

EXHIBIT A

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July 23, 2015

The Honorable Rodney Gilstrap
U.S. District Court for the Eastern District of Texas
100 East Houston Street
Marshall, Texas 75670

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Re: *Advanced Marketing Systems, LLC, v. CVS Pharmacy, Inc., et al.* – USDC EDTX: Case No. 6:15-cv-00134-JRG-KNM

Dear Judge Gilstrap:

Pursuant to the Court’s Standing Order Regarding Submission of Letter Briefs, Defendants CVS Pharmacy, Inc., Walgreen Co., and Brookshire Grocery Company (collectively, “Defendants”) respectfully request leave to file a Motion for Judgment on the Pleadings for Invalidity Under § 101 with Respect to U.S. Patent Nos. 8,219,445; 8,370,199; and 8,538,805 (the “Patents in Suit”). Plaintiff’s infringement contentions assert infringement of Claim 9 of the ’445 Patent, Claims 15 and 28 of the ’199 Patent, and Claim 1 of the ’805 Patent (collectively, the “Asserted Claims”).

I. Introduction

In this case, Plaintiff Advanced Marketing Systems, LLC (henceforth, “Plaintiff”) asserts three patents in the same family that present nearly identical issues under 35 U.S.C. § 101. The Asserted Claims are all directed to the abstract idea of offering, tracking, and processing discounts, such as discounts on grocery items. The Asserted Claims, at best, use conventional and generic technology to implement the abstract idea; no new technology is disclosed or claimed. And, unlike many cases, the prosecution history reveals what the patentee regarded as the alleged “inventive concept.”¹ The **patent itself** concedes that the alleged “inventive concept” can be performed using paper and pencil, thus making this case ripe for early analysis under § 101.

The Background of the Invention of the ’445 Patent discusses the non-technical disadvantages of the use of discount coupons, particularly for groceries, as well as the disadvantages of typical inserts to Sunday newspapers containing such coupons. ’445 Patent, Col. 1-Col. 3. The Patents in Suit seek to address one or more of these non-technical

¹ Because the prosecution history is a “public record,” this Court may properly take judicial notice of it when considering a Rule 12 motion. *Hebert Abstract Co. v. Touchstone Properties, Ltd.*, 914 F.2d 74, 76 (5th Cir. 1990) (“A motion brought pursuant to Fed. R. Civ. P. 12(c) . . . can be rendered by looking to the substance of the pleadings and any judicially noticed facts.”); *Joseph v. Bach & Wasserman, L.L.C.*, 487 F. App’x 173, 178 (5th Cir. 2012) (“[T]he court may take judicial notice of matters of public record.”); *Hockerson-Halberstadt, Inc. v. Avia Grp. Int’l, Inc.*, 222 F.3d 951, 957 (Fed. Cir. 2000) (“The prosecution history constitutes a public record of the patentee’s representations . . .”).

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disadvantages by associating a single “select code” with multiple discounts on a paper or card-based “vehicle.” One example is illustrated in Figure 4A of the Patents in Suit. The single barcode 460 illustrated in the figure can be used at the checkout counter to receive one or more of the illustrated discounts based on items purchased during checkout. Figures 3B, 5A, 5D, and 6B also show a similar barcode printed on a paper or card-based vehicle. *See also id.* at Col. 5, ll. 19-41, Col. 7, ll. 30-33, Col. 7, ll. 59-60, Col. 8, ll. 14-19, Col. 8, ll. 51-58 (describing the multi-discount vehicle as a freestanding insert, flat card, folded card, or single sheet with printed information). The patent alleges that one non-technical advantage of the single code is avoiding the inconvenience of cutting and carrying individual coupons. *Id.*, Col. 8, ll. 3-8, Col. 8, ll. 47-48. During prosecution, however, the patentee learned that coupling multiple discounts to one code was not novel and conceded that a prior art reference (“Dixon”) discloses this concept. *See* ’445 Patent Prosecution History, Sept. 23, 2011 Appeal Brief at 19 (“Dixon teaches a system or vehicle (as claimed in the parent) that includes a code, such as a bar code, identifying two or more promotions that can deactivate a single discount leaving others active for future use.”).

Forced into a corner after a lengthy prosecution, the patentee again appealed the Examiner’s rejections and took the position that the Patents in Suits’ alleged inventive concept was tracking discounts listed on a discount vehicle that a customer has redeemed such that only unredeemed discounts could later be used. *Id.* at 11. In other words, what was allegedly inventive is that a generic computer would track that Jane Doe used a vehicle having the printed discount code and multiple discount promotions (e.g., one for a brand of milk and another for Wheaties®) to receive a discount for milk when purchased on Sunday and allow her to use the vehicle with the discount code again the following Wednesday to receive a discount on Wheaties, but not for the milk again.

