. CASEY: All right. So I think I'm almost out of time, Your Honor.

JUDGE ELLURU: You have about 20 more minutes.

MR. CASEY: Okay. Your Honor, I don't --

JUDGE ELLURU: Pardon me, pardon me, correct, you have about five more minutes.

MR. CASEY: There you go. I think we're on the same page now, at least if my clock is not lying to me.

Okay. I think actually we've probably belabored this as much as we can. The briefs set out why each of these claims is statutory. The Examiner has already said they are statutory. A number of -- you can see which exact claims they are, including claim 32 of the '221 patent -- were already found to be statutory at the District Court.

The overwhelming testimony of Petitioner's own expert is that there is lots of different ways to do this, and you don't need to resort to a bright-line test that's an approximation of what is going to happen under preemption. You've got the preemption data right there. It is the thing that is underlying the concern for abstract idea.

And I would submit to you that it is not over on the world of mathematical formulas and laws of nature, and we heard this morning that people say that the same kind of test has been applied to other computer inventions. That may be.

But the question is whether or not with those other computer inventions there is sufficient information about

what is and isn't included to help make -- to help a judge make an informed decision.

And we already saw that these claims are directed to, like DDR, a computer-specific problem. It may not be "the Internet" -- in quotes -- but it is a computer network, computer data problem, that's different than selling knockoff goods of things you physically make. That's not where we are.

We are in a computer-specific arena that has to address -- well, said differently, you couldn't be anywhere but a computer-specific arena and have this problem. Right? It is a new problem specific to the computer world. You can't go to the movie theater and hold onto a data item that is bits. You can't do it. It has got to be in some medium.

And once it is there, you look at all of the elements that are there and the claims are distinguishing on that basis. They are, like in DDR, directed towards statutory subject matter. And unlike Alice, which was financial, and unlike -- Judge Bisk is probably not going to like me for saying this -- but Ultramercial, which I think ultimately is financial. It is viewing an exchange for currency. The financial aspects of this are not the issue.

It is the usage control, partial usage, and varying use rules based on other parameters. And sometimes it can be

money, how much was paid for it, but that's not the theme driving the structure as a whole.

The thing driving the structure as a whole is the protection of data by co-joining it with the access rights. And the citations by Dr. Bloom to ASCAP and to Internet streaming, they are not applicable.

I think I'm done, Your Honors.

JUDGE ELLURU: Thank you.

Counsel, you have about 32 minutes remaining.

MR. RENNER: Thank you so much. Your Honor, there are a variety of points we would, of course, like to address as we move forward here.

The first of those is in the presentation you just heard it was mentioned that the record is devoid of evidence of payment validation data being sent back to the user device. Your Honor --

JUDGE ELLURU: Could you specify what claim you are discussing, what claim and what patent?

MR. RENNER: Oh, certainly, Your Honor. This actually is applicable to a variety of claims, but claim 11 would be -- or claim 2 would be a better example from the '221 patent. Payment validation data going back to the data carrier would be the limitation.

If we can go to slide number 10 we can see the claim limitation there. I wanted to direct Your Honor's

attention to paragraph 161, column 161, that is, of the Ginter reference, Your Honor, and direct Your Honor's attention to Bloom's paragraph 59 -- we can show you in just a moment -- where he discusses this section of the Ginter reference.

And you can see here that it is discussed that the clearinghouse, this is the item that was used to validate payment data that was received from the user's token. It may receive an administrative object, it tells us, and process its contents to determine whether its contents are "valid and legitimate."

It goes on to say that, for example, the clearinghouse, it extends to the top of the next column, may analyze the contents and ultimately send back the object to the user.

So, Your Honor, you can see that in Ginter there has been specific citation to a section where we see that the user device is, in fact, in receipt of the payment validation data in question.

JUDGE BISK: Are you talking about element 1(f), or is it anticipation?

