

1 RICHARD B. NEWMAN, Cal. Bar No. 195191
rnewman@hinchnewman.com
2 HINCH NEWMAN LLP
1450 Broadway, 35th Floor
3 New York, NY 10018
Telephone: (212) 756-8777
4 Facsimile: (866) 449-4897

5 DARREN M. FRANKLIN, Cal. Bar No. 210939
dfranklin@sheppardmullin.com
6 SHEPPARD, MULLIN, RICHTER & HAMPTON LLP
A Limited Liability Partnership
7 Including Professional Corporations
333 South Hope Street, 43rd Floor
8 Los Angeles, California 90071-1422
Telephone: (213) 620-1780
9 Facsimile: (213) 620-1398

10 Attorneys for Defendant and Counter-Claimant
CLICKBOOTH.COM, LLC

11
12 UNITED STATES DISTRICT COURT
13 CENTRAL DISTRICT OF CALIFORNIA
14 SOUTHERN DIVISION

15 ESSOCIATE, INC., a Delaware
corporation,

16 Plaintiff,

17 v.

18 CLICKBOOTH.COM, LLC,

19 Defendant.

Case No. SACV 13-01886 JVS (DFMx)

**MEMORANDUM OF POINTS AND
AUTHORITIES IN SUPPORT OF
DEFENDANT CLICKBOOTH.COM,
LLC'S MOTION FOR JUDGMENT
ON THE PLEADINGS BASED ON
PATENT INELIGIBILITY UNDER
35 U.S.C. § 101**

20
21 AND RELATED COUNTERCLAIMS.

Date: February 2, 2015
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Judge: Hon. James V. Selna

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1 **I. INTRODUCTION**

2 Defendant CLICKBOOTH.COM, LLC (“Clickbooth”) brings this motion to
3 seek judgment on the pleadings that the asserted claims of Plaintiff Essociate, Inc.’s
4 patent-in-suit¹ are directed to patent-ineligible subject matter under 35 U.S.C. § 101.
5 This motion is also being filed concurrently by Defendant 4355768 CANADA,
6 INC., dba Crakmedia, in co-pending *Essociate* case No. 14-00679.

7 In *Alice Corp. Pty. Ltd. v. CLS Bank Int’l*, 134 S.Ct. 2347 (2014), the
8 Supreme Court provided a two-part test to determine if a patent claims patent-
9 ineligible subject matter. The first step asks whether the claims are directed to a law
10 of nature, a natural phenomenon, or an abstract idea. *Id.* at 2355 (citing *Mayo*
11 *Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S.Ct. 1289 (2012)). If one of
12 these patent-ineligible concepts is at the heart of a patent claim, the second step
13 requires courts to “search for an ‘inventive concept’—*i.e.*, an element or
14 combination of elements that is ‘sufficient to ensure that the patent in practice
15 amounts to significantly more than a patent upon the [ineligible concept] itself.’” *Id.*

16 Under *Alice*, abstract ideas may no longer be monopolized by saying “apply”
17 them on a computer and then drafting claims on the details of that application using
18 “computer functions [that] are ‘well-understood, routine, conventional activit[ies]’
19 previously known to the industry.” *Id.* at 2359 (quoting *Mayo*, 132 S.Ct. at 1294).

20 But that is exactly what Plaintiff’s patent does here. The Essociate Patent is
21 directed to the abstract idea of receiving and tracking referrals from referral sources.
22 Essociate applied that idea to preexisting Internet “affiliate systems.” It suggested
23 “configuring” these preexisting affiliate systems to receive and track referrals from
24 outside sources using routine, conventional programming functions long used on the
25 Internet.

26 _____
27 ¹ U.S. Patent No. 6,804,660 (the “Essociate Patent”) is attached as Ex. 1 to the
28 Declaration of Darren M. Franklin in support of this motion, filed herewith.
References to “Ex.” in this motion are to exhibits authenticated by this declaration.

1 Essociate’s patent claims do not describe “significantly more” than the
2 abstract idea of receiving and tracking referrals applied to the preexisting
3 technological environment of Internet affiliate systems. As explained below, they
4 are therefore invalid under 35 U.S.C. § 101.

5 **II. BACKGROUND**

6 **A. The Essociate Patent**

7 The application for the Essociate Patent was filed on May 1, 2001. Ex. 1
8 (Essociate Patent, face page). It was one of many thousands of Internet patent
9 applications filed after the Federal Circuit started applying a permissive test for
10 patent eligibility that was later rejected. *State St. Bank & Trust Co. v. Signature Fin.*
11 *Grp., Inc.*, 149 F.3d 1368, 1370 (Fed. Cir. 1998) *abrogated by In re Bilski*, 545 F.3d
12 943 (Fed. Cir. 2008) (affirming patent eligibility of a “data processing system . . .
13 for implementing an investment structure” because it provided a “useful” result).

14 The Essociate Patent relates generally to e-commerce and, more particularly,
15 to Internet-based affiliate pooling. Ex. 1, col. 1:16-19. Essociate’s alleged
16 “invention” lets webmasters “participate in existing Merchant affiliate systems
17 without the need of joining those Merchant affiliate systems.” *Id.*, col. 4:53-56. It
18 does that by configuring merchant affiliate systems to receive referrals from
19 independent referral sources, which it calls “virtual affiliates.” *Id.*, col. 7:50-54.
20 Merchants also use their preexisting tracking systems to track referrals from these
21 affiliates. *Id.*, col. 11:45-51, 64-57.

22 An “affiliate system” is itself an intangible relationship on the Internet. In
23 *Essociate, Inc. v. Blue Whaler Investments, LLC*, No. CV 10-2107 JVS (MLGx)
24 (“*Blue Whaler*”), this Court construed a “merchant affiliate system” as “a system,
25 operated directly or indirectly by a merchant, in which a group of webmasters direct
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1 traffic to a merchant.” Ex. 8 (Dkt. 140 at 23).² In other words, an affiliate system is
2 simply a type of Internet-based referral network. The Essociate Patent uses
3 “affiliate” and “webmaster” interchangeably.

4 Regardless of what is included within the precise scope of the term “affiliate
5 system,” Essociate admits in its patent that such systems were conventional fixtures
6 on the Internet before Essociate appeared on the scene.³ In fact, the patent states,
7 “[m]ost Merchants currently utilize some form of affiliate system to increase sales,
8 track traffic, and compensate Webmasters for referrals of traffic and/or
9 transactions.” Ex.1, col. 2:8-10.

