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BEFORE THE PATENT TRIAL AND APPEAL BOARD

Ex parte SIMON PHILLIPS, JAMES J. ANDERSON, and MURDO MUNRO

Appeal 2017-002200
Application 13/931,025[1]
Technology Center 3600

Before MICHAEL J. STRAUSS, NABEEL U. KHAN, and MICHAEL M. BARRY, *Administrative Patent Judges*.

KHAN, *Administrative Patent Judge*.

DECISION ON APPEAL

Appellants appeal under 35 U.S.C. § 134(a) from the Final Rejection of claims 1–9 and 13–17. We have jurisdiction under 35 U.S.C. § 6(b).

We affirm.

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[1] Appellants identify Mastercard International Incorporated as the real party in interest. App. Br. 2.

BACKGROUND

THE INVENTION

Appellants describe their invention as follows:

> A method includes a cardholder device receiving at least one cardholder verification rule from a computer, and storing the cardholder verification rule. The cardholder verification rule prescribes circumstances under which a cardholder is required to perform a cardholder verification process in connection with a purchase transaction. The method includes the cardholder device receiving purchase transaction information from a merchant device, and then determining by using the stored cardholder verification rule, and based on at least one of the received purchase transaction information and current circumstances, that cardholder verification is not required. The cardholder device then uploads payment information to the merchant device to complete the purchase transaction.

Abstract.

Exemplary independent claim 1 is reproduced below.

> 1. A method for operating a payment-enabled mobile telephone comprising:
>
> receiving, by a payment circuit of a mobile telephone from an issuer server computer during a mobile telephone personalization process, at least one cardholder verification rule associated with a predetermined cardholder category that prescribes circumstances under which a cardholder is required to perform a cardholder verification process in connection with a purchase transaction utilizing the mobile telephone;
>
> storing, by the payment circuit, the at least one cardholder verification rule in a secure element of the mobile telephone;
>
> receiving, by the payment circuit from a merchant device, purchase transaction information;
>
> determining, by the payment circuit using the at least one cardholder verification rule stored in the secure element, and based on at least one of the received purchase transaction

information and current circumstances, that cardholder verification is not required;

transmitting, by the payment circuit to the merchant device, instructions configured to cause the merchant device to overrule a merchant device cardholder verification rule; and

uploading, by the payment circuit to the merchant device, the cardholder's payment information to complete the purchase transaction without providing cardholder verification.

REFERENCES AND REJECTIONS

1. Claims 1–9 and 13–17 stand rejected under 35 U.S.C. § 101 as directed to a judicial exception to statutory subject matter. Final Act. 21–24.

2. Claims 1–9 stand rejected under 35 U.S.C. § 103 as unpatentable over Varghese (US 2006/0282660 A1, published Dec. 14, 2006), Evans (US 2010/0161488 A1, published June 24, 2010) and Koretz (US 2008/0195506 A1, published Aug. 14, 2008). Final Act. 25–38.

3. Claims 13–17 stand rejected under 35 U.S.C. § 103 as unpatentable over Varghese, Pletz (US 2008/0277465 A1, published Nov. 13, 2008) and Koretz. Final Act. 38–47.

DISCUSSION

REJECTION UNDER 35 U.S.C. § 101

Under 35 U.S.C. § 101, a patent may be obtained for "any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof." The Supreme Court has "'long held that this provision contains an important implicit exception: Laws of nature, natural phenomena, and abstract ideas are not patentable." *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 134 S. Ct. 2347, 2354 (2014) (quoting *Ass'n for*

Molecular Pathology v. *Myriad Genetics, Inc.*, 569 U.S. 576, 589 (2013)). The Supreme Court in *Alice* reiterated the two-step framework previously set forth in *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 566 U.S. 66 (2012), "for distinguishing patents that claim laws of nature, natural phenomena, and abstract ideas from those that claim patent-eligible applications of those concepts." *Alice*, 134 S. Ct. at 2355. The first step in that analysis is to "determine whether the claims at issue are directed to one of those patent-ineligible concepts," such as an abstract idea. The Court acknowledged in *Mayo* that "all inventions at some level embody, use, reflect, rest upon, or apply laws of nature, natural phenomena, or abstract ideas." *Mayo*, 566 U.S. at 71. We, therefore, look to whether the claims focus on a specific means or method that improves the relevant technology or are instead directed to a result or effect that itself is the abstract idea and merely invoke generic processes and machinery. *See Enfish, LLC v. Microsoft Corp.*, 822 F.3d 1327, 1335–36 (Fed. Cir. 2016). If the claims are not directed to an abstract idea, the inquiry ends. Otherwise, the inquiry proceeds to the second step where the elements of the claims are considered "individually and 'as an ordered combination,' to determine whether the additional elements 'transform the nature of the claim' into a patent-eligible application." *Alice*, 134 S. Ct. at 2355 (quoting *Mayo*, 566 U.S. at 78–79).

