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Supreme Court, U.S.  
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IN THE  
**Supreme Court of the United States**

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OIP TECHNOLOGIES, INC.,  
*Petitioner,*

v.

AMAZON.COM, INC.,  
*Respondent.*

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**On Petition for a Writ of Certiorari to  
the United States Court of Appeals  
for the Federal Circuit**

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**PETITION FOR A WRIT OF CERTIORARI**

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November 12, 2015

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## QUESTIONS PRESENTED

1. Whether all methods that improve existing technological processes are equally eligible for patent protection under 35 USC § 101, and the Federal Circuit erred by distinguishing a method of testing demand to improve a pricing process from Diehr's method of testing temperature to improve the timing of a rubber curing process by finding that only the business-related process was ineligible.

2. Whether a court may grant a motion to dismiss a patent infringement suit for failure to claim patent-eligible subject matter under 35 U.S.C. § 101 based on factual determinations that are inconsistent with the facts in the complaint, notwithstanding the requirement of Federal Rule of Civil Procedure 12 that all facts in the complaint be taken as true.

**PARTIES TO THE PROCEEDING**

All parties to the proceeding are identified in the caption.

**RULE 29.6 STATEMENT**

All parent corporations or publicly held companies that own 10 percent or more of the stock of petitioner OIP Technologies, Inc. are Entrepreneurs Capital Fund VIII, L.P. and Norwest Venture Partners VIII, L.P.

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## PETITION FOR A WRIT OF CERTIORARI

OIP Technologies, Inc. (“OIP”) respectfully petitions for a writ of certiorari to review the judgment of the Federal Circuit in this case.

### OPINIONS BELOW

The opinion of the United States District Court for the Northern District of California is reproduced in the appendix to this petition (Pet. App.) at 13a-65a, and available at 2012 U.S. Dist. LEXIS 129396. The Federal Circuit panel decision is reproduced at Pet. App. 1a-12a, and is reported at 788 F.3d 1359. The order of the Federal Circuit denying rehearing en banc is reproduced at Pet. App. 66a-67a, and is available at 2012 U.S. App. LEXIS 24748.

### JURISDICTION

A panel of the United States Court of Appeals for the Federal Circuit entered judgment on June 11, 2015. A timely petition for rehearing en banc was denied on August 13, 2015. This Court has jurisdiction pursuant to 28 U.S.C. § 1254(1).

### STATUTORY PROVISIONS INVOLVED

The relevant portion of the Patent Act, 35 U.S.C. § 101, provides: “Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.”

## STATEMENT

### I. AMAZON'S TRIAL USE AND TAKING OF THE INVENTION

The invention claimed by the OIP inventors is a technological solution to a longstanding problem in the electronic commerce industry that plagued even the largest and most sophisticated vendors, including Amazon.com (Amazon). OIP pleaded in its complaint that Amazon used the invention subject to a non-disclosure agreement in a trial run; the trial run established the invention as a substantial improvement over Amazon's own pricing technology; and then, rather than pay for this improved technology, Amazon simply took it.

In 1999, Andrew Atherton and Vladimir Gorelik founded a Silicon Valley startup called Resonant Commerce to develop, build, and commercialize a hosted software system for price selection in e-commerce. Pet. App. 81a. The founders had the vision to help e-commerce companies increase their profitability through price optimization. *Id.* In 2000, Resonant Commerce changed its name to Optivo Corporation. *Id.* The Optivo team worked to develop its technology throughout 2000 and late that year began customer testing of a commercial embodiment of the Optivo Pricing Solution. *Id.* Over several months, Optivo demonstrated the high value of its technology through independent trials for drugstore.com, acehardware.com, and cameraworld.com. These trials showed improvements in gross margins for these e-commerce vendors ranging from 15% to 40%, which represented substantial increases in the generally

low-margin e-commerce retail markets. *Id.* On April 30, 2001, the Optivo Pricing Solution, which was a hosted solution for e-commerce price selection, was publicly launched. *Id.*

In June 2001, after the application that led to the patent asserted in this case had been filed, Amazon's consumer electronics unit requested a trial demonstration of the technology of OIP's predecessor ("Optivo") subject to a Non-Disclosure Agreement. Pet. App. 82a. During this trial, which was conducted from mid-July to late August 2001, the Optivo technology increased the contribution margin of Amazon's consumer electronics unit by 7% versus its then existing pricing techniques. *Id.*

After the trial, Amazon expressed continued interest, and conducted interviews of the inventors for possible employment and discussed the purchase by Amazon of the company. Specifically, on September 18, 2001, Optivo employees met with more than ten Amazon representatives at Amazon's corporate headquarters in Seattle to talk about Amazon's potential acquisition of Optivo and its technology. Pet. App. 82a. The parties agreed that this meeting would also be covered by the Non-Disclosure Agreement. Pet. App. 82a. At this meeting, the Optivo team presented a detailed description of Optivo's patent-pending technology, answered questions about Optivo technology, and presented the results of Optivo's trial demonstration for Amazon's consumer electronics unit. The Optivo team also explained how its technology could substantially increase Amazon's contribution margins throughout Amazon's entire business by

more than \$100 million in 2002 alone. Pet. App. 82a-83a.

Amazon later interviewed two Optivo engineers, including having the Optivo engineers meet personally with Jeff Bezos—Amazon’s Founder, President, CEO, and Chairman of the Board. Both Optivo engineers were asked technical questions during their day of interviews and both were offered jobs at Amazon as Pricing Statisticians. However, despite the demonstrated improvement that the Optivo technology represented over Amazon’s existing price-setting technology, Amazon chose not to buy Optivo or its technology. Pet. App. 83a. Instead, as OIP alleged, even though Amazon was told that OIP’s invention was already the subject of a pending patent application, Amazon simply took it. Pet. App. 83a-84a.