10 **1. The prior-art “stand-alone affiliate system.”**

11 Not only were affiliate systems well known before Essociate’s alleged
12 invention, at least two distinct models had already developed. Ex. 1, col. 2, line 24.
13 The first model, a “stand-alone affiliate system for a single Merchant,” included a
14 group of webmasters and a merchant affiliate system, which had a back-end tracking
15 mechanism. *Id.*, col. 2:30-35. The Essociate Patent explains that:

16 Webmasters are the content providers of the Internet, who
17 maintain URLs in order to disperse information and links
18 to other URLs. These links are often in the form of a
19 Merchant’s advertisement, such as a banner ad. Therefore,
20 the Webmaster directs traffic to given Merchants via their
21 selection and placement of Merchant links. The

23 ² Clickbooth does not adopt this construction for *Markman* purposes. The Court can
24 rule on a motion for judgment on the pleadings based on patent eligibility “without
25 formally construing the claims.” *See, e.g., Ultramercial, Inc. v. Hulu, LLC*, 2014
U.S. App. LEXIS 21633 at *5.

26 ³ A patent owner is bound by admissions in the patent specification about the prior
27 art. *PharmaStem Therapeutics, Inc. v. ViaCell, Inc.*, 491 F.3d 1342, 1362 (Fed. Cir.
28 2007); *Constant v. Advanced Micro-Devices, Inc.*, 848 F.2d 1560, 1570 (Fed.
Cir.1988).

1 Webmasters are then generally compensated according to
2 a given scale or interval, based in some way on the
3 referred traffic.

4 *Id.*, col. 2:9-17.

5 In the stand-alone affiliate system, the merchant tracks the Internet traffic sent
6 by the webmasters to the merchant’s website, and “any transactions initiated by the
7 traffic are credited to the referring Webmaster.” *Id.*, col. 2:42-43. As Essocate said
8 in its patent, a “good example” of the prior standalone system was the one operated
9 by Amazon.com. Ex. 1, col. 2:49-53. An Amazon prior art patent cited by the
10 Essocate Patent explains that Amazon screened potential affiliates when they
11 signed up to see if their websites were suitable for Amazon’s referral network.⁴

12 **2. The prior-art “affiliate hub system.”**

13 In the second model, an “affiliate hub system” took responsibility for
14 processing potential webmasters as potential affiliates and also tracked their
15 referrals for participating merchant networks. Ex. 1, col. 3:17-42. The system
16 included the master affiliate system (“the hub”), webmasters, and a network of
17 individual merchant affiliate systems. *Id.*, col. 3:18-20. The webmasters sent
18 Internet traffic to the hub, which in turn sent the traffic to the appropriate merchant.
19 *Id.*, col. 3:23-26. The hub had a back-end tracking mechanism to keep track of
20 transactions and credit the appropriate affiliate (webmaster). *Id.*, col. 3:29-31.
21 Thus, the individual merchants used the hub as the conduit for webmasters to send
22 Internet traffic back to the merchants to promote the merchants’ products through
23 advertisements. *Id.*, col. 3:35-45. This was beneficial to webmasters because they
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25 _____
26 ⁴ Ex. 2, U.S. Patent No. 6,029,141 to Bezos et al., col. 2:32-38. The Court may take
27 judicial notice of background facts from publicly available documents whose
28 authenticity is not disputed. *Branch v. Tunnell*, 14 F.3d 449, 454 (9th Cir. 1994).
See also Clickbooth’s Request for Judicial Notice in Support of Motion for
Judgment on Pleadings, filed concurrently herewith.

1 obtained “simplified, coordinated access to the goods and services of all Merchant
2 affiliate programs in the hub.” *Id.*, col. 3:57-60.

3 **3. The alleged invention—configuring merchant affiliate systems to**
4 **receive referrals from outside their own affiliate networks.**

5 An alleged shortcoming of an affiliate hub system is that “the Merchants must
6 share the same resources for traffic (the group of Webmasters 202), and thus risk
7 losing business to other Merchants in the hub 200.” Ex 1, col. 3:60-63. In other
8 words, merchants must compete with each other for referrals from a limited pool of
9 referral sources—webmasters who decide which merchant’s banner ads to put on
10 their sites. The Essociate Patent proposes to let merchants receive outside referrals
11 from a new source—so-called “virtual affiliates,” who “remain[] independent from
12 the Merchant’s affiliate system.” *Id.*, col. 3:66 - col. 4:1; *id.*, col. 7:50-51.

13 According to the patent, the virtual affiliates are provided access by an
14 “affiliate pooling system,” which the patent describes as a combination of Internet
15 participants—a group of merchant-affiliated webmasters, a merchant affiliate
16 system, an affiliate pool of webmasters (“virtual” affiliates), and a “virtual” affiliate
17 system. *Id.*, col. 7:5-10.

18 Figure 3 of the patent shows an embodiment of the affiliate pooling system in
19 connection with a prior art standalone system. A group of merchant-affiliated
20 webmasters 302 is associated with a merchant affiliate system 304, just as in the
21 prior-art standalone affiliate system. *Id.*, col. 7, lines 7-9. Item 306 is just “a loose
22 aggregation of Webmasters with a quantity of traffic.” *Id.*, col. 7, lines 31-32. Item
23 308 is just “a subset of the Webmasters of the affiliate pool 306 with their quantity
24 of traffic.” *Id.*, col. 7, lines 40-41. Item 310 is just a computer (the “Virtual
25 Affiliate system”) through which Internet traffic flows “as the Webmasters in the
26 affiliate pool 306 act as Virtual Affiliates 308 of the Merchant affiliate system 304.”
27 *Id.*, col. 7, lines 56-57. The virtual affiliate system 310 thus acts like a prior art
28 affiliate-hub system—a conduit through which webmasters can sign up and send

1 Internet traffic to a merchant. The difference is that the merchant 304 keeps its own
2 set of merchant-affiliated webmasters 302 in addition to receiving referrals from the
3 “virtual” pool of new webmasters 306.

4 Thus, the alleged invention is nothing more than a way to keep track of
5 referrals over the Internet using conventional components. This ensures that the
6 referral sources get compensated for referrals.

7 **4. The patent claims.**

8 Essociate has asserted claims 1, 10, 15, 23, 28 and 36 of the Essociate patent
9 against Clickbooth. Clickbooth will begin its analysis with method claims 1 and 10
10 and show why the same analysis applies to the other claims.