But tracking redeemed discounts using a generic computer cannot provide the inventive concept for § 101 purposes. This is simply computerization of a manual process. The Patents in Suit themselves explain that tracking redeemed promotions can be done by a human using a pencil and paper. *See e.g.*, ’445 Patent, Col. 9, ll. 22-35 (“Next to each of the product names [on the discount vehicle] are printed two boxes. The boxes provide locations for the consumer to mark . . . that a particular product is desired and that the MDV [multi-discount vehicle] has been redeemed for a particular product . . . This **enables the consumer to track the discounts** of the MDV which have been used and those which remain available.” (emphasis added)). While the Patents in Suit talks about the consumer tracking discounts with paper and pencil, there is no reason a merchant could not do so. Indeed, there is nothing in the Asserted Claims of the Patents in Suit that cannot be done manually using paper and pencil. Only earlier this month, the Federal Circuit confirmed that claims are unpatentable if they could be practiced “using a pencil and paper.” *See Intellectual Ventures I LLC v. Capital One Bank (USA)*, --- F.3d ---, 2015 WL 4068798, at *4 (Fed. Cir. July 6, 2015). Moreover, the patents do not disclose or claim any inventive hardware or software for performing the alleged invention, but rather make use of conventional and generic technology. *E.g.*, ’445 Patent col. 10:13-24 (“At check-out, the super market employs **conventional scanning equipment** to read both the MDV [multi-discount vehicle] and the products selected by the customer for purchase. The scanning equipment is connected to **a computer** that . . . may thereafter deactivate the promotion for that product . . .” (emphasis added)).

Ultimately, this case is particularly well-suited for an early § 101 determination because the Asserted Claims, as a whole, are all directed to the abstract idea of offering, tracking, and processing discounts--an abstract idea squarely in the bull’s-eye of *Alice*. The claimed features may all be performed manually using paper and pencil. The conventional computers and scanning equipment recited in the claims are not meaningful limitations that transform the abstract idea into a patent eligible application of the abstract idea. Thus, the claims are patent ineligible under § 101.

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II. The Asserted Claims Recite Patent Ineligible Subject Matter Under 35 U.S.C. § 101

All three Patents in Suit share nearly an identical specification and depend from the same parent application. The '199 Patent and the '805 Patent are both continuations of the '445 Patent. Thus, the § 101 issues are substantially similar for all four claims.

A. The Asserted Claims Are Directed To the Abstract Idea of Offering, Tracking, and Processing Discounts

At Step One of the § 101 analysis, courts determine whether the claims are directed to a patent ineligible concept such as an abstract idea. Here, the elements of the Asserted Claims, individually and as a whole, are all directed to the abstract idea of offering, tracking, and processing discounts. For example, Claim 9 of the '445 Patent and Claim 15 of the '199 Patent (collectively, the "Vehicle Claims") both claim a **"discount vehicle for use with a data processing system for tracking and processing . . . discounts."** Similarly, Claim 28 of the '199 Patent and Claim 1 of the '805 Patent (collectively, the "System Claims") claim **"a data processing system for tracking and processing . . . discounts."** Because the Asserted Claims are all directed to the same abstract idea, Claim 9 of the '445 Patent is illustrative for Step One of the analysis.

Claim 9 claims a "discount vehicle." The patent reveals that a discount vehicle is merely something that literally includes printed advertisements that convey multiple discounts to consumers.² Examples given include an insert in a newspaper ('445 Patent col. 7:30-31), a "single sheet or card of any size or shape" (*id.*, col. 7:60-62), a folded card (*id.*, Col. 8, ll. 14-19), or a "single sheet stock" (*id.*, col. 8, ll. 54-55) that shows two or more discounts. This discount vehicle also has a code printed on it. When a customer makes a purchase of one or more products using the discount vehicle with listed discounts, a generic machine can read the code printed on the discount vehicle to track the vehicle and the purchases made by the customer and redeem any applicable discounts. The code can be selectively deactivated for the redeemed discount, such that the code remains active for future use with discounts that have not been redeemed. Claim 9 is thus directed to the abstract idea offering, tracking, and processing discounts. Similar concepts are recited in the other Asserted Claims.