## II. THE OIP PATENT

The application from which U.S. Patent No. 7,970,713 (“the 713 patent”) issued was filed on May 10, 2010. The 713 patent, issued on June 28, 2011, discloses and claims inventions improving previous electronic commerce technology by allowing merchants to choose prices for goods and services that more accurately match the demand for those products and services as demand changes over time. Pet. App. 83a. The invention of the 713 patent works by providing a novel testing regime that enables merchants to observe information about actual consumer demand that was previously unavailable in the industry. The claims at issue in this case are computer-implemented methods for “pricing a product for sale” in which vendors are able to “reach

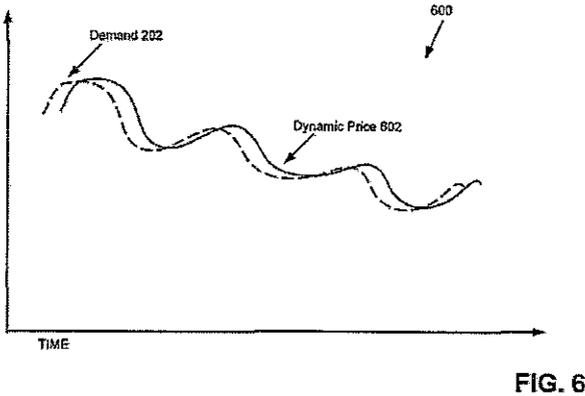
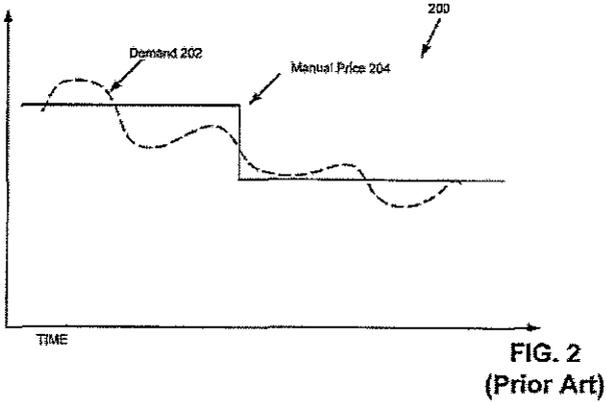
better pricing decisions through automatic estimation and measurement of actual demand to select prices.” *Id.* at 2a-3a.

The patent explains that the claimed price-testing regime addresses the problem facing both brick-and-mortar vendors and e-commerce vendors alike. Both must make pricing decisions based on estimates of the shape of the demand curve for a given product. And such estimates must be derived from qualitative factors, past experience, knowledge of market conditions, and related factors, in both brick-and-mortar and e-commerce environments. See *id.* 88a *et seq.*

Using a wide variety of conventional pricing approaches, vendors both online and offline were historically unable to determine the optimal price for their products, and were also unable to respond to changing conditions and change their pricing to reflect new demand conditions over time. See *id.* As the patent explains in detail, traditional pricing methods essentially required sellers to guess about the true shape of the demand curve for a given product at a point in time. Pet. App. 159a-167a; 169a-179a; 180a-183a; and 99a-103a. This means that the seller was also required to guess about the optimal price for each product it sold. *Id.* As the patent explains: “Looked at from a microeconomics standpoint, the merchandiser is guessing the shape of the demand curve. And therefore, guessing the optimal price.” Pet. App. 101a. Further, when demand for a given product would change in unpredictable ways, the seller price could not quickly respond to such change, and continuous manual intervention would not have been possible. *Id.*

Even though the Internet and e-commerce provided sellers and buyers with more information about the market for goods and services than they previously possessed, it did not solve the problem of accurately mapping demand to set optimal prices. Even with the advent of the Internet, the fundamental technological problem remained unsolved in the electronic commerce industry.

The claimed technology solved the problem with a novel price-testing regime through which potential customers reveal their actual demand for products on a real-time basis, thus enabling vendors to select the optimal price for a given product at a given point in time. Pet. App. 102a; Pet. App. 106a. The patent thus discloses software that modifies and improves an existing e-commerce system in conventional use by testing multiple prices for the same good or service over time and performing a statistical analysis on the results. This enabled the invention to obtain a more accurate estimate of the demand curve and to set prices on that basis. Pet. App. 133a-135a. The patent discloses the resulting dramatic improvement over the prior art's limited ability to match prices to demand:



Pet. App. 93a (above); 97a (below). The patent explains that Figure 6:

[I]llustrates the goals of automatic pricing with graph 600 illustrating that the

automatic price 602 for a pricing unit follows demand 202 for a pricing unit [so that] the vendor is able to have her/his prices follow demand and receive a better price for the pricing unit at each time and thus greater overall profits.

Pet. App. 116a. Thus, prior art systems were not as effective in large part because the e-commerce industry did not have the ability to obtain more accurate information about consumer demand for goods and services.

The claims of the 713 patent focus on a specific process implemented in a computerized, networked system for testing prices using actual offers to sell a product, gathering statistics, automatically estimating outcomes based on those statistics, and determining new prices. The full text of Claim 1 is as follows:

1. A method of pricing a product for sale, the method comprising:

testing each price of a plurality of prices by sending a first set of electronic messages over a network to devices;

wherein said electronic messages include offers of said product;

wherein said offers are to be presented to potential customers of said product to allow said potential customers to purchase said product for the prices included in said offers;

wherein the devices are programmed to communicate offer terms, including the prices contained in the messages received by

the devices;

wherein the devices are programmed to receive offers for the product based on the offer terms;

wherein the devices are not configured to fulfill orders by providing the product;

wherein each price of said plurality of prices is used in the offer associated with at least one electronic message in said first set of electronic messages;

gathering, within a machine-readable medium, statistics generated during said testing about how the potential customers responded to the offers, wherein the statistics include number of sales of the product made at each of the plurality of prices;

using a computerized system to read said statistics from said machine-readable medium and to automatically determine, based on said statistics, an estimated outcome of using each of the plurality of prices for the product;

selecting a price at which to sell said product based on the estimated outcome determined by said computerized system; and

sending a second set of electronic messages over the network, wherein the second set of electronic messages include offers, to be presented to potential customers, of said product at said selected price.

Pet. App. 133a-135a. The 713 patent also has numerous dependent claims with narrower embodiments of the inventors' novel solution to the problem of how to match prices to an accurate estimate of consumer demand. Pet. App. 135a-153a.

### III. PROCEEDINGS BELOW

#### A. PROCEEDINGS IN THE DISTRICT COURT

On March 12, 2012, OIP sued Amazon for infringement of the 713 patent based on Amazon's software systems and services for automated testing and selection of prices for products and services offered for sale through Amazon's e-commerce websites. The jurisdiction of the district court was invoked under 28 U.S.C. §§ 1331 (general federal question jurisdiction) and 1338(a) (jurisdiction over actions arising under the patent laws). Pet. App. 79a. Amazon moved to dismiss under Federal Rule of Civil Procedure 12(b)(6), arguing that the 713 patent claimed ineligible subject matter under 35 U.S.C. § 101. Pet. App. 5a.