11 Claim 1 is an independent method claim, from which claim 10 depends. Ex.
12 1, cols. 21-22. Claims 15 and 23 are “computer program” counterparts to method
13 claims 1 and 10, respectively. Claims 28 and 36 are “system” counterparts to claims
14 1 and 10. As explained below, claims 1, 10, 15, 23, 28 and 36 are invalid under
15 U.S.C. § 101 because they do not constitute “significantly more” than a patent upon
16 the abstract idea of receiving and tracking referrals from referral sources.

17 **III. DISCUSSION**

18 **A. Legal Standards Governing Motions for Judgment on the Pleadings**

19 “After the pleadings are closed—but early enough not to delay trial—a party
20 may move for judgment on the pleadings.” FED. R. CIV. P. 12(c). A motion for
21 judgment on the pleadings should be granted if, “taking all the allegations in the
22 pleading as true, the moving party is entitled to judgment as a matter of law.”
23 *McSherry v. City of Long Beach*, 423 F.3d 1015, 1021 (9th Cir. 2005).

24 As the Federal Circuit has held, “[i]t is well established that ‘whether the
25 asserted claims . . . are invalid for failure to claim statutory subject matter under 35
26 U.S.C. § 101, is a question of law.’” *In re Comiskey*, 554 F.3d 967, 974 (Fed. Cir.
27 2007) (quoting *AT&T Corp. v. Excel Commc’ns, Inc.*, 172 F.3d 1352, 1355 (Fed.
28 Cir. 1999)). Moreover, the Section 101 inquiry is a “threshold test.” *Bilski*, 561

1 U.S. at 602. A court may properly address this threshold test through a motion for
2 judgment on the pleadings. *See, e.g., buySAFE, Inc. v. Google Inc.*, 765 F.3d 1350
3 (Fed. Cir. 2014) (affirming order granting motion for judgment on the pleadings
4 under section 101); *McRO, Inc. v. Namco Bandai Games Am., Inc.*, No. CV 12-
5 10327 GW (FFMx), 2014 WL 4749601, *8 (C.D. Cal. Sept. 22, 2014) (granting
6 judgment as a matter of law).

7 **B. Legal Standards Governing Patent-Eligible Subject Matter**

8 Section 101 of the Patent Act “defines the subject matter eligible for patent
9 protection.” *Alice*, 134 S.Ct. at 2354. It states, “[w]hoever invents or discovers any
10 new and useful process, machine, manufacture, or composition of matter, or any
11 new and useful improvement thereof, may obtain a patent therefor, subject to the
12 conditions and requirements of this title.” 35 U.S.C. § 101. While the statute can be
13 read broadly, it “contains an important implicit exception: Laws of nature, natural
14 phenomena, and abstract ideas are not patentable.” *Alice*, 134 S.Ct. at 2354
15 (quoting *Association for Molecular Pathology v. Myriad Genetics., Inc.*, 133 S.Ct.
16 2107, 2116 (2013)).

17 **1. *Alice Corp. v. CLS Bank***

18 In *Alice*, the Supreme Court applied the framework that it developed in *Mayo*
19 *v. Prometheus*, 132 S.Ct. 1289 (2012), to a software patent. The Court held that, in
20 determining patent eligibility, it first will “determine whether the claims at issue are
21 directed to” a patent-ineligible concept (including an abstract idea) and, second,
22 “whether the claims contain ‘an element or combination of elements that is
23 sufficient to ensure that the patent in practice amounts to significantly more than a
24 patent upon the [ineligible concept] itself.’” *Alice*, 134 S.Ct. at 2355 (other
25 quotation marks omitted).

26 The claims in *Alice* were directed to “a method of exchanging financial
27 obligations between two parties using a third-party intermediary to mitigate
28 settlement risk” in which “[t]he intermediary creates and updates ‘shadow’ records

1 to reflect the value of each party’s actual accounts held at ‘exchange institutions,’
2 thereby permitting only those transactions for which the parties have sufficient
3 resources.” *Alice*, 134 S.Ct. at 2352. The Court struck down the method claims
4 under Section 101, even though they required use of a computer to create electronic
5 shadow records, track multiple transactions, and issue simultaneous instructions.
6 *Alice*, 134 S. Ct. at 2359. These computer-implemented details did not create patent
7 eligibility because they neither “improved computer technology” nor “effect[ed] an
8 improvement in any other technology or technical field.” *Id.* The Court also struck
9 down “system” claims requiring use of a “data processing system,”
10 “communications controller,” and “data storage unit” to achieve the claimed
11 method. *Id.* at 2360. These claims, and similar “computer-readable” medium
12 claims, were not distinguishable from the method claims because they used
13 conventional functionality to carry out the abstract idea. *Alice*, 134 S.Ct. at 2359.

14 **2. Other Recent Decisions**

15 The Supreme Court’s *Alice* decision was a significant change in determining
16 patent eligibility of computer-implemented methods.⁵ Following *Alice*, the Federal
17 Circuit in *buySAFE, Inc. v. Google, Inc.*, struck down a patented method for offering
18 a “transaction performance guaranty service.” 765 F.3d 1350, 1354 (Fed. Cir 2014).
19 The method was not even “arguably inventive” based on its use of computers to
20 receive and send information over a network. *Id.*

21 Subsequently, in *Ultramercial v. Hulu*, the Federal Circuit held that the
22 “invocation of the Internet” adds no inventive concept to otherwise abstract claims.

23 ⁵ Indeed, “in the USPTO’s view, *Alice*’s embrace of the *Mayo* framework for
24 abstract idea cases was such a significant change or clarification that it has
25 withdrawn issued notices of allowance—that is, stopped patents that had made it all
26 the way through examination and were about to issue—‘due to the presence of at
27 least one claim having an abstract idea and no more than a generic computer to
28 perform generic computer functions.’” *McRO*, 2014 WL 4749601, at *5 n.7
(internal citation omitted).