MR. RENNER: If I go to slide 10 again, this is specifically the receive payment validation data from the payment validation system's terminal and then write the retrieved data to the data carrier. One moment. And, Your

Honor, we believe that is with respect to claim 1 -- at claim 2 here.

Your Honor, I would also like to direct your attention to Dr. Bloom's testimony in his expert report. As we've shown here, it is paragraph 59, we see the description of, in greater detail, following the receipt of forwarded audit information, the payment validation system processes the audit information to determine its validity.

Clearly there is a validation going on of payment information received. And the payment validation system, it replies with an administrative object containing the payment validation data resulting from the analysis, and that is received by the PEA 2600.

Again, what we have is the lineage of processing of data that was withdrawn from a user device, the PEA, processed by a clearinghouse, having been received through the terminal, and is pressed back, as discussed here by the expert. I just want to clarify the record on that, Your Honor.

Additionally, Your Honor, if we would look at slide 11, please. In slide 11 we're going to focus on claim 11 in this slide. And in this slide you can see claim 11 is wherein the use rules permit partial use, and this has been a topic of conversation this morning, or this afternoon.

ASCAP was discussed, Your Honor, with respect to this. We believe that the ASCAP has radio stations that

may use partial use of an album by a broadcaster, only some of the songs may be played in accordance with the rules and regulations that are promulgated by ASCAP in a licensing arrangement.

We see that in Bloom's declaration at paragraph 123 there is a discussion of the ASCAP frequently-asked questions as well as the Patent 5,778,187, which describes a radio that enables an audit log that is being used to track usage and play back songs, a partial playback of songs, mind you.

Additionally, Your Honor, Gruse, a different reference, a reference that's not presently at issue, but that is testified to by Mr. Ginter, if we look at paragraphs 38, 43 and 53, you will see that there is discussion of copy restriction rules and watermarks, and each of these we think bear on the notion of a partial use, Your Honor.

Just a couple housekeeping matters here before we get into the abstract items that were discussed.

The next slide deals with claim 7. Slide 12, please. Claim 7 was discussed earlier where we were talking about the payment data memory to store payment data, to provide the payment data to the payment validation system. And here, again, the Moon Bounce rights were absolutely available upon receipt.

There was a discussion earlier in the rebuttal that there is such a divergence between, for instance, the brick and mortar applications and these claims. We don't believe so. We believe that the receipt that is held by a user, the user's -- the conversion of a user in the real world to an electronic version, a computerized version, is simply that you provide computers, just like in Ultramercial.

It wasn't the case that they performed different functions. They performed functions on computers. This was thought to be unpatentable in Ultramercial. It is the same concept here.

When you look at claim 7, for instance, you can't help but to realize that all we are talking about is submission of payment information, in the exact same way that any brick and mortar solution would have payment information being submitted.

Your Honor, if we could turn to slides 41 to 42, 41 first. There was said to be bias on the part of Dr. Bloom. Now, it is unquestionable that this record is informed by just Dr. Bloom as an expert.

There were questions asked of Dr. Bloom in the deposition regarding his current employer and products that were released by his current employer and whether those products will be implicated by the claims in question, by the patent in question, whether Dr. Bloom had an opinion on this.

I thought it instructive to look at the deposition transcript from that particular questioning because I think it speaks to the lack of bias that he has.

It says: In preparing your report, did you consider whether your employer's system enables limited use of paid for and/or licensed content, whether that's covered by any of the claims?

And his response, unequivocally: No, I did not consider that.

Is there any reason you didn't?

It didn't occur to me.

Now, you can fault him for stepping outside of his shoes as an expert in this case. You can fault him for, I guess, doing that and going back into his employment hat and mixing the two up.

I would credit him instead. I would say that his for us, his job in this case was to be looking through the lens of a POSITA at the time of the invention. It wasn't to assess whether or not his current employer had some kind of liability or its products did or didn't compare to the claims.