In ruling on Amazon's motion, the district court reasoned that after the "insignificant computer-based limitations are set aside . . . nothing remains in the claims but the abstract idea of [measuring a demand curve and optimizing price] by performing calculations and manipulating the results." Pet. App. 56a-57a (quotations and citations omitted). The district court elaborated that "absent the computer limitations, which the Court has already rejected as insignificant, 'a merchant in a bazaar could have performed OIP's invention centuries ago—and no doubt did.'" Pet. App. 57a. According to the court

“these steps describe what any business owner or economist does in calculating a demand curve for a given product.” Pet. App. 56a (citation omitted). According to the district court, “[i]n the final analysis, the patent simply instructs businesses to apply the concepts of supply and demand.” Pet. App. 60a. The district court opined that “anyone who seeks to use the laws of supply and demand to calculate a demand curve and an optimum price . . . must first gather data from which to make a calculation, and after she has made it . . . must tell customers about the new price.” Pet. App. 60a.

OIP argued that its claims did not preempt all uses of the idea of price optimization because OIP’s invention “leaves room for other iterations of the principle, such as using vendor databases, cost databases, surveys of competitive prices, online auctions, and other methods.” Pet. App. 63a. But the district court opined that “a patent need not *wholly* preempt the abstract idea of price optimization in all its forms in order to be ineligible under §101; rather the degree of preemption relevant to the § 101 analysis is a relative concept.” Pet. App. 64a (emphasis in original). The district court stated that the “central question” remains whether a patent claims “broad monopoly rights over a basic concept, fundamental principle, or natural law without a concomitant contribution to the existing body of scientific and technological knowledge” and the district court concluded simply: “the ’713 patent does.” Pet. App. 64a (quotations omitted).

Based upon this reasoning, the district court ruled that the claimed invention was an abstract

idea and therefore not eligible for patent protection under 35 U.S.C. § 101. Pet. App. 64a-65a.

## B. PROCEEDINGS IN THE FEDERAL CIRCUIT

OIP's appeal was stayed pending the outcome of *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 134 S. Ct. 2347 (2014) (*Alice*). See Appeal No. 2012-1696, Dkt. Nos. 27, 29, 31. After the stay was lifted, the parties briefed the appeal applying *Alice* and the Federal Circuit affirmed the district court's Section 101 determination.

OIP's argument on appeal focused on the close analogy between its own claims and those found eligible by this Court in *Diamond v. Diehr*, 450 U.S. 175 (1981) (*Diehr*), as reaffirmed in *Alice*. The claims in *Diehr* involved the use of purely conventional technology to obtain more accurate temperature data and inputting that data into an equation that was acknowledged to be an abstract idea for the purpose of deciding when rubber would be properly cured. The Court found that claim to be patent eligible. OIP's claims cover the use of conventional computing technology to obtain more accurate demand data for the purpose of determining a specific optimal price. Although OIP explained that there is no meaningful distinction between its claims and those in *Diehr* except that OIP's claims relate to pricing and the *Diehr* claims relate to rubber, and notwithstanding this Court's statement in *Bilski* that business methods are not categorically excluded from Section 101, the Federal Circuit nonetheless held OIP's claims invalid.

The Federal Circuit did pay lip service to this Court's finding that *Diehr* stood for the proposition that claims are eligible if they are drawn to a "process designed to solve a technological problem in 'conventional industry practice.'" Pet. App. 10a (quoting *Diehr*). Instead of applying that correct statement of law to OIP's claims, however, the Federal Circuit instead found that *Diehr* did not save the *Alice* claims, which were directed to an abstract idea, and so *Diehr* likewise could not save OIP's claims. *Id.* The Federal Circuit based its conclusion on its assessment that the claimed invention is "similar to other 'fundamental economic concepts' found to be abstract ideas by the Supreme Court and this court." Pet. App. 6a. In reaching this conclusion, the Federal Circuit explained that in *Alice*, this Court found that the claims at issue did not "effect an improvement in any other technology or technical field." Pet. App. 10a (quoting *Alice*, citing *Diehr*). But the appeals court made no finding that OIP's claims did not effect such an improvement. Nor did the appeals court distinguish the claims at issue in *Diehr* from those at issue in the present case.

The Federal Circuit further based its conclusion on its observation that this Court, in *Alice*, emphasized that *Diehr* "does not stand for the general proposition that a claim implemented on a computer elevates an otherwise ineligible claim into a patent-eligible improvement." Pet. App. 10a. The Federal Circuit also reasoned that that the lack of preemption by OIP's claims does not make them less abstract, and that the computer implementation itself was conventional. See Pet. App. 6a-10a.

OIP argued that on a motion to dismiss, which is subject to de novo review, the appeals court, like the district court “accept[s] the plaintiffs’ allegations as true and construe[s] them in the light most favorable to plaintiffs.” Pet. App. 158a (quoting *K-Tech Telecomms., Inc. v. Time Warner Cable, Inc.*, 714 F.3d 1277, 1282 (Fed. Cir. 2013)). See also Pet. App. 186a. (explaining before the district court that: “When assessing whether the defendant has carried its burden [on a motion to dismiss], all material allegations in the complaint are to be taken as true and all reasonable inferences are to be drawn in favor of the plaintiff.”). But the Federal Circuit did not address this issue. The Federal Circuit acknowledged the de novo standard of review, and that its review was limited to the complaint, incorporated materials, and matters of judicial notice, but did not acknowledge that OIP’s factual allegations must be taken as true and construed in the light most favorable to OIP. See Pet. App. 5a. Thus, the Federal Circuit found that “the claims describe the automation of the fundamental concept of offer-based price optimization through the use of generic-computer functions.” Pet. App. 8a.

Circuit Judge Mayer concurred “to address the argument advanced by OIP . . . that the district court erred in resolving the patent eligibility issue on the pleadings.” Pet. App. 11a. Judge Mayer stated that: “where, as here, asserted claims are plainly directed to a patent ineligible abstract idea, we have repeatedly sanctioned a district court’s decision to dispose of them on the pleadings.” Pet. App. 12a (gathering citations). Judge Mayer went on to “commend the district court’s adherence to the

Supreme Court's instruction that patent ineligibility is a 'threshold' issue, *Bilski v. Kappos*, 561 U.S. 593, 602 (2010), by resolving it at the first opportunity." Pet. App. 12a.