1 2014 U.S. App. LEXIS 21633 at *15. The Federal Circuit also rejected the
2 argument that “abstract ideas remain patent-eligible under § 101 as long as they are
3 new ideas, not previously well known, and not routine activity.” *Id.* at *8.
4 Ultramercial’s patent claimed a new, eleven-step method of distributing copyrighted
5 content over the Internet. These steps included things that were never possible
6 before the Internet, including asking a consumer to view a sponsor message,
7 presenting a query to the consumer after an interactive message, recording the
8 transaction to an activity log, and receiving payment from the message sponsor. *See*
9 *id.* at *4-*5. Despite this novel combination of elements, the Federal Circuit agreed
10 that the claims were “directed to the abstract idea of offering free media in exchange
11 for watching advertisements and that the mere implementation of that idea on a
12 computer does not change that fact.” *Id.* at *4. The court thus affirmed the
13 dismissal order by the trial court at the motion-to-dismiss stage. *Id.*⁶ The claims
14 were invalid because “each of [their] eleven steps ... merely instruct[ed] the
15 practitioner to implement the abstract idea with ‘routine, conventional activit[ies],’
16 which is insufficient to transform the patent-ineligible abstract idea into patent-
17 eligible subject matter.” *Id.* (citing *Mayo*, 132 S.Ct. at 1298).

18 Following *Ultramercial*, the Federal Circuit found that claims of an Internet-
19 related patent “clear[ed] the § 101 hurdle.” *DDR Holdings, LLC v. Hotels.com, LP*,
20 2014 U.S. App. LEXIS 22902, *18 (Fed. Cir. December 5, 2014). Unlike
21 Essociate’s patent claims, the claimed invention in *DDR* did not make conventional
22 use of the Internet. *Id.* at *31. To the contrary, the invention in *DDR* was unusual
23 in that it “overrides the routine and conventional sequence of events ordinarily
24 triggered by the click of a hyperlink.” *Id.* That is, when a visitor clicked on a link
25

26 ⁶ The Federal Circuit had twice before reversed the district court’s dismissal order,
27 but both of these decisions were vacated by the Supreme Court in light the Supreme
28 Court’s own decisions in *Mayo* and *Alice*. *Ultramercial*, 2014 U.S. App. LEXIS
2166 at *5-*6.

1 for another website he wanted to visit, DDR’s invention would prevent him from
2 leaving the host and instead create a “composite website” that had the “look and
3 feel” of the host web page with content from the website the visitor really wished to
4 visit. *DDR*, 2014 U.S. App. LEXIS 22902 at *3-*4. The claim survived Section
5 101 scrutiny because the inventors did not make “routine or conventional use of the
6 Internet” but actually created a new type of webpage preventing the computer
7 network from “operating in its normal, expected manner.” *Id.* Moreover, the court
8 explained, the claims were unlike those at issue in recent cases such as *Alice*
9 because they did “not merely recite the performance of some business practice
10 known from the pre-Internet world along with the requirement to perform it on the
11 Internet.” *Id.* at *26. Instead, the claimed solution of creating a new type of
12 webpage to keep visitors from leaving a host was “necessarily rooted in computer
13 technology in order to overcome a problem specifically arising in the realm of
14 computer networks.” *Id.* Even so, the court cautioned, “not all claims purporting to
15 address Internet-centric challenges are eligible for patenting.” *Id.* at *29-*30.⁷

16 Most recently, the Federal Circuit affirmed judgment on the pleadings of
17 patent ineligibility of hundreds of patent claims directed to ATM technology used
18 by ATMs to read checks. *Content Extraction & Transmission LLC v. Wells Fargo*
19 *Bank, N.A.*, 2014 U.S. App. LEXIS 24258 (Fed. Cir. Dec. 23, 2014). In *Wells*
20 *Fargo*, the Federal Circuit found the claims were directed to “the abstract idea of 1)
21 collecting data, 2) recognizing certain data within the collected data set, and 3)
22 storing that recognized data in a memory.” *Id.* at *7. The patentee argued that its
23 claims were not drawn to an abstract idea because they required use of a scanner,
24 and human minds are unable to recognize streams of bits output by a scanner. *Id.* at
25

26 ⁷ Although DDR’s claimed invention prevented hyperlinks from operating
27 conventionally—rather than rely on their conventional operation—the panel was
28 still unable to issue its decision unanimously. *DDR*, 2014 U.S. App. LEXIS 22902,
*43 (Mayer, dissenting).

1 *7-*8. The court rejected this argument, noting that the claims in *Alice* also
2 required a computer that processed streams of bits, but nonetheless were found
3 abstract. *Id.* *8 (citing *Alice*, 134 S. Ct. at 2358). As to the second step, though the
4 claims—including many dependent claims—recited details of implementing the
5 abstract idea using optical character recognition technology, this technology was
6 well-known at the time of the invention and did not transform the claim into a
7 patent-eligible application of the abstract idea. *Id.* at *10-*11.

8 In this case, as explained below, Essociate used computers, including the
9 conventional functions of the Internet, to carry out an abstract idea—that merchants
10 could receive and track referrals from sources beyond their own. Its claims amount
11 to a drafting effort to monopolize that abstract idea by describing conventional
12 functions.

13 **C. The Essociate Patent Is Directed To Ineligible Subject Matter**

14 **1. *Alice* Step 1: The claims of the Essociate Patent are directed to an**
15 **abstract idea.**

16 As explained above, under *Alice*, the court must first determine whether the
17 claims at issue are directed to a patent-ineligible concept, including an abstract idea.
18 *Alice*, 134 S.Ct. at 2355. In making this determination, the Supreme Court and
19 Federal Circuit are as interested in the purpose of the claimed invention as in the
20 individual elements of the claims. In *Bilski*, the abstract idea was hedging
21 investment risk between commodity providers and market participants. *In re Bilski*,
22 130 S.Ct. 3218, 3223-24 (2010). In *Alice*, the abstract idea was intermediating
23 settlements between two parties. *Alice*, 134 S.Ct. at 2356. In *buySAFE*, the abstract
24 idea was guaranteeing contract performance. *buySAFE*, 765 F.3d at 1354-55. In
25 *Ultramercial*, the abstract idea was requiring a viewer to watch advertisements
26 before delivering content. 2014 U.S. App. LEXIS 21633, *11-*12. And in *Wells*
27 *Fargo*, the abstract idea was (1) collecting data, (2) recognizing certain data within
28

1 the collected data set, and (3) storing that recognized data in a memory. 2014 U.S.
2 App. LEXIS 24258 at *7.