Offering, tracking, and processing discounts has been a longstanding commercial practice in the retail industry. For example, during prosecution, the applicant explained the "straightforward" practice of processing discounts for consumers using coupons. '445 Patent Prosecution History, Sept. 23, 2011 Appeal Brief at 6. The applicant noted that when a cashier scans a coupon's code, the "retailer's store server compares the coupon's code against a list of universal coupon codes." *Id.* at 6-7. The server also checks "to see if a product corresponding to the coupon has been purchased." *Id.* at 7. If so, "[t]he discount is then granted to the consumer and, importantly, the coupon is confiscated." *Id.* (emphasis removed). The applicant thus made clear that the abstract idea of "offering, tracking, and processing discounts" was already a longstanding commercial practice in the retail industry when the patents were filed. And as the

² While all claims are invalid under the Alice two-pronged test, Claim 9 of the '445 Patent and Claim 15 of the '199 Patent are invalid for another reason. Because these claims read on newspaper ads containing a single select code uniquely identifying all discounts associated with the newspaper ad and satisfying the other requirements of the claims, the claims are also invalid under the Printed Matter Doctrine. It was established long ago that "[t]he mere arrangement of printed matter on a sheet or sheets of paper . . . does not constitute any new and useful art, machine, manufacture, or composition of matter, or any new and useful improvements thereof." *In re Russell*, 48 F.2d 668, 669 (C.C.P.A. 1931).

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Supreme Court has repeatedly held, patents claiming “longstanding commercial practice[s]” are likely directed to unpatentable abstract ideas. *See Alice Corp. Pty. v. CLS Bank Int’l*, 134 S. Ct. 2347, 2356 (2014); *Bilski v. Kappos*, 561 U.S. 593, 601-13 (2010). Moreover, the Federal Circuit found as abstract, a claim that used a user profile to “track transactions.” *See Intellectual Ventures I*, 2015 WL 4068798, at *3.

Further, as discussed above, the Patents in Suit themselves explain that tracking discounts is a “mental process” that can be done by a human using a pencil and paper. *See* ’445 Patent col. 9:22-35. The Supreme Court and the Federal Circuit have repeatedly found such mental processes patent ineligible. *See Bilski*, 545 F.3d at 965; *Intellectual Ventures*, 2015 WL 4068798, at *4; *CyberSource Corp. v. Retail Decisions, Inc.*, 654 F.3d 1366, 1372 (Fed. Cir. 2011). And because the patents recite no inventive hardware or software for implementing such offering, tracking, and processing of discounts, they amount to nothing more than the use of generic hardware to implement an abstract concept.

Ultimately, the Asserted Claims are directed to “offering, tracking, and processing discounts,” which is not distinguishable from the abstract ideas found unpatentable by the Federal Circuit and the Supreme Court. Thus, the Asserted Claims satisfy Step One of the § 101 analysis under *Alice*.

B. The Asserted Claims Do Not Recite Any Inventive Concept

At Step Two of the § 101 analysis, courts look to see if the claims at issue recite an inventive concept. Here, the elements of the Asserted Claims individually and as a collective whole fail to recite any such concepts. Starting first with Claim 9 of the ’445 Patent, the claim recites a “distributed discount vehicle” that can be used to track and process in-store discounts. As the Specification makes clear, the use of a vehicle itself is not inventive. The vehicle is merely an insert in a newspaper (’445 Patent col. 7:30-31), a “single sheet or card of any size or shape” (*id.* col. 7:60-62), a folded card (*id.*, Col. 8, ll. 14-19), or a “single sheet stock” (*id.*, col. 8, ll. 54-55) that has two or more discounts printed on it. Nor, according to the applicant, was it inventive to associate multiple discounts with one code. *See e.g.*, ’445 Patent Prosecution History, Sept. 23, 2011 Appeal Brief at 16 (“*Dixon’s* system and vehicle include a single code identifying two or more promotions . . .”).

During prosecution, the applicant argued that the ’445 Patent is inventive because it tracks redeemed offers by electronically deactivating those offers. According to the applicant, this distinguished the ’445 Patent from the prior art because the prior art only disclosed “manual” deactivation. *Id.* at 10 (“There are two ways to accomplish selective deactivation of redeemed offers while leaving unused offers intact: manually as primarily addressed by *Dixon*, and electronically via a data processing system, as in the claimed invention.”).