## REASONS FOR GRANTING THE PETITION

This Court should grant the petition for a writ of certiorari because the Federal Circuit is resolving patent-eligibility challenges under 35 U.S.C. § 101 in conflict with this Court's precedent in *Bilski*, *Mayo*, and *Alice*. OIP's claims were patent eligible for the same reason as those in *Diehr*. OIP claimed a novel method of obtaining improved test data through conventional technology for input into pricing decisions. *Diehr* claimed a novel method of obtaining improved test data through conventional technology for input into an abstract formula used to decide when to open a rubber mold. Both inventions improved an existing technological process. The only material distinction is that the *Diehr* claims are about the rubber industry and the OIP claims are about the e-commerce industry. Thus, the Federal Circuit's holding conflicts with this Court's holding in *Bilski* that business methods are not categorically excluded from Section 101. As a result of the Federal Circuit's failure to obey this Court's precedent, the patent system cannot protect technology companies whose innovative products are taken by other technology companies, which is what happened to OIP.

Further, the Federal Circuit has in effect endorsed an exception to the well-settled requirement that the plaintiff's allegations be taken as true at the pleading stage. Here, the district court rested its invalidity determination on facts that are impossible to reconcile with the facts that OIP pleaded. The magnitude of improvement OIP contributed to the existing technological field of electronic commerce was stated in the complaint:

Amazon, the most sophisticated e-commerce vendor on the planet, used OIP's invention in a trial run to realize significant improvements in its contribution margin that Amazon could not achieve without the invention. Yet the district court found, and the Federal Circuit failed to correct, that OIP's invention was centuries old and nothing more than any vendor would have done. In affirming that conclusion, the Federal Circuit upended well settled precedent that the plaintiff's allegations are assumed to be true when ruling on a motion to dismiss. This Court should intervene.

**I. THE FEDERAL CIRCUIT HAS FAILED TO FAITHFULLY APPLY THIS COURT'S PRECEDENT THAT INVENTIONS SOLVING ACTUAL TECHNOLOGICAL PROBLEMS CONSTITUTE STATUTORY SUBJECT MATTER**

In *Alice*, this Court clarified and reaffirmed the distinction between patent-ineligible abstract ideas and patent-eligible inventions. As this Court explained: "We have long held that [section 101] contains an important implicit exception: Laws of nature, natural phenomena, and abstract ideas are not patentable." *Alice*, 134 S. Ct. at 2354 (quotation and citation omitted). As the Court expanded:

We have described the concern that drives this exclusionary principle as one of pre-emption. Laws of nature, natural phenomena, and abstract ideas are the basic tools of scientific and technological work. [M]onopolization of those tools through the grant of a patent might tend to impede

innovation more than it would tend to promote it, thereby thwarting the primary object of the patent laws.

*Id.* (quotations and citations omitted). Having stated why abstract ideas are not patentable, the Court also gave the following warning:

At the same time, we tread carefully in construing this exclusionary principle lest it swallow all of patent law. At some level, all inventions . . . embody, use, reflect, rest upon, or apply laws of nature, natural phenomena, or abstract ideas. Thus, an invention is not rendered ineligible for patent simply because it involves an abstract concept. [A]pplication[s] of such concepts to a new and useful end, we have said, remain eligible for patent protection.

*Id.* (quotations and citations omitted).

In *Alice*, this Court recognized a fundamental difference between using a trivial bit of technology to justify closing off the public's access to an abstract idea in and of itself, and developing a new technological application of an idea to solve a real-world problem:

[W]e must distinguish between patents that claim the building block[s] of human ingenuity and those that integrate the building blocks into something more . . . thereby transform[ing] them into a patent-eligible invention. The former would risk disproportionately tying up the use of the underlying ideas, and are therefore ineligible for patent protection. The latter pose no

comparable risk of pre-emption, and therefore remain eligible for the monopoly granted under our patent laws.

*Id.* at 2354-5 (quotations and citations omitted).

This Court recognized that the exception for abstract ideas exists only to exclude the first category of “inventions” from patent protection, to prevent overreaching patents on basic building blocks from hindering progress. But this Court’s warning to “tread carefully” lest the abstract-ideas exception “swallow all of patent law” was equally important. As the Court made clear, there exists a whole category of true discoveries that hinge on using an idea (even an abstract idea) to improve existing technology. To exclude such true inventions because they involve abstract ideas is inconsistent with the purpose of the law and undermines the progress that the Constitution charged it to protect. Thus, this Court established a “framework for distinguishing patents that claim laws of nature, natural phenomena, and abstract ideas from those that claim patent-eligible applications of those concepts.” *Id.* at 2355 (citations to *Mayo* omitted).

In *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289 (2012) (*Mayo*), and *Alice* this Court emphasized the continuing relevance of its precedent in *Diehr* to determining patent eligibility. As this Court emphasized:

In *Diehr* . . . we held that a computer-implemented process for curing rubber was patent eligible, but not because it involved a computer. The claim employed a “well-known” mathematical equation, but it used that

equation in a process designed to solve a technological problem in “conventional industry practice.” The invention in *Diehr* used a “thermocouple” to record constant temperature measurements inside the rubber mold—something “the industry ha[d] not been able to obtain.” The temperature measurements were then fed into a computer, which repeatedly recalculated the remaining cure time by using the mathematical equation. These additional steps, we recently explained, “transformed the process into an inventive application of the formula.” In other words, the claims in *Diehr* were patent eligible because they improved an existing technological process, not because they were implemented on a computer.

*Alice*, 134 S. Ct. at 2358 (citations omitted). Likewise in *Mayo* this Court explained that in *Diehr*:

The Court pointed out that the basic mathematical equation, like a law of nature, was not patentable. But it found the overall process patent eligible because of the way the additional steps of the process integrated the equation into the process as a whole. Those steps included “installing rubber in a press, closing the mold, constantly determining the temperature of the mold, constantly recalculating the appropriate cure time through the use of the formula and a digital computer, and automatically opening the press at the proper time.” It nowhere suggested that all these steps, or at least the combination of

those steps, were in context obvious, already in use, or purely conventional. And so the patentees did not “seek to pre-empt the use of [the] equation,” but sought “only to foreclose from others the use of that equation in conjunction with all of the other steps in their claimed process.” These other steps apparently added to the formula something that in terms of patent law's objectives had significance—they transformed the process into an inventive application of the formula.