3 Here, the claims are directed to receiving and tracking referrals from referral
4 sources. Receiving and tracking referrals, like hedging risk, intermediating
5 settlements, guaranteeing performance, showing advertisements before delivering
6 content, and reviewing documents to recognize and record relevant data, is an
7 essentially old technique for ordering private obligations or relations—and is
8 likewise ineligible to be patented. It has always been common practice for
9 merchants to receive and track referrals from people who hadn't signed up as part of
10 a formal referral network. Physicians getting patients from "referring physician[s]"
11 have long been "track[ing] revenue by referral source...to show appreciation for a
12 significant increase in referrals..."⁸ Accountants have been advised for years to
13 track their referral sources and thank them.⁹ Lawyers have for years been receiving
14 and tracking referrals from other lawyers outside their formal referral networks,
15 including to give them referral fees when permitted.¹⁰ So have real estate agents¹¹
16 and recruiting firms.¹²

19 ⁸ Ex. 3 (Wilson, J., Jan. 1998, ACP Internist, "How to increase your referrals—and
20 your revenue," <http://www.acpinternist.org/archives/1998/01/increfer.htm>). The
21 Court can take judicial notice of background facts supported by publicly available
22 exhibits such as this Exhibit. *See also* Clickbooth's Request For Judicial Notice,
filed concurrently herewith.

23 ⁹ Ex. 4 (Nixon, R., May 30, 2000, AccountingWEB, "Maximizing Referral Systems
24 In Practice," [http://www.accountingweb.com/topic/maximizing-referral-systems-
25 practice](http://www.accountingweb.com/topic/maximizing-referral-systems-practice) ("Once you have a new potential client presented to you, always ask where
they heard about you.")).

26 ¹⁰ *Ravich, Koster, Tobin, Oleckna, Reitman & Greenstein, P.C. v. Gourvitz*, 287 N.J.
27 Super. 533, 671 A.2d 613 (1996) ("Tobin contacted defendant, then a member of the
28 firm Gourvitz & Braun, to discuss the referral. Gourvitz represented that a 25%
referral fee would be paid to plaintiff as the money was received from the client.").

1 Indeed, receiving and tracking referrals was common even on the Internet
2 when Essociate filed its patent. Standalone systems like Amazon.com received
3 referrals from affiliates they screened themselves, while merchants in “hub” affiliate
4 systems outsourced the work of signing up affiliates to their “hub” systems. *See*
5 *supra* at 3-5. Essociate simply extended this concept by suggesting that these
6 companies should configure their existing systems to also receive outside referrals.

7 As the Federal Circuit held in *Ultramercial*, claims are directed to an
8 abstract idea if “the concept embodied by the majority of the limitations”
9 describe that idea. *Ultramercial*, 2014 U.S. Lexis 21633 at *11. Here, the
10 concept embodied by all of the limitations of claim 1 describe the abstract
11 idea of receiving and tracking referrals. The claims apply that idea to a
12 particular technological environment— by “configuring an existing affiliate
13 network” to assign a webmaster identifier, receiving a user request for a
14 merchant affiliate system URL, correlating the identifier, and generating a
15 URL for the merchant’s affiliate system. But applying the abstract idea to
16 this preexisting technological field of affiliate systems does not change the
17 analysis. As the Supreme Court held in *Mayo*, “the prohibition against
18 patenting abstract ideas cannot be circumvented by attempting to limit the use

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20
21 ¹¹ *See, e.g.*, Ex. 5 (San Francisco Police Officers’ Association, Oct. 1991 (“We pay
22 referral fees upon close of escrow for recommending our services.”)
23 (http://www.sfpoa.org/journal_archives/Vol_23_No_10_October_1991.pdf)); Ex. 6
24 (“Affinity and Referral/Relocation Relationships”) (“The practice of charging real
25 estate referral fees began nearly 30 years ago among brokers who wished to send
26 and receive prospective homebuyers and sellers.”)
27 ([http://www.realtor.org/infoindx.nsf/f82521860908aedb852563fb007633d1/75de0090ea77cb08862567670061e54a/\\$FILE/Affinrpt.htm](http://www.realtor.org/infoindx.nsf/f82521860908aedb852563fb007633d1/75de0090ea77cb08862567670061e54a/$FILE/Affinrpt.htm)).

28 ¹² *Mary Dolan & Assocs., Inc. v. San Benito Med. Assocs.*, C0-97-1075, 1998 Minn.
App. LEXIS 103, *7 (1998) (“San Benito was obliged to keep track of which
recruiting firm had first referred the candidate and which firm was properly entitled
to a referral fee.”).

1 of the formula to a particular technological environment.” *Mayo*, 133 S. Ct.
2 at 1297 (citing *Bilski*, 130 S.Ct. 3218, 3255).

3 Dependent claim 10 further applies this method to referrals using one type of
4 advertisement on the Internet—a banner ad. Ex. 1 at col. 22:44-46. But Essociate
5 did not invent the banner ad or the tracking of referrals therefrom. The Background
6 section of the Essociate Patent discloses that most merchants already used some
7 form of affiliate system to track traffic and compensate webmasters for referrals that
8 are often sent by webmasters using links “in the form of a Merchant's advertisement,
9 such as a banner ad.” Ex. 1 at col. 2:8-18. So tracking referrals from banner ads is
10 just another limitation on the technological environment in which the abstract idea is
11 implemented. And narrowing the technological environment does not transform an
12 abstract idea into a patentable invention. *Mayo*, 133 S. Ct. at 1297. Therefore,
13 claim 10 is also directed to an abstract idea under step 1 of *Alice*.

14 **2. *Alice* Step 2: The claims of the Essociate Patent append only**
15 **conventional computer technology to the abstract idea.**

16 The second step of the *Alice* test is a “search for an ‘inventive concept’.”
17 *Alice*, 134 S.Ct. at 2355. To satisfy this test, “[a] claim that recites an abstract idea
18 must include additional features to ensure that the claim is more than a drafting
19 effort designed to monopolize the abstract idea.” *Alice*, 134 S.Ct. at 2356. *See also*
20 *Mayo*, 132 S.Ct. at 1294 (finding method not patentable, even when a series of
21 “conventional,” “routine,” or “well-understood” limitations were appended to an
22 otherwise unpatentable principle). As noted above, adding “a computer into the
23 claims does not alter the analysis ...” *Alice*, 134 S.Ct. at 2357; *see also*
24 *Dealertrack, Inc. v. Huber*, 674 F.3d 1315, 1333 (Fed. Cir. 2012).

25 Instead, the question here, as in *Alice*, is whether the claims do more than
26 simply use “conventional” and “basic functions” of a generic computer to
27 implement the abstract idea. *Alice*, 134 S.Ct. at 2359. As explained below, they do
28 not.

1 Claim 1, and its dependent claim 10, are the focus of the analysis below,
2 but the analysis for counterpart claims 15, 23, 28 and 36 is legally indistinguishable.