Step One of Alice/Mayo Framework

Under the first step of the *Alice/Mayo* framework, the Examiner finds the claims are directed to "comparing new, stored information utilizing rules and categories in order to determine options and to transmit information" and are therefore directed to abstract concepts. Final Act. 22. The Examiner also finds the claims are "directed toward economic practices (transactions

and verification) and concepts related toward processes of comparing data that can be performed mentally (i.e. determining an option using a rules that determine an override) and post-solutions activity." Ans. 4.

Appellants argue the Examiner's rejection "fail[s] to point to any specific authority that compels the conclusion that the claimed invention, which is by definition limited to the field of payment-enabled mobile telephones and which requires the use of multiple electronic devices—unlike the claims in *Bilski* and *Alice* which, at least in theory, could be performed without a computer—is 'abstract' within the meaning of Section 101." App. Br. 12. Appellants contend "the claimed process and apparatus of claims 1 and 13 do more than that [i.e. comparing new, stored information utilizing rules and categories in order to determine options and to transmit information], and in fact operate to overrule a merchant device cardholder verification rule (resident in the merchant device) and to upload the cardholder's payment information to the merchant device <u>to complete</u> the purchase transaction." App. Br. 13.

We are unpersuaded by Appellants' arguments. We turn to the Examiner's determination that the claims are directed to an abstract idea. "The 'abstract idea' step of the inquiry calls upon us to look at the 'focus of the claimed advance over the prior art' to determine if the claim's 'character as a whole' is directed to excluded subject matter.'" *Affinity Labs of Texas v. DirectTV, LLC*, 838 F.3d 1253, 1257 (Fed. Cir. 2016) (quoting *Elec. Power Grp., LLC v. Alstom S.A.*, 830 F.3d 1350, 1353 (Fed. Cir. 2016)); *see also Enfish*, 822 F.3d at 1335 ("[T]he 'directed to' inquiry applies a stage-one filter to claims, considered in light of the specification, based on

whether 'their character as a whole is directed to excluded subject matter.'" (citation omitted)).

In this regard, the Specification explains that one common step in a purchase transaction using a payment card (such as a credit or debit card) or a payment-enabled mobile device, is "to verify the identity of the individual who presents the payment card [or mobile device]" by way of signature or PIN, etc. Spec. 1:8–2:27. In light of this background, the Specification explains that the "present inventors have now recognized opportunities for providing greater flexibility in the setting and application of rules which determine whether CVM [cardholder verification method] is required for a given retail purchase transaction." Spec. 3:8–10. The Specification explains that a

> financial institution that issues payment card accounts may choose to apply different cardholder verification procedures to various categories of its cardholder-customers. For example, upscale cardholders may be relieved of performing cardholder verification (e.g., entry of a PIN) for transactions of a type for which other cardholders are required to perform cardholder verification. To implement this policy, the financial institution may, during personalization of mobile telephones for use as proximity payment devices, load varying rules as to circumstances for which cardholder verification is required.

Spec. 4:9–16.

To provide the flexibility of varying verification rules for varying cardholders, the Specification also describes that a point of sale ("POS") terminal cardholder verification rule may be "overridden upon receiving communication from the mobile telephone 102 that indicates that the mobile telephone 102 is programmed with a cardholder verification rule." Spec. 6:23–25. Thus, the Specification describes the focus of the claimed advance

over the prior art as "the inventive concept of storing and applying cardholder verification rules in payment-enabled mobile telephones, [in which] the issuer server may set different cardholder verification rules for different cardholders, and may download the various rules on a selective basis as part of the personalization information for the payment-enabled mobile telephones." Spec. 9:12–16.

Consistent with the Specification's description of the invention as directed to providing flexible cardholder verification rules for different categories of cardholders and allowing some rules to be overridden, claim 1 requires (1) receiving by a payment circuit of a mobile telephone from a server computer a cardholder verification rule that prescribes circumstances under which a cardholder is required to perform a cardholder verification process, (2) storing the cardholder verification rule in the mobile telephone, (3) receiving from a merchant device purchase transaction information, (4) determining by the payment circuit using the cardholder verification rule that cardholder verification is not required, (5) transmitting from the payment circuit to the merchant device, instructions to cause the merchant device to overrule a merchant device cardholder verification rule, and (5) uploading by the payment circuit to the merchant device, the cardholder's payment information to complete the purchase without providing cardholder verification.