*Mayo*, 132 S. Ct. at 1298-99 (citations omitted).

Thus, this Court has established a substantive technological standard. A solution to a genuine technological problem, or an improvement to existing technology, is eligible for patent protection under Section 101. This Court has not endorsed a gut-feel or an “I’ll know it when I see it” approach to distinguishing eligible from ineligible claims. This Court has made it clear that the test for eligibility must address patent claims based on their substantive technological content. This Court’s emphasis on the fact that the claims in *Diehr* “employed a well-known mathematical equation, but [used it] in a process designed to solve a technological problem in conventional industry practice,” *Alice*, 134 S. Ct. at 2358 (quotations omitted), reflects the substantive distinction between eligible and ineligible subject matter. It is based on technological contribution, not on semantics, and not on the draftsman’s art.

Despite this precedent, and despite this Court’s warning that the abstract idea exception to Section

101 must not be allowed to “tread carefully in construing this exclusionary principle lest it swallow all of patent law,” the district courts and the Federal Circuit have been using that exclusion to invalidate entire areas of patent protection. One source reports 141 federal court decisions on Section 101, of which 104 or 73.8% found invalidity between the *Alice* decision through August 26, 2015. Robert R. Sachs, *#Alicestorm: The Summertime Blues Continue* (Aug. 29, 2015), available at <http://www.bilskiblog.com/blog/2015/08/alicestorm-summertime-blues-continue.html> (Sachs) (emphasis in original). Sachs reports 49 district court decisions on summary judgment motions in that period, with a 73.5% invalidity rate. In that same period, the Federal Circuit found invalidity in every Section 101 case it decided save one (18 out of 19). *Id.*

Sachs also reports a 127% increase in the decisions invalidating patents under Section 101 in the 14-month period after *Alice* versus the 14 months before, and a 152% increase in the number of patents invalidated. *Id.* “To put this in perspective: the courts invalidated more patents in the 14 months since *Alice*” than “the five years previous to *Alice*.” *Id.* (emphasis in original).

This trend has been growing since *Bilski*. A study of substantive decisions in all patent cases filed in 2008 and 2009, including all substantive decisions up to June 1, 2013, reported a 54% success rate for summary judgment decisions on patentable subject matter for the period. John R. Allison, Mark A. Lemley, & David L. Schwarz, *Understanding the Realities of Modern Patent Litigation*, 92 *Tex. L. Rev.* 1769, 1785 (2014). For comparison, the invalidity

rate for motions based on prior art was only 20% for the same period. *Id.* The authors note that: “There are a growing number of decisions based on patentable subject matter (26)—a category of minor importance in the 1998 study” to which the quoted study was an update. *Id.* at 1782.

Cases invalidating claims under Section 101 since *Alice* have included examples showing that this trend is not limited to software or business methods, such as a patent on a specialized thermometer that could measure a patient’s body temperature from the forehead skin temperature. See *Exergen Corp. v. Thermomedics, Inc.*, 2015 U.S. Dist. LEXIS 128940 (D. Mass. Sept. 15, 2015).

There is no question that that the lower courts’ reception of *Alice* has resulted patent protection for software being extremely curtailed. As Professor Mark Lemley has been quoted saying with regard to issued patents: “I don’t think it’s all software patents, but I guess what I would say is a majority of the software patents being litigated right now, I think, are invalid under *Alice*.” Gene Quinn, *The Ramifications of Alice: A Conversation with Mark Lemley* (Sept. 4, 2014), <http://www.ipwatchdog.com/2014/09/04/the-ramifications-of-alice-a-conversation-with-mark-lemley/id=51023/>.

The trend at the Patent Office is similarly bleak: “the rejection rates for all kinds run about 69%.” Sachs. As Judge Newman of the Federal Circuit observed: “The court cannot remain oblivious to the reports that, as of June 20, 2015, the PTO has invalidated every claim for which it has instituted

CBM review based on section 101.” *Smartflash LLC v. Apple Inc.*, 2015 U.S. App. LEXIS 13627, at \*28 (Fed. Cir. July 30, 2015) (Newman J. *concurring in part, dissenting in part*).

The adverse consequences of this disturbing trend are highlighted in the present case. Here the claims are patent eligible for the same reasons as those in *Diehr* and yet the district court and the Federal Circuit found otherwise without any basis to do so except that OIP’s claims are about pricing and the *Diehr* claims are about rubber. First, it is important to address what the claims at issue in *Diehr* actually covered: a temperature-testing regime implemented on a generic computer, using generic prior-art measurement tools, applying the well-known Arrhenius equation, and addressing the problem of having to guess about the optimal time to cure rubber. See *Diehr*, 450 U.S. at 177-178 (1981). *Diehr* left no room for doubt that in claiming an application of the Arrhenius equation, the claims covered—at least in part—an abstract idea. See *Diehr*, 450 U.S. at 188 (“Arrhenius’ equation is not patentable in isolation, but when a process for curing rubber is devised which incorporates in it a more efficient solution of the equation, that process is at the very least not barred at the threshold by § 101.”); see also *Mayo*, 132 S. Ct. at 1298 (“The Court [in *Diehr*] pointed out that the basic mathematical equation, like a law of nature, was not patentable. But it found the overall process patent eligible because of the way the additional steps of the process integrated the equation into the process as a whole.”). This Court in *Diehr* explained that the inventive concept in *Diehr* was the step of

“constantly measuring the actual temperature inside the mold.” 450 U.S. at 178; see also *id.* at 179 n.5. Moreover, the constant measurement that rendered the *Diehr* claims eligible was performed using entirely conventional technology. See Pet. App. 193a-194a (explaining that the invention “uses computers of well-known type” and that “[m]odern computers act so rapidly that [the] recalculations [required by the invention] are no burden and can easily be done each second [and i]n fact, a computer can work much faster than that[.]”). Thus, this Court in *Diehr* explained that: “a new combination of steps in a process may be patentable even though all the constituents of the combination were well known and in common use before the combination was made.” *Diehr*, 450 U.S. at 188.