3 **a. Claim 1 preamble: providing Virtual Affiliates to an affiliate**
4 **system**

5 The preamble of claim 1 recites “A method for providing Virtual Affiliates to
6 an existing target affiliate system ...” As explained above, “the prohibition against
7 patenting abstract ideas cannot be circumvented by attempting to limit the use of the
8 formula to a particular technological environment.” *Mayo*, 133 S. Ct. at 1297
9 (citing *Bilski*, 130 S.Ct. 3218, 3255). Here, Essociate has applied the abstract idea
10 of receiving and tracking referrals from referral sources (the virtual affiliates) to the
11 technological environment of an “existing target affiliate system.” That does not
12 change the nature of this claim. *See also Bilski*, 561 U.S. at 610, 611.

13 **b. Claim 1, step 1: configuring a system to receive referrals**

14 In *Alice*, the claims were invalid because they “simply instruct[ed] the
15 practitioner to implement the abstract idea of intermediated settlement on a generic
16 computer.” *Alice*, 134 S.Ct. at 2359. The function performed by the computer at
17 each step of the process was “purely conventional” and “amount[ed] to electronic
18 record-keeping—one of the most basic functions of a computer.” *Id.*

19 The claims here are similarly invalid because they instruct a practitioner to
20 implement the abstract idea of receiving and tracking referrals on a generic
21 computer, using it for a conventional electronic record-keeping function. In
22 particular, step 1 of claim 1 is

23 “configuring an existing target affiliate system to receive referrals
24 from a first plurality of Webmasters in an affiliate pool of source
25 Webmasters such that the target Merchant affiliate system recognizes
26 a transaction as originating from a source Webmaster in an affiliate
pooling system.”

27 Ex. 1, col. 21:47-53.
28

1 The specification explains that “configuring” a system includes laying out
2 “guidelines for integration of the Virtual affiliate system and the existing Merchant
3 affiliate system ... such that subsequent operations ... between the systems can be
4 executed.” Ex. 1, col. 8:34-41. These guidelines need to be laid out by a person
5 who will be “choosing the mode of transfer” of data from among “e-mail” or
6 “manual entry of the information” (*id.*, col. 9:1-6) as well as the “terms of
7 compensation for referring Webmasters.” *Id.*, col. 9:21-30. *See also id.*, col. 16:54-
8 55 (“The parties also agree on a set commission structure for transactions.”).

9 Here, instructing practitioners to “configure” an existing computerized system
10 “to receive referrals” does not transform the nature of the claims any more than
11 instructing practitioners in *Alice* to implement the abstract idea of intermediated
12 settlements on a computer, including by creating certain “shadow” accounts. *Alice*,
13 134 S.Ct. at 2359. In both cases, the patentee is merely using the computer to create
14 accounts for “electronic recordkeeping,” which does not transform the nature of the
15 claim. *Id.*

16 Moreover, applying a patent-ineligible idea to a “preexisting audience” does
17 not transform the nature of a claim. *Mayo*, 133 S. Ct. at 1297. Here, under *Mayo*,
18 telling programmers to “configure” an “existing” affiliate system to receive referrals
19 from a new source is nothing more than a suggestion that they should “apply” the
20 patent-ineligible idea to a “particular technological environment.” *Id.* For that
21 reason as well, it is not “significantly more than a patent upon the [ineligible
22 concept] itself.” *Alice*, 134 S.Ct. at 2355 (*quoting Mayo*, 132 S.Ct. 1289).

23 **c. Claim 1, step 1a: assigning identifiers to Webmasters**

24 Claim 1 breaks down the conventional record-keeping function into several
25 steps. Step 1a requires “assigning a source Webmaster unique identifier for each of
26 said first plurality of Webmasters each operating at least one web site.”

27 Assigning an ID to a webmaster is part of conventional “electronic record-
28 keeping” on the Internet. The Associate Patent itself admits that conventional

1 affiliate systems already had a “back-end tracking mechanism” that kept “track of
2 transactions and credit[ed] affiliates,” meaning webmasters. *Id.*, col. 2:35-36.¹³
3 Indeed, it would be difficult to keep track of webmasters on the Internet without
4 assigning them unique IDs. Unique IDs are the most basic identifier available to
5 keep track of individuals accessing a network.

6 Thus, assigning unique IDs for electronic record-keeping does not transform
7 the nature of this claim under *Alice*.

8 **d. Claim 1, step 2: receiving a request for a merchant system**

9 Step 2 of claim 1 uses the Internet for what it has always been used for,
10 communication between two or more parties. It recites “receiving a user request for
11 a target Merchant affiliate system URL from a web site operated by a particular
12 referring Webmaster of the first plurality of Webmasters wherein the user request
13 includes the source Webmaster unique identifier for the particular referring
14 Webmaster, and wherein the target Merchant affiliate system includes a unique
15 identification system for its own affiliated Webmasters.” Ex. 1, col. 21:58-65.
16 Boiling this down, this step receives a request for a merchant affiliate system URL
17 that identifies the website that referred the user.

18 As Essociate’s patent admits, prior Internet affiliate systems were receiving
19 user requests for merchant URLs (Uniform Resource Locators) displaying
20 advertisements on a web page. *Id.*, col. 1:47-52 (“A Merchant therefore must make
21 known, or advertise, its URL in order to reach those users on the Internet that are
22 interested in the goods and/or services offered. Hypertext links ... provide the user
23 with a path or entry point to the Merchant's URL.”). In addition, as explained in
24 _____

25 ¹³ In fact, the Court can take judicial notice of the Amazon.com prior art patent
26 made of record on the face of the Essociate Patent that describes how “referral
27 links” of the associate are “transmitted to the Merchant website in response to the
28 selection of the link” and that “this information includes a unique identifier of the
associate (assigned upon enrollment)...” Ex. 2 (U.S. Patent No. 6,029,141), col.
7:21-30.

1 connection with the last step, assigning unique identifiers for particular webmasters
2 to be included in the URL was also conventional in running affiliate systems.

3 Similarly, Essociate did not invent “identification systems” for merchant
4 affiliates for electronic book-keeping purposes. Conventional merchant affiliate
5 systems already had identification systems for their own affiliated webmasters. *Id.*,
6 col. 2:34-36 (“Generally, the Merchant’s affiliate system 100 includes the
7 Merchant’s back-end tracking mechanism, which keeps track of transactions and
8 credits affiliates”).