Based on a review of the Specification and the claims as outlined above, it is evident that, as a whole, the claims are directed to storing and applying different and flexible cardholder verification rules for different cardholders and allowing some rules to be overridden under certain circumstances. Thus, we agree with the Examiner that the claims are

directed to "comparing new, stored information utilizing rules and categories in order to determine options and to transmit information" (Final Act. 22) and to a fundamental economic practice (Ans. 4). As such, we agree with the Examiner's conclusion that the claims are directed to an abstract idea.

Step Two of Alice/Mayo Framework

Under step two of the *Alice/Mayo* framework, the Examiner finds

> The claim(s) does/do not include additional elements that are sufficient to amount to significantly more than the judicial exception because the claims do not affect an improvement to another technology or technical field; the claims do not amount to an improvement to the functioning of a computer itself; and the claims do not move beyond a general link of the use of an abstract idea to a particular technological environment. The claims merely amount to the application or instructions to apply the abstract idea (i.e. performing a money transfer) using a mobile device and a payment processing system, and is considered to amount to nothing more than requiring a generic mobile device and a generic computer to merely carry out the abstract idea itself.

Final Act. 22.

Appellants argue the claims recite significantly more than an abstract idea. Appellants contend

> For example, claim 1 recites a process that includes elements that first determine, using a cardholder verification rule stored in a secure element of the mobile telephone and transaction information, that cardholder verification is not required, then transmitting instructions the merchant device to overrule a merchant device cardholder verification rule, and lastly upload payment information of the cardholder to complete the purchase transaction (without cardholder verification) which are similar to the additional elements in the *DDR Holdings* case. In particular, the claimed process specifies interactions between a payment circuit of a mobile telephone, an issuer server, and a merchant device that are manipulated to yield a result that is different from

> conventional processes. In other words, Appellants respectfully submit that these elements, when taken together, perform functions that are not generic computer functions and therefore amount to significantly more than the abstract idea (and are thus patent-eligible).

App. Br. 13.

Appellants further argue the claims are "necessarily rooted in the electronic provisioning of, and the operation of, payment-enabled mobile devices, and solves the technological problem of how to allow issuer financial institutions to apply different cardholder verification procedures for their cardholders who utilize payment-enabled mobile telephones to conduct purchase transactions." App. Br. 14.

We disagree with Appellants' arguments. The claim elements are directed to storing and applying cardholder verification rules and to overriding a rule requiring cardholder verification when it is determined that a cardholder verification is not required. Allowing for some rules to be overridden under certain circumstances is part of the abstract idea, not something significantly more than it. Moreover, the claimed payment circuit of a mobile telephone, the claimed issuer server computer, and the claimed communication between server computer, mobile phone, and merchant device do not amount to significantly more. The invention is not directed to improvements to the technology of any of these elements. For example, the invention is not directed to the improvement of RFID chips or near field communications that allow for the communication of information between the claimed devices, nor are they directed to improvements to the devices themselves. Rather the claims are directed to economic tasks for which the claimed devices and technology are used in their ordinary capacity. *See Enfish*, 822 F.3d at 1336.

Appellants argue the claims do not preempt the field of conducting a purchase transaction and are therefore patent eligible. App. Br. 14–15. Specifically, Appellants argue

> the claimed method for operating a payment-enabled mobile telephone (claim 1) and the payment-enabled mobile telephone (claim 13) clearly do not tie up all applications for completing purchase transactions with payment-enabled mobile devices such that others cannot practice them. Instead, Appellants maintain that the pending claims tie down a specific method for operating a payment-enabled mobile device, and a payment-enabled mobile device (claim 13) that functions in a specific manner to solve a specific problem. Thus, the claims do not preempt the field of payment-enabled mobile device purchase transactions and therefore, in concert with the arguments presented immediately above, Appellants respectfully maintain that the claims are indeed patent-eligible.

App. Br. 15.

Appellants' argument is unpersuasive. "While preemption may signal patent ineligible subject matter, the absence of complete preemption does not demonstrate patent eligibility." *Ariosa Diagnostics, Inc. v. Sequenom, Inc.*, 788 F.3d 1371, 1379 (Fed. Cir. 2015). Moreover, "[w]here a patent's claims are deemed only to disclose patent ineligible subject matter under the *Mayo* framework, as they are in this case, preemption concerns are fully addressed and made moot." *OIP Techs., Inc. v. Amazon.com, Inc.*, 788 F.3d 1359, 1362–63 (Fed. Cir.), cert, denied, 136 S.Ct. 701 (2015).