However, as discussed earlier, tracking redeemed offers is a longstanding commercial practice in the retail industry and cannot, therefore, be inventive. The patents acknowledge this known practice. *See e.g.*, ’445 Patent, Col. 2, l. 36 – Col. 3, l. 3 (describing the conventional use of cards with a bar code that is scanned for tracking purchases and providing discounts for on-sale discounted products). The patents also explain how the alleged invention allows consumers to track their redeemed offers using a pencil and paper at the time the patents were filed. Tracking redeemed offers by what the patentee referred to as “**electronic** selective deactivation” of the redeemed offers is also not inventive. Indeed, the patentee admitted during prosecution that manual selective deactivation of discount coupons was well-known and that the purported inventive concept was to make this well-known practice electronic. ’445 Patent Prosecution History, Sept. 23, 2011 Appeal Brief at 10 (“There are two ways to accomplish selective deactivation of redeemed offers while leaving unused offers intact: manually as primarily

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addressed by *Dixon*, and electronically via a data processing system, as in the claimed invention.”) The Supreme Court made clear in *Alice* that simply taking an abstract idea, such as a long-prevalent commercial practice, “while adding the words apply it with a computer” does not confer patent eligibility. 134 S.Ct. at 2358. Thus, the generic automation of a well-known practice does not confer patent eligibility, but the Asserted Claims do exactly that.

Moreover, the tracking and processing of a discount via conventional computer devices like those recited in the Asserted Claims relate to basic tasks long performed by computers, such as determining if a condition is met (the use of a discount for a particular product) and storing data that indicates whether a condition is met. Computers have long been used for such purposes. *See e.g. Parker v. Flook*, 95 S. Ct. 2522 (1978) (finding claim invalid under 101 a method to change data representing an alarm limit in response to data representing various measurements).

The other claims fare no better. Claim 15 of the '199 Patent is nearly identical to Claim 9 of the '445 Patent and is thus likewise lacking any inventive concept. *See* '199 Patent, Col. 11, l. 65 – Col. 12, l. 20. Further, the System Claims also fail to add any meaningful limitations to the abstract idea of offering, tracking, and processing discounts. In addition to the discount vehicle claimed in the Vehicle Claims, the System Claims also recite a customer account, a checkout processing terminal, and a data processor. The claimed customer account is a non-technical element that provides no inventive concept. Taking the other claim elements separately, the functions performed by the claimed “checkout processing terminal” and “data processor” are purely conventional. Like conventional checkout terminals, the claimed checkout terminal simply receives a code from the discount vehicle and tracks purchased products and prices thereof. *See e.g.*, '805 Patent, Col. 11, ll. 6-10, The claimed data processor simply receives transaction information associated with the products and associated discounts, processes discounts, and selectively deactivates the code for particular discounts based on what products are purchased. *Id.*, Col. 11, l. 17 – Col. 12, l. 4. Taking the claim elements as an ordered combination, they add nothing that is not already present when the steps are considered separately. *Alice*, 134 S.Ct. at 2359 citing *Mayo Collaborative Serv. v. Prometheus Labs., Inc.*, 132 S.Ct. 1289, 1298 (2012). This understanding is consistent with how the Patents in Suit describe the alleged invention, given that they confirm that the “checkout processing terminal including computer based tracking” in the System Claims is “conventional scanning equipment to read both the MDV [multi-discount vehicle] and the products selected by the customer for purchase” ('445 Patent, Col. 10, ll. 13-15; *see also id.*, Col. 4, ll. 43-47), and does not disclose any innovative technical features relating to the claimed “data processor.” As the Federal Circuit has explained, using conventional technology in a conventional manner does not confer patent eligibility. *See, e.g., Cyberfone Sys., LLC v. CNN Interactive Grp., Inc.*, 558 F. App'x 988, 993 (Fed. Cir. Feb. 26, 2014) (holding that using a “telephone” was insufficient because “the specification explain[ed] that ‘[w]hen in telephone mode, the telephone operates in a conventional manner’”). Given that the claims are very generic in character and provide very little by way of detail as to the architecture of any claimed system supports that the claims do not recite an inventive concept sufficient to transform the claimed abstract idea into a patent eligible application. *See* 134 S.Ct. at 2360.

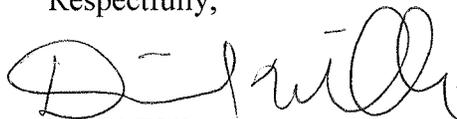
Accordingly, none of the Asserted Claims are directed to patent eligible subject matter and should be invalidated at the pleading stage for failure to satisfy 35 U.S.C. § 101. The language of the Asserted Claims is relatively simple and claim construction is unlikely to impact or aid the Court in reaching its decision. Defendants thus respectfully request an order granting their request for leave to file a Motion for Judgment on the Pleadings due to Invalidity Under § 101 with Respect to U.S. Patent Nos. 8,219,445; 8,370,199; and 8,538,805.

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Respectfully,

A handwritten signature in black ink, appearing to read "D. Wille". The signature is fluid and cursive, with a large initial "D" and a stylized "Wille".

David Wille