9 This step, therefore, also does not change the nature of this claim under *Alice*
10 step 2. Essociate uses the Internet to communicate a request for a merchant, and
11 uses webmaster and merchant identifiers for “electronic record-keeping” purposes.
12 This is no different in principle to the creation of “shadow” accounts for the
13 transactions tracked in *Alice*. *Alice*, 134 S.Ct. at 2359. In both cases, the systems
14 are keeping track of a transaction by using computers for their basic functions.

15 **e. Claim 1, step 3: correlating the received webmaster identifier**

16 The use of computers for their conventional record-keeping function
17 continues in step 3 of claim 1, which recites “correlating the received source
18 Webmaster unique identifier to a target Webmaster unique identifier corresponding
19 to the unique identification system of the requested Merchant affiliate system.”

20 To allow a handoff of referrals to the tracking system of the target webmaster
21 system, Essociate cross-referenced or “correlated” the unique IDs from its own
22 referral sources with those of the target affiliate system. *See* Ex. 1, col. 11, lines 8-
23 12. Using a computer to cross-reference two related sets of IDs “amounts to
24 electronic recordkeeping—one of the most basic functions of a computer.” *Alice*,
25 134 S.Ct. at 2359. The Internet was in fact premised on correlating identifiers, for
26 example, a webmaster domain name entered into a web browser is correlated with a
27 numerical IP address for that webmaster. The concept of correlating ID numbers is
28 not only conventional on the Internet, but has always been part of record-keeping

1 involving two or more identification systems. For example, legal code books
2 correlate old and new statute numbers to help lawyers keep track of changes in the
3 law. And healthcare systems have long strived to “correlate and cross-reference
4 patient identifiers such as name, birthday and Social Security number.”¹⁴

5 All the Essociate Patent did was to use a “lookup table that cross references
6 the two codes.” Ex. 1, col. 11:9-12. This is a mundane recordkeeping task, far more
7 conventional than the task in *Alice* of carrying out multi-million-dollar banking
8 transactions by creating “‘shadow’ credits and debit records (*i.e.*, account ledgers)
9 that mirror the balances in the parties’ real-world accounts,” updating them in real
10 time as transactions are entered, and issuing simultaneous instructions to relevant
11 financial institutions. *Alice*, 134 S.Ct. at 2352, 2359.

12 Thus, using a computer for this basic electronic bookkeeping function of
13 correlating between two identification systems is conventional and, under *Alice*, it
14 does not permit Essociate to monopolize the idea of receiving and tracking referrals
15 for existing affiliate systems.

16 **f. Claim 1, step 4: generating a URL for the merchant**

17 The final step of claim 1 again uses the Internet for its conventional electronic
18 communication and record-keeping function. Step 4 recites:

19 “generating a URL for the requested Merchant affiliate system,
20 wherein the URL includes the correlated target Webmaster Merchant
21 unique identifier, whereby the URL can be utilized to access the
22 requested Merchant affiliate system, and further provide identification
of the source Webmaster for requisite tracking.”

23 Generating URLs for merchant affiliate systems so they could track
24 webmasters was the way existing affiliate systems worked when Essociate applied

25
26 ¹⁴ Ex. 7 (<http://www.cchfreedom.org/cchf.php/274>) (“Until now, there has been no
27 common indexing to correlate and cross-reference patient identifiers such as name,
28 birthday and Social Security number while accurately and automatically matching
patient records. This MPI will provide the link for these records.”).

1 for a patent. Ex. 1, col. 1:38-42 (“The movement from one URL to another ... is
2 particularly well-suited to the exchange of information, goods, and services between
3 buyers (‘users’) and sellers (‘Merchants’).”). The Essociate Patent admits that
4 conventional affiliate systems had a “back-end tracking mechanism” that kept “track
5 of transactions and credit[ed] affiliates.” (*Id.*, col. 2:35-36.) That the URL can be
6 used to identify the webmaster was also conventional, including in the Amazon.com
7 prior art system cited on the face of the Essociate Patent. *See* Ex. 1, Fig. 4, col.
8 11:1-16 (“The unique store ID 406 represents the information created and stored in
9 the associate’s database during the associate enrollment process...”).

10 In short, generating a URL to carry out its conventional record-keeping
11 function on the Internet also does not transform the nature of the claim, whether
12 viewed by itself or as an ordered combination with the other conventional uses of
13 the Internet recited in the claim, *i.e.*, configuring the system to receive referrals,
14 assigning webmaster IDs, receiving a request for a merchant, and correlating the ID
15 to the one used by the merchant.

16 **g. Claim 10: banner ads**

17 As explained earlier, claim 10 recites “A method as recited in claim 1,
18 wherein at least one of the plurality of Webmasters operates a web site having a
19 banner ad for a related Merchant affiliate system.” This is conventional Internet
20 activity, as the Essociate Patent admits. Webmasters operating web sites having
21 links to other websites was a conventional part of the Internet. Ex. 1 col. 2:10-13.
22 “These links are often in the form of a Merchant's advertisement, such as a banner
23 ad.” *Id.*, col. 2:13-14.

24 *****

25 As the Court held in *Alice*, “a claim that recites an abstract idea must include
26 additional features to ensure that the claim is more than a drafting effort designed to
27 monopolize the abstract idea.” *Alice*, 134 S.Ct. at 2347. Here, the necessary
28 additional features are missing because, like the patentee in *Alice*, Essociate used

1 conventional functions to carry out the abstract idea. That is true whether the
2 functions are considered “separately” or “as an ordered combination” of steps.
3 *Alice*, 134 S.Ct. at 2359. When viewed as a whole, the method simply instructs that
4 the idea should be applied using the Internet and computers for their basic electronic
5 record-keeping functions, that is, by: “configuring” an existing affiliate system to
6 receive referrals, “assigning” webmaster identifiers, “receiving” a user request that
7 included the identifier, correlating it with the identifier used by the merchant
8 affiliate system, and generating a URL for the merchant system that included the
9 identifier for tracking purposes. This does not add “significantly more” to the
10 abstract idea, which is simply limited to the technological field of existing affiliate
11 systems. *Alice*, 134 S.Ct. 2355.

12 **3. The claims also fail under the “machine-or-transformation” test**
13 **for patent eligibility**

14 In addition to failing the “inventive concept” test in *Alice*, the patent claims
15 fail to satisfy the “machine-or-transformation” test for being patent eligible. The
16 Federal Circuit has held that the “machine-or-transformation test,” while not the sole
17 test for determining patent eligibility, can provide a useful clue in the second step of
18 the *Alice* framework. *Ultramercial*, 2014 U.S. App. LEXIS 21633, at *15. A
19 claimed process can be patent eligible under Section 101 if: (1) it is tied to a
20 particular machine or apparatus, or (2) it transforms a particular article into a
21 different state or thing. *In re Bilksi*, 545 F.3d at 954 (en banc), *aff’d on other*
22 *grounds, Bilski*, 561 U.S. 593.