Accordingly, we sustain the § 101 rejection of claims 1–9 and 13–17.

OBVIOUSNESS REJECTIONS

Claim 1

The Examiner finds Varghese teaches or suggests "determining, by the payment circuit using the at least one cardholder verification rule stored

in the secure element, and based on at least one of the received purchase transaction information and current circumstances, that cardholder verification is not required." Final Act. 26–27 (citing Varghese ¶¶ 34, 36, 83, 107, 201). The Examiner further finds Evans teaches or suggests "uploading, by the payment circuit to the merchant device, . . . information to complete the purchase transaction." Final Act. 27 (citing Evans ¶¶ 18–19, 21). Finally, the Examiner finds Koretz teaches or suggests "transmitting, by the payment circuit to the merchant device, instructions configured to cause the merchant device to overrule a merchant device cardholder verification rule." Final Act. 29–30 (citing Koretz ¶¶ 8, 59–62, 64).

Appellants argue "[a]ll of the processes disclosed by Evans <u>require</u> the cardholder <u>to provide biometric data</u> (which is cardholder verification data), which Appellants maintain <u>teaches away</u> from the claimed invention wherein a determination is made that cardholder verification is <u>not</u> required." App. Br. 18.

Appellants' argument is unpersuasive. The Examiner relies on Evans "to teach it was known for data to be uploaded to a merchant device to complete a transaction" but does not rely on Evans to for teaching the specific type of information being uploaded or for the transaction being completed without providing cardholder verification. Ans. 13 (citing Evans ¶¶ 18–19). Instead, the Examiner relies upon Koretz as teaching transmitting payment information to complete a purchase transaction without providing cardholder verification. Ans. 14 (citing Koretz ¶¶ 8, 59–62). Teaching away requires a reference to actually criticize, discredit, or otherwise discourage the claimed solution. *See In re Fulton*, 391 F.3d 1195, 1201 (Fed. Cir. 2004) ("The prior art's mere disclosure of more than one

alternative does not constitute teaching away from any of these alternatives because such disclosure does not criticize, discredit, or otherwise discourage the solution claimed.") Here, although Evans discloses transmitting biometric data (i.e. verification data) to complete a purchase transaction it does not criticize, discredit, or discourage completing the transaction without providing verification data, and there is no reason why one of ordinary skill in the art would not combine the teachings of Evans with Koretz which, the Examiner finds, teaches completing a purchase transaction without providing cardholder verification.

Appellants next argue,

> [i]t is clear . . . that Koretz specifically teaches that an administrator (a human being) must be involved in order to override preset criteria. . . . Even if the administrator is an electronic device (which Appellants vigorously dispute), there is absolutely no suggestion anywhere in Koretz that such an "administrator" is equivalent to a payment circuit of a mobile device, as claimed. Furthermore, Koretz is <u>silent</u> regarding user authentication or user verification and is instead concerned with utilizing stipulated approval levels to conduct purchase transactions.

App. Br. 21.

Appellants' argument is unpersuasive. The Examiner relies on Varghese for teaching the claimed "payment circuit." Final Act. 25–26. Koretz teaches that an administrator may approve a purchase request by overriding pre-set criteria for completing that purchase. The Examiner combines the payment circuit of Varghese with Koretz's teaching regarding the administrator, in finding that it would be obvious to have a payment circuit overrule a merchant device cardholder verification rule just as an administrator could. Broadly providing an automatic way to replace a

manual activity accomplishing the same result is insufficient to distinguish an automated process over a manual activity. *See In re Venner,* 262 F.2d 91, 95 (CCPA 1958).

Accordingly, we sustain the Examiner's obviousness rejection of independent claim 1. Claims 2–9 were argued on the same basis (*see* App. Br. 21) and, thus, we also sustain the Examiner's obviousness rejection of these claims.

Claim 13

Although Appellants argue claim 13 separately, they incorporate and rely on all the arguments made with respect to claim 1 and add that Pletz does not cure the asserted deficiencies of Varghese and Koretz. App. Br. 22. However, as explained above, we do not find the Examiner's rejection to be deficient and therefore sustain the Examiner's obviousness rejection of claim 13. Appellants do not make arguments for separate patentability of dependent claims 14–17 and, thus, we sustain the Examiner's obviousness rejection of these claims as well.

DECISION

We affirm the Examiner's rejections of claims 1–9 and 13–17 under 35 U.S.C. §§ 101 and 103.

No time period for taking any subsequent action in connection with this appeal may be extended. *See* 37 C.F.R. § 1.136(a)(1)(iv).

AFFIRMED