So here we can see that at the time of his report he just didn't consider it. It is plain as day. How can bias exist if he didn't even consider the question of whether or not there was a mapping? We think it cannot.

Your Honors, that brings us to preemption. And, Your Honor, it has been said that Dr. Bloom did not testify as to preemption, that is, that he didn't testify as to the amount of future innovation that was foreclosed. That was an allegation that has been raised here.

We would submit that that is true. That's not the testimony we were trying to get from Dr. Bloom. It is not the testimony we asked him to give. There was no reason for him to opine on this point. Preemption is a one-way door and it was informed by Dr. Bloom, the testimony he did give, but it is a one-way door.

We know that from an absolute articulation in Ariosa. We know that in Ariosa it tells us that you need to do the Mayo analysis regardless of what kind of preemption you are up against. We know that preemption is a red flag. It is a flag that signals unpatentability.

But the lack of preemption, that certainly doesn't signal that there is no -- the lack of, sorry, non-infringing equivalents doesn't signal the absence of an unpatentability. You have to go through Mayo. This is the law these days. So let's look into that rule.

Your Honor, Smartflash suggested that DDR, that it stands for the principle that claims are deemed valid in the absence of preemption. It doesn't.

And citing from DDR, Smartflash adds contexts that dramatically change the meaning of the underlying citations. As you can see here, it quotes DDR at page 25 of the Patent Owner reply in the sections highlighted. However, using the analysis of the Federal Circuit in DDR Holdings, claims are statutory, that's how it says it, when the claims do not attempt to preempt every, every single application of the idea.

In doing so it is changing the holding. The quote doesn't include claims are statutory when. That's exactly the opposite of what we see in Ariosa. This is not law.

There is a lot of highlighting on this page. Let me go up a little bit.

JUDGE ELLURU: Counsel, can you identify what you have up on the screen for Judges Plenzler and Clements, please?

MR. RENNER: Certainly. It is pages 23 and 24 from the DDR decision. It shows that the DDR mentions only, preemption only once, otherwise it says nothing about preemption, is a safe harbor for patent eligibility.

It tells us from the highlighted text that spans pages 23 and 24 that the Federal Circuit analyzed the claims of Mayo's two-step process despite the lack of non-infringing alternatives.

In other words, despite suggestions by Smartflash to the contrary in this case, a lack of preemption doesn't serve as safe harbor for Mayo. And non-infringing alternatives, the existence of them has been in other cases, including Ultramercial.

In other words, despite the fact that you have non-infringing alternatives, this does not mean that there is a lack of preemption. Preemption is -- it is a deal. It is between the idea of how much are you asking for through the claims that you have solicited versus how much did you add to the technological fabric?

Here they don't talk in the claims at all. We've talked earlier today about claims don't have anything in them with regard to piracy. They don't have anything within them about the process that was used specifically to deal with this.

Instead, they rely on data being positioned at a data carrier, for instance. And we know that's present, again, in Ginter, among other things.

We think this is the exact kind of preemption that you would want to avoid in the patent system.

And if we go to Ariosa itself, there are a couple of sections here from page 14 of the Ariosa decision. The first one tells us that the Federal Circuit considered other uses of the actual accused exist, of the claimed invention exist. There was an acknowledgment in the first five lines on page

14 -- for Your Honors that are remote -- that there was an actual non-infringing use.

Despite this the Federal Circuit found that questions of preemption are inherent in resolving a 101 analysis. I will quote: "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 and they're resolved by the 101 analysis." What they are telling us is that preemption is a one-way door.

Most importantly, the third section that we've quoted here, it is midway down and I will quote it. It says: "While preemption may signal patent-ineligible subject matter, the absence of complete preemption does not demonstrate patent eligibility."

Finally, Ariosa says that we need not resolve preemption when the claim is otherwise ineligible under Mayo.

Where a patent's claims are deemed only to disclose patent-ineligible subject matter under the Mayo framework, as they are in this case, it tells us, preemption concerns are fully addressed and made moot.