Like the claims in *Diehr*, OIP’s claims are directed to a testing regime implemented on conventional computer components. Instead of applying the known Arrhenius equation, they apply known principles of microeconomics. Instead of solving the problem of guessing about the cure time of rubber, they solve the problem of guessing at the demand curve to set an optimal price. Pet. App. 159a-167a, Pet. App. 168a-179a. The inventive concept in OIP’s claims is the step of constantly measuring actual demand for actual products based on multiple actual prices in real time.

Thus, OIP’s technology solved a technological problem in a conventional industry practice and improved upon older technology just as the claims in *Diehr*. Like in *Diehr*, OIP claimed a testing regime that provided crucial information previously unavailable to the industry. Like in *Diehr*, OIP

greatly improved an existing technological process. Specifically, the patented invention was used by an e-commerce vendor as sophisticated and advanced as Amazon to provide a 7% increase to contribution margin and was projected to be able to be worth over a hundred million of dollars in a year across Amazon's business. Pet. App. 82a.

The Federal Circuit did not question that Amazon misappropriated OIP's patented technology. Nor did it question that the patented technology that Amazon took from OIP is an enormously valuable and technologically important improvement over Amazon's then-existing technology. Both of those facts are sufficient for patent eligibility under *Alice* and *Diehr*, even if the technology was implemented using conventional computer components and even if the claims applied known abstract principles.

Without addressing this, the Federal Circuit found that “[j]ust as *Diehr* could not save the claims in *Alice*, which were directed to ‘implement[ing] the abstract idea of intermediated settlement on a generic computer’ . . . it cannot save OIP’s claims directed to implementing the abstract idea of price optimization on a generic computer.” Pet. App. 10a (citations omitted). Thus, the Federal Circuit replaced this Court’s actual test, which the pleadings show the claimed invention met, with a vague assessment that the claims at issue here were not substantively different from those in *Alice*.

Moreover, there is no basis in the record to distinguish the claims at issue here from those in *Diehr* other than that the *Diehr* claims were about rubber and the claims at issue here are about

determining pricing in an e-commerce environment. Thus, the decision on appeal suggests that the Federal Circuit has disregarded this Court's admonition in *Bilski* that there can be no categorical exclusion of business methods from the ambit of Section 101. In *Bilski* this Court was asked to consider such a categorical exclusion and rejected it. See *Bilski v. Kappos*, 561 U.S. 593, 130 S. Ct. 3218, 3225 (2010) ("The Court first considers two proposed categorical limitations on 'process' patents under §101 that would, if adopted, bar petitioners' application in the present case: the machine-or-transformation test and the categorical exclusion of business method patents."); *id.* at 3228 ("Section 101 . . . precludes the broad contention that the term 'process' categorically excludes business methods."). Thus, it is crucial that the appeals court did not address or make any finding about how the inventive concept in *Diehr* was distinguishable from the inventive concept in OIP's claims. Pet. App. 10a. It could not have done so. To say that the temperature-testing regime claimed in *Diehr* is different than OIP's price-testing regime would require applying the *Alice/Mayo* test differently to a method for operating a rubber mold than to a method of operating e-commerce infrastructure. But such an approach would violate this Court's pronouncement in *Bilski* that business methods are not categorically ineligible.

This Court has never authorized the lower courts to invalidate patent claims that improve existing technology or solve a technological problem in industry practice, but that is what is happening. The Federal Circuit has done so in the present case

because the claims in question satisfy that test in the same way and for the same reasons as the claims in *Diehr*. The only plausible distinction is that OIP's claims relate to measuring demand and setting prices, whereas the claims in *Diehr* relate to measuring temperature and curing rubber. This Court has already admonished the lower courts that Section 101 does not allow a categorical exclusion of business methods. The only basis to distinguish OIP's claims from claims this Court has found to be eligible is that OIP's claims cover business methods.

The Federal Circuit found invalidity reasoning that OIP's invention is "similar to other 'fundamental economic concepts' found to be abstract ideas by the Supreme Court and this court." Pet. App. 6a. "Similar" to other invalid claims is not the test this Court established. This Court should intervene to ensure that the lower courts do not disregard its substantive Section 101 jurisprudence in favor of a look-and-feel approach. The Federal Circuit's approach threatens innovation. See, e.g., David Kappos, *Symposium: Supreme Court leaves patent protection for software innovation intact* (June 20, 2014), <http://www.scotusblog.com/2014/06/symposium-supreme-court-leaves-patent-protection-for-software-innovation-intact/> (lauding this Court's "declination" to "curtail 'software patenting'" and observing that "maintaining appropriate incentives and protections for software-based technological advancement is critical to innovation in every sector of the U.S. economy"). If this Court does not intervene, then areas of innovation highly important to countless

areas of commerce will be largely if not completely unprotected.

## **II. THE FEDERAL CIRCUIT HAS EFFECTIVELY CREATED AN EXCEPTION TO THE REQUIREMENT THAT ALL FACTS IN THE COMPLAINT BE ASSUMED TO BE TRUE WHEN RULING ON A MOTION TO DISMISS**

This Court should also grant certiorari review because the Federal Circuit has effectively allowed violation of the fundamental safeguards governing the disposition of a motion to dismiss under Federal Rule of Civil Procedure 12(b)(6). In ruling the patent ineligible, the Federal Circuit disregarded specific facts in the complaint that show the opposite. To allow courts to invalidate patents on a motion to dismiss based on facts contrary to the pleadings would upend the well-established safeguards of Rule 12. This is another reason why this Court should intervene.

It is well settled that when ruling on a motion to dismiss under Federal Rule of Civil Procedure 12(b)(6), federal courts must proceed “on the assumptions that all the allegations in the complaint are true (even if doubtful in fact).” *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 555 (2007) (citation omitted) (*Twombly*). Thus, “Rule 12(b)(6) does not countenance . . . dismissals based on a judge’s disbelief of a complaint’s factual allegations.” *Id.* at 556 (quotation and citation omitted). This rule is recognized in the Ninth Circuit, whose procedural law governed this case, and was expressly raised below:

The Ninth Circuit reviews de novo challenges to a dismissal for failure to state a claim under Federal Rule of Civil Procedure 12(b)(6). The court's review is generally limited to the face of the complaint, materials incorporated into the complaint by reference, and matters of judicial notice. In undertaking this review, the court accept[s] the plaintiffs' allegations as true and construe[s] them in the light most favorable to plaintiffs.