23 Here, neither prong of the machine-or-transformation test is met. First, the
24 claims here “are not tied to any particular novel machine or apparatus, only a
25 general purpose computer.” *Ultramercial*, 2014 U.S. App. LEXIS 21633, at *15.

26 Second, the claims do not satisfy the transformation prong of the test. In
27 *Ultramercial*, the method involved “a transaction involving the grant of permission
28 and viewing of an advertisement by the consumer, the grant of access by the content

1 provider, and the exchange of money between the sponsor and the content
2 provider.” *Id.* *16. As the court noted, “manipulations of public or private legal
3 obligations or relationships, business risks, or other such abstractions cannot meet
4 the test because they are not physical objects or substances, and they are not
5 representative of any physical objects or substances. *Id.* (citing *Bilski*, 545 F.3d at
6 963). The fact that the transaction claimed in *Ultramercial* did not transform any
7 article or thing into a different thing was “a further reason” why the claim did not
8 contain anything more than conventional steps relating to using advertising as a
9 currency. 2014 U.S. App. LEXIS 21633, at *16. Here, the claimed method of the
10 Essociate Patent does not transform anything into another thing. It merely keeps
11 track of who should be credited for a referral, which is a manipulation of “private
12 legal obligations” and not representative of any physical object. As in *Ultramercial*,
13 the claims merely describe “an abstraction—an idea, having no particular concrete
14 or tangible form.” *Ultramercial*, 2014 WL 5904902, at *4. Claims 1, 10, 15, 23, 28
15 and 36, are therefore invalid for lack of patent-eligible subject matter under 35 U.S.C.
16 § 101.

17 **4. Claims 15, 23, 28 and 36 are likewise ineligible because they merely**
18 **recast Essociate’s method claims as computer-media or system**
19 **claims**

20 In *Alice*, the Supreme Court held that Alice’s “claims to a computer system
21 and a computer-readable medium fail for substantially the same reasons” as the
22 method claims. *Alice*, 134 S. Ct. at 2360. Any claims that merely “recite a handful
23 of generic computer components configured to implement the same [ineligible]
24 idea” are likewise ineligible. *Id.* That is the case here. The “program embodied on
25 a computer readable media” recited in claims 15 and 23 is identical in substance to
26 the method steps recited in claims 1 and 10. The recasting of a “method” as a
27 program on a “computer readable media” adds nothing to the eligibility analysis.
28

1 *CyberSource Corp. v. Retail Decisions, Inc.*, 654 F.3d 1366, 1375 (Fed. Cir. 2011);
2 *buySAFE*, 765 F.3d at 1354.

3 Specifically, the preamble of claim 15 recites “[a] computer program
4 embodied on a computer readable medium for providing Virtual Affiliates to an
5 existing affiliate system, the computer program code comprising....” Ex. 1, col.
6 22:65-68. It then goes onto recite essentially the same steps as claim 1, where each
7 step is preceded by the words “a code segment for.” That is, the claims recite “a
8 code segment for configuring an existing affiliate system,” “a code segment for
9 assigning a unique identifier,” “a code segment for receiving a user request,” “a
10 code segment for correlating the received source Webmaster identifier,” and “a code
11 segment for generating a URL for the requested Merchant affiliate system.” Ex. 1,
12 col. 23:1-26. Instructions to a computer are always performed by software, *i.e.*, a
13 sequence of “code segments,” so, as the courts have recognized, appending these
14 words to a method claim does not change the analysis for patent eligibility.
15 *CyberSource*, 654 F.3d at 1375; *buySAFE*, 765 F.3d at 1354. Claim 23 is identical
16 to claim 10. It merely further limits the field of use of the abstract idea to
17 webmasters that use banner ads.

18 The “system” claims likewise add nothing. Claim 28 and 36 merely add
19 “means for” performing the steps found in claims 1 and 10. *See* Ex. 1 (Essociate
20 Patent), certificate of correction, Oct. 12, 2004. But those “means”—limited to the
21 means described in the patent under 35 U.S.C. § 112, ¶ 6—are nothing beyond
22 “generic computer components configured to implement the same idea.” *Alice*, 134
23 S.Ct. at 2360. As such, they can add nothing to the eligibility analysis, lest patent
24 eligibility “depend simply on the draftsman’s art.” *Id.*

25 Specifically, claim 28 recites “means for configuring an existing system,”
26 “means for receiving a user request,” “means for correlating the received unique
27 identifier,” and “means for “generating a URL.” Essociate does not disclose
28 anything in the specification beyond generic computer components to carry out

1 these functions. It therefore has failed to add “significantly more” to the claims than
2 the abstract idea of receiving and tracking referrals for existing affiliate systems.
3 *Alice*, 134 S.Ct. at 2360.

4 **5. Nothing Essociate has proffered supports the patent eligibility of its**
5 **claims.**

6 Essociate has argued in this litigation against Clickbooth that its patent claims
7 are “far from abstract” because the patent “involves displaying materials to a user,
8 user interaction with a user interface, communications between numerous computer
9 servers, and information delivered to a remote user’s computer in a format that
10 permits display compatible with the user’s hardware.” (Dkt. No. 20 at 5:26-6:2.) In
11 other words, the patent involves a computer, a web browser, and the Internet. There
12 is no patentable subject matter, just an abstract idea applied to standard computers.
13 As the Supreme Court has now squarely held, “merely requiring generic computer
14 implementation fails to transform [an] abstract idea into a patent-eligible invention.”
15 *Alice*, 134 S.Ct. at 2352. Essociate’s arguments therefore further support granting
16 judgment on the pleadings.

17 **IV. CONCLUSION**

18 For the foregoing reasons, the asserted claims of the Essociate Patent are
19 directed to patent-ineligible subject matter under 35 U.S.C. § 101. Accordingly,
20 the Court should find all asserted claims of the patent invalid and grant judgment on
21 the pleadings in Clickbooth’s favor.

22 Dated: January 5, 2015

23 Hinch Newman LLP

24
25 Bv _____ /s/ *Richard B. Newman*
26 Richard B. Newman

27 Attorneys for Defendant and Counter-Claimant
28 CLICKBOOTH.COM, LLC