Judge Plenzler, I think you had it exactly right when you asked the question about overriding. You said how does partial use override conventional computers applied to

date, right, how does the partial use, and now we're going to return to the claim language of partial use.

We think that it doesn't. We think that Ginter has been demonstrated on the record to meet all of the claim limitations, perhaps sans claim 32. And with that we think that Ginter forecloses not only patentability under 102, but it also demonstrates that the abstract ideas that are captured by the claims are themselves not transformative.

So even if you don't apply the 101 analysis that we've talked about earlier, and instead you measure the entirety of the claim with respect to the fabric of the prior art and the landscape, you would, nevertheless, be met with the idea that the precise articulated means for these claims having meaning is stored with the particular kinds of data on a use device at the user. And this is in Ginter.

JUDGE BISK: What about the extra limitations that Patent Owner was talking about in the claims that are not at issue for prior art?

MR. RENNER: Yes, Your Honor, a few notes on those. Number 1 is that those claims we believe are as abstract as the claims that have been declared to be abstract otherwise.

The additional limitations that we're talking about, the notion of partial use, the notion of sending data up to a -- a system payment data up to a payment validation

system, we don't believe these are any less abstract concepts that are otherwise articulated by the claims.

So we would say that these are themselves swept into the abstraction. But beyond that, when you take away, if you are to meet the claim with the art, Ginter, or through the removal of the abstraction, you are left only with these elements, Your Honor.

And when you are left with these elements and you look at these relative to the prior art landscape, is it the case that these elements on their own give rise to a transformative innovation?

We're talking about partial use versus a full use of data, for instance. And we don't submit, for instance, that these are without being met in the prior art otherwise. We should be careful to make a note of this. We're simply talking, I'm right now talking about a comparison with Ginter.

But there is also Gruse. The expert testified as to the relationship of the Gruse reference to these claims and this limitation, for instance. There is also the analogues we've all talked about, Toys "R" Us, the movies. The notion of partial use in these environments is not outside of imagination. This is the way the world works.

You make a use of something, as a prepaid matter, you prepay for something. Maybe you only use part of your prepayment. What happens in the real world when that

happens? Do you get back a receipt for the remainder of your available prepayment? The notion of being partial use is every bit a part of the commercial fabric.

Did I answer your question?

JUDGE BISK: Yes. Thank you.

MR. RENNER: As to abstract idea, I think it is slide 16, we talked a little earlier about this, the notion of there being on the record and in the District Court a few different articulations of the abstraction, the abstract idea.

We talked earlier about, and I want to make sure that what I said was in context, that while people might reduce to specific terminology how they express the abstract idea, we believe that in this case it is quite clear there is an abstract idea, and that it is sweeping in its coverage, the idea of using -- well, I will use the specific words -- enabling limited use of paid for or licensed content, that being one articulation. Another the Board noted, the access rule plus validation data for limited use.

They are very similar. Both include payment for limited use. And the paragraphs of Dr. Bloom are consistent, just less aggressive in this case. So Dr. Bloom went with enabling limited use of paid for or licensed content.

When we pressed, to make sure we weren't being too sweeping, but did that really mean that you can't envision that the expansion beyond that of features like, for instance,

in the dependent claims would not also be abstract? Of course they would. It is a claim-by-claim analysis. We know that.

It is hard to have one abstraction articulated applicable to all of the different claims, and it is not at all out of the question that you might have a baseline articulation but that it would expand with dependent claims of nominal import. And we believe that's the case here.

Claim 32, the amount of payment, that's not an inventive concept. It is abstract. We think that collapsing 102, 103 and 101 in the way that has been suggested, that's just not -- that's not a way that 101 has ever been administered.

Again, we go all of the way back to the Flook case and we see that there was an assumption of validity from a 102/103 standpoint before 101 was conducted. It tells us there is a difference between them. It tells us that the 101 standard is a higher standard. Sure, it has to do with inventiveness, absolutely, but it has to be transformative.