*K-Tech Telecomms., Inc.*, at 1282 (citations and quotations omitted; quoted by OIP on appeal at Pet. App. 158a.

Thus, applying Rule 12(b)(6) and this Court's precedent, to the extent that OIP pleaded facts showing that the claimed invention solved a technological problem and improved an existing technological process, the lower courts were required to treat those facts as true. Likewise, to the extent that the pleadings showed that the claimed invention was not known in the art, not even to Amazon itself, let alone in centuries past, the district court and the appeals court were required to credit those facts as well.

Nonetheless, in reviewing this case on appeal, the Federal Circuit failed to remedy the improper factual determinations on which the district court's holding was based. Indeed in reaching its own conclusion on de novo review the Federal Circuit assumed the facts as OIP pleaded them were incorrect.

The Federal Circuit has held that patent eligibility under Section 101 presents a question of law that may turn on underlying facts. In *Accenture Global Servs. v. Guidewire Software, Inc.*, 728 F.3d 1336, 1340-41 (Fed. Cir. 2013), the Federal Circuit wrote that: “Patent eligibility under § 101 presents an issue of law that we review de novo. This legal conclusion may contain underlying factual issues.” The Federal Circuit cited a subsequently vacated decision for that proposition. See *Ultramercial, Inc. v. Hulu, LLC*, 722 F. 3d 1335, 1339 (Fed. Cir. 2013) (certiorari granted, vacated, and remanded *sub nom. WildTangent, Inc. v. Ultramercial LLC*, 134 S. Ct. 2870 (2014)). But the core premise is valid. This Court has stated that eligibility determinations turn on questions like the extent of preemption in a field, the value contributed to that field, and whether the claimed invention solves a technological problem or improves upon existing technology. These questions are factual in nature.

Moreover, this Court’s treatment of other legal bases of invalidity suggests by analogy that, although Section 101 determinations are questions of law, they can turn on underlying facts. As this Court has explained:

To receive patent protection a claimed invention must, among other things, fall within one of the express categories of patentable subject matter, § 101, and be novel, § 102, and nonobvious, § 103 . . . . In evaluating whether these and other statutory conditions have been met, PTO examiners must make various factual determinations—for instance, the state of

the prior art in the field and the nature of the advancement embodied in the invention.

*Microsoft Corp. v. i4i Ltd. P'ship*, 131 S. Ct. 2238, 2242 (2011) (*i4i*) (citations omitted). Further, “[w]hile the ultimate question of patent validity is one of law, the same factual questions underlying the PTO’s original examination of a patent application will also bear on an invalidity defense in an infringement action.” *Id.* at 2242-43 (citations and quotations omitted). Thus, this Court in *i4i* wrote: “We consider whether §282 requires an invalidity defense to be proved by clear and convincing evidence. We hold that it does.” *Id.* at 2242. The law is unsettled and the Court in *i4i* was not addressing Section 101. But based on *i4i*, the better view is that Section 101 presents a legal issue that may turn on underlying questions of fact.

This Court’s treatment of indefiniteness further suggests that legal questions of validity can turn on underlying facts. In *Nautilus, Inc. v. Biosig Instruments, Inc.*, 134 S. Ct. 2120, 2130 n.10 (2014) (*Nautilus*), this Court wrote that the “presumption of validity does not alter the degree of clarity that §112, ¶2 demands from patent applicants; to the contrary, it incorporates that definiteness requirement by reference” (citing 35 U.S.C. § 282, ¶2). The Court left “for another day” the question of “whether factual findings subsidiary to the ultimate issue of definiteness trigger the clear-and-convincing-evidence standard[.]” *Id.* Moreover, as discussed in *Nautilus, id.*, the requirements of Section 112 are treated separately in § 282, whereas Section 101, like Sections 102 & 103, is not. Thus, there is reason to believe that subsidiary questions of fact regarding

Section 101 are subject to the clear and convincing evidence standard of proof.

In the related area of claim construction, this Court has also recently clarified that although the scope of patent claims is a question of law, the determination of that scope can turn on underlying factual disputes. As this Court explained:

When describing claim construction we concluded that it was proper to treat the ultimate question of the proper construction of the patent as a question of law in the way that we treat document construction as a question of law. But this does not imply an exception to Rule 52(a) for underlying factual disputes. We used the term “question of law” while pointing out that a judge, in construing a patent claim, is engaged in much the same task as the judge would be in construing other written instruments, such as deeds, contracts, or tariffs . . . . Construction of written instruments often presents a “question solely of law,” at least when the words in those instruments are “used in their ordinary meaning.” But sometimes, say when a written instrument uses “technical words or phrases not commonly understood,” those words may give rise to a factual dispute.

*Teva Pharms. USA, Inc. v. Sandoz, Inc.*, 135 S. Ct. 831, 837 (2015) (citations omitted).

Thus, this Court’s precedent supports by analogy that Section 101 determinations can turn on underlying questions of fact. The Federal Circuit has

acknowledged the same point. Moreover, the record in this case clearly illustrates how the assessment of technological facts can be an essential part of a Section 101 determination under the framework this Court set forth in *Alice* and *Mayo*. Therefore, if such facts are addressed in a complaint, they must be credited in ruling on a motion to dismiss.

Nonetheless, in granting Amazon's motion to dismiss, the district court found and relied upon facts that were impossible to reconcile with the facts as OIP pleaded them. Specifically, the district court found that "a merchant in a bazaar could have performed OIP's invention centuries ago—and no doubt did." Pet. App. 57a. Likewise, the district court concluded that the claimed invention was "what any business owner or economist does in calculating a demand curve for a given product." Pet. App. 5a. The district court also found that "anyone who seeks to use the laws of supply and demand to calculate a demand curve and an optimum price . . . must first gather data from which to make a calculation, and after she has made it . . . must tell customers about the new price." Pet. App. 60a. These factual determinations were the foundation of the district court's decision.

The factual assertion that anyone practiced the claimed invention before the OIP inventors, let alone "a merchant in a bazaar . . . centuries ago" or "any business owner or economist . . . calculating a demand curve" is contrary to the pleadings. As explained above, the pleadings stated that when Amazon used the patented invention, it obtained a 7% increase in contribution margin. The invention was projected to give Amazon value in the range of over a

hundred million dollars in a year. Pet. App. 82a. Amazon is not just “any business owner.” If it were true that “a merchant in a bazaar could have performed OIP’s invention . . . centuries ago” then no doubt so could Amazon in 2001. But the pleadings allege that this was not the case—that even Amazon’s state of the art pricing technology was meaningfully inferior to the 713 invention. The pleadings likewise show that Amazon used the invention in a trial that showed a specific, measurable, and highly significant technological improvement. The trial showed that the OIP invention solved a longstanding technological problem in the industry—how to set a price that is accurately based on demand conditions.

In sum, the district court concluded that the 713 patent claimed “broad monopoly rights over a basic concept, fundamental principle, or natural law without a concomitant contribution to the existing body of scientific and technological knowledge.” Pet. App. 22a-23a (quotations omitted). But the facts as OIP pleaded them, which the district court was bound to accept as true, simply cannot be squared with that conclusion. Indeed, the complaint specifically quantified the contribution of the 713 patent to scientific and technological knowledge and showed it to be highly significant—to wit: no less than 7% of Amazon’s consumer electronics contribution margin over a brief trial period.

On appeal, OIP argued that “[t]he district court did not credit the facts as pled.” Pet. App. 157a. At oral argument, the Federal Circuit asked specifically whether it could take judicial notice of facts such as “a store or a company with 2 stores or 15 stores

test[ing] out different prices at different stores at the same time.” Pet. App. 188a-189a. Counsel for petitioner clearly stated that it could not:

We are claiming that we have found a better way to get information to estimate the demand curve. That’s patentable in exactly the same way it was in *Diehr*. It is not in the category of *Bilski* or *Alice* . . . where there was no dispute that what was being claimed as being inventive was old.

Here there is a dispute. And on a 12(b)(6) motion you can’t take judicial notice here that somebody in an ancient bazaar did this, or somebody at WalMart did this. There’s no evidence of that. And the evidence which must be taken as true here is squarely irreconcilably inconsistent with that.

Pet. App. 191a-192a. See also Pet. App. 189a-191a.

Nonetheless, the Federal Circuit did not acknowledge that the facts alleged in the complaint must be taken as true. Pet. App. 1a-12a. Moreover, the Federal Circuit did not expressly take judicial notice of any facts, let alone explain how any such judicial notice would be allowed. Instead, the Federal Circuit found *ex nihilo* that “the claims describe the automation of the fundamental economic concept of offer-based price optimization through the use of generic-computer functions.” Pet. App. 8a. The Federal Circuit further found that the claims covered “well-understood, routine, conventional data-gathering activities that do not make the claims patent eligible.” Pet. App. 9a. On this backdrop, the Federal Circuit cited *Alice’s* lack

of “improvement in any other technology or technical field.” *Id.* 10a (quoting *Alice*, citing *Diehr*).

These findings were contrary to the pleadings and could only stem from the Federal Circuit’s failure to enforce the most basic requirements of Rule 12. Nothing in the record supports the idea that something called “offer-based price optimization” in general, much less the specific manner claimed in the 713 patent, is a “fundamental economic concept” (such as hedging was in *Bilski*). And the premise that all OIP added were conventional data gathering steps is squarely at odds with the pleadings as set forth above: Before Amazon’s trial of the claimed invention, the information that the Federal Circuit dismissed as routinely gathered, was, like the information at issue in *Diehr*, quite simply not available. The data in question had never been gathered before. And nothing in the record allowed the Federal Circuit to declare that all OIP added was unpatentable automation. The facts in the complaint and Rule 12 did not allow the Federal Circuit to ignore the complaint. The Federal Circuit’s conclusions that the claims covered an abstract idea (“offer-based price optimization”) and that they did not provide a technological contribution worthy of patenting cannot be reconciled with the facts in the complaint. The Federal Circuit’s decision thus violates the fundamental safeguards of Rule 12.

The Federal Circuit’s failure to enforce Rule 12 is further reflected by Judge Mayer’s concurrence, arguing that this Court’s characterization of Section 101 as a “threshold” issue supports district courts ruling on Section 101 motions at the “first opportunity.” Pet. App. 12a. Judge Mayer’s

concurrence goes beyond the panel's silence, exhorting district courts to resolve Section 101 challenges on the pleadings. Neither the panel decision nor Judge Mayer's concurrence however provides a legal basis for such a departure from well-settled precedent. Indeed, Judge Mayer's reference to this Court's description of Section 101 as a "threshold" appears to be based on a misreading of this Court's explanation in *Bilski v. Kappos* that:

[t]he § 101 patent-eligibility inquiry is only a threshold test. Even if an invention qualifies as a process, machine, manufacture, or composition of matter, in order to receive the Patent Act's protection the claimed invention must also satisfy "the conditions and requirements of this title." § 101. Those requirements include that the invention be novel, see § 102, nonobvious, see § 103, and fully and particularly described, see § 112.

561 U.S. at 602. This Court addressed Section 101 as a conceptual threshold to the other statutory requirements of patentability. Nothing in *Bilski* addressed whether a Section 101 determination can be based on underlying facts. And nothing in *Bilski* endorsed addressing this "threshold" issue at the pleading stage versus any other stage, let alone when doing so would violate Rule 12. Judge Mayer's express encouragement of what the Federal Circuit has silently permitted shows that absent certiorari review the district courts will be free to apply an improper exception to Rule 12.

This Court has not held Section 101 to be an exception to the requirement that the facts in the

complaint be taken as true at the pleading stage. Yet, that is precisely the approach the Federal Circuit has now in effect endorsed. In the 14 months post-*Alice*, Sachs reports 39 motions to dismiss under Section 101 with a 66.7% success rate, and 28 motions for judgment on the pleadings with a 75% success rate. See Sachs. In that same period the Federal Circuit found invalidity on every section 101 motion to dismiss before it. *Id.*

When a party pleads specific facts showing that its claimed invention solved a technological problem and improved an existing technological process, those facts must be taken as true. Such claims cannot be invalidated on a motion to dismiss. The facts in the complaint are that the claimed invention was previously unknown to Amazon and that it led to substantial improvements in Amazon's business. According to the complaint, the invention overcame a longstanding problem and improved Amazon's existing technology. These facts should have been sufficient under *Alice* and *Diehr*, even if the technology were implemented using conventional computer components and even if the claims applied known abstract principles. If this Court does not intervene, then Section 101 will continue to be applied in violation of Rule 12 and this Court's precedent.

### III. CONCLUSION

The petition for a writ of certiorari should be granted.

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