If we could go back, please, to the slide that shows the articulation from Alice and Mayo. Slide 6, I believe.

Again, we return to this language. You can't disregard this language. It tells us about the additional

elements. You have to transform the nature of the claim into a patent-eligible invention.

Now, to remove any doubt, we want to make sure we have covered Ginter for you, because there has been a lot of conversation about other systems, but I want to make sure that we've got a full grasp of why Ginter is itself anticipatory.

So we go back in the slides. Because once you see that Ginter does what it needs to do, you will understand that the prepayment example from Ginter is a fully comprehensive teaching. And with it being a fully comprehensive teaching, there is nothing left to transform the claim. Not only is it lacking of inventiveness; it is not transformational. Ginter is, after all, prior art.

So if we could go to, in fact, slide 28. We looked at this briefly, but let's look at it a little more carefully. And, again, the appliance 600 pulls payment data from the memory cards that are docked thereon.

Again, this is where you have -- I want to make sure we understand -- the PEA, a card that is held by a user, to interface with this terminal 600. And the terminal 600 is able to pull data from that docketing part, and that data is payment data.

Now, it does that for the purpose of negotiating validation of that data. And it gives that data to the

clearinghouse -- this has been briefed -- for responsibly retrieving content from data suppliers. The whole point was there was a data request made.

And for writing that same data once it is required to the memory cards, Ginter describes its VDE server we talk about. And the example is from 224, line 66, to 225, line 8, cited in the petition at 28, where Ginter pointed out, he said when a user needs to access a particular VDE object, it wants to get to some data, what does it do?

Electronic appliance 600 could issue a request over the network 672 to obtain a copy of that item. It is paragraph 64 of the Bloom deck.

If we go on to slide 29, here again we see 71 shown. It is important to internalize that the data access terminal that's shown in figure 8, that it can provide the PEA with connectivity when the PEA is docked in the terminal, and it is being used as the conduit to retrieve the information, the payment information from the PEA and to send that out to the clearinghouse for prepayment authorization.

So when the PEA, which includes the SPU 500 and the removable replaceable memory 2622, down in the middle of the screen, when it has -- sorry, when it has this, as depicted in figure 71, the payment data and the access rules and the content data coexist in Ginter where? On the PEA.

Go back two slides if we could. Remember, we are pulling payment data from the PEA, the data that this user has, and we are, in response, at the data supplier as shown in figure 5B, receiving this container, the container flowing all of the way back to the user.

We know the container has content on it and it has access rules on it. So now you have payment data, content data, and access rule data. And we know that Ginter has disclosed prepayment as a scenario. We've talked about this fairly extensively in our briefing.

What does that mean? That means when you submit the data up from the user to the terminal to the clearinghouse it is a prepayment that's being submitted, responsive to which there has got to be a credit, some form of payment validation that has got to be given back to the user so they can later get the data. It is prepayment, after all. Otherwise it wouldn't work. One of skill sees this in Ginter.

Now, if we move to slide 30, please, as part of this prepayment process, an issued buyer request, the user appliance 600, which is coupled to this 2600 PEA, it reads the information from the PEA and it forwards that information to the clearinghouse we notice.

At 63, lines 28 to 38 of Ginter, which is cited in the petition at 25, page 25, Ginter explains that each VDE node or other electronic appliance 600 may include one or

more of these SPUs. And those SPUs can be used to perform secure processing.

Ginter describes that secure processing as governing usage, auditing of, and payment for VDE objects. And at column 41, lines 7 to 12, Ginter discloses that the PEA and connected electronic appliance -- I'm going to quote here -- "they can securely exchange information related to a transaction, with a credit and electronic currency being transferred to a clearinghouse transaction, information flowing back to the PEA."

So you know that you've got information going up and being exchanged with the clearinghouse and then you've got coming back, not only container, but the validation data. Container comes later.

With this we know that the PEA has on it all four of the elements that have been talked about here. And we know it is emulating what happens in pre-Internet computerization contexts. This is a design that is made to just emulate the purchase of, in this case, data, but other purchases, the Toys "R" Us example, the Blockbuster example, these are all very similar.

JUDGE ELLURU: Counsel, you have about four minutes remaining.

MR. RENNER: Thank you, Your Honor. I will try to wrap up here in a minute because I know that Apple would like to say just a few words.

I would like to go down two slides, 32. I would like to cite to and make sure everyone is aware of, at 162:38 to 61, Ginter's disclosure, we can see it says that the requested permissions should be given, permissions. We're talking about regulation of access and status of access permissions.

Go down to slide 34. So focus on the specific language of 1(g), for instance, of claim '221. Slide 34 shows several sections of Ginter that collectively illustrate that Ginter teaches writing receive data to a data carrier in response to data that has been requested.

We've provided you with some citations here that help us to understand that Ginter is, indeed, responding to a validation of data that is received by the user's device, the carrier, as it is claimed. Here it is the PEA.

And, of course, claim 2 -- slide 36, please -- which principally of note talks about submission of the payment validation data to the data carrier. Again, we've seen already that the payment validation comes back down in a prepayment situation. We know that it has to be submitted to the data carrier in order to get the data.

Your Honors, we have a situation here where the claims of this patent do nothing more than emulate that which has been done in the brick and mortar situation. Naturally they have to introduce computer elements. Naturally they have to talk about data. They have to store the data to enable an emulation, but ultimately this is an emulation.

And we know from Ultramercial that you cannot through computerization and Internetization, we know through CyberSource as well, you can't convert a claim from patent ineligible to patent eligible. Regardless, we have 102 reasons to kill claims 2 and 11, which were also undone under 103 earlier.

So with that I will ask my co-counsel to come up and say a few words for Apple.

JUDGE ELLURU: Counsel, you have about two or three minutes remaining.

MR. BAUGHMAN: Thanks very much, Your Honor. I will be brief. The law is clear there is no end run through preemption to the two-part test the Supreme Court is compelling be applied for a 101 analysis.

And under either articulation Patent Owner has shown that there is -- has not shown any inventive concept in what is left under Alice Step 2. I think what I heard Patent Owner arguing a moment ago was that Dr. Bloom actually supported ineligibility under what Patent Owner was arguing

was the harder task for him, and how those abstract ideas were articulated, and so clearly meets the bar here.

The one point I want to note for the Board, in the '221 patent, claim 32, I think I heard Patent Owner saying that there is no analogue to the step I've tried to highlight here of a condition being dependent on the amount of payment.

And I know, as Mr. Renner said, it is correct that this is an abstraction, but it is also something that clearly had an analogue. The idea of paying more for more plays, more copies, certainly is something that existed prior to the Internet.

If you take a look at Dr. Bloom's declaration it is there in paragraph 113, for example. That's Exhibit 1003. He talks about his extensive experience with watermarking enabling content to be uniquely identified so that holders could be compensated based on the number of purchases and/or plays of their songs.

Dr. Bloom also walked through the same thing with Gruse, and I will just quickly highlight the paragraphs. Paragraph 38, Gruse's copy of restriction rules; paragraph 43, the allowable number of secondary copies and playbacks; paragraphs 53 to 55 talking about requesting cost information and putting things in a cart; and then in paragraph 58 using --

giving pricing information to the user for the data item and indicating the usage conditions.

So certainly there is no transformational inventive concept here in this limitation, just like there is none in any of the other claims that are at issue here, Your Honor.

Thank you.

JUDGE ELLURU: Thank you. I want to thank counsel. These arguments have been very helpful and interesting. These cases are submitted.

(Whereupon, at 4:04 p.m., the hearing was adjourned.)