IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
TYLER DIVISION

ADVANCEME, INC.	§	
	§	
Plaintiff,	§	
	§	
v.	§	
	§	**CAUSE NO. 6:05-CV-424 (LED)-(JDL)**
RAPIDPAY, LLC, BUSINESS CAPITAL	§	
CORPORATION, FIRST FUNDS LLC,	§	**REQUEST FOR ORAL HEARING**
MERCHANT MONEY TREE, INC.,	§	
REACH FINANCIAL, LLC and	§	
FAST TRANSACT, INC. d/b/a	§	
SIMPLE CASH,	§	
	§	
Defendants.	§	

DEFENDANTS' REPLY BRIEF IN SUPPORT OF THEIR MOTION FOR PARTIAL SUMMARY JUDGMENT OF PATENT INVALIDITY

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I. INTRODUCTION

On March 12th, Defendants filed a Motion for Partial Summary Judgment of Patent Invalidity (hereinafter "Defendants' Motion") (Docket No. 215). On April 2, Plaintiff filed its Opposition brief (hereinafter "Plaintiff's Opposition") (Docket No. 226). Although Plaintiff's Opposition attempts to dispute virtually every fact asserted by Defendants,[1] Plaintiff's Opposition creates no genuine issue of material fact precluding summary judgment.

In response to Defendants' Motion, Plaintiff makes numerous legal and claim construction arguments, but fails to identify evidence in the record that creates a genuine issue of material fact. As described herein, Plaintiff urges the Court to revise its claim construction ruling in this case and either make improbable inferences from the evidence or simply disregard the evidence identified by Defendants.[2] As this Court has made clear:

> If the moving party has made an initial showing that there is no evidence to support the nonmoving party's case, the party opposing the motion must assert competent summary judgment evidence of the existence of a genuine fact issue. <u>Mere conclusory allegations, unsubstantiated assertions, improbable inferences, and unsupported speculation are not competent summary judgment evidence</u>. The party opposing summary judgment is required to identify evidence in the record and articulate the manner in which that evidence supports his claim.

Sparks v. Lowe's Home Centers, Inc., 341 F. Supp. 2d 671, 673 (E.D. Tex. 2004) (internal citations omitted) (emphasis added). Despite Plaintiff's best efforts, it has been unable to identify competent summary judgment evidence in the record that creates a genuine issue of material fact.

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[1] *See* Defendants' Reply Regarding Their Statement of Undisputed Facts, attached hereto as Ex. Y.

[2] Plaintiff also argues that Defendants motion cannot possibly be granted absent supporting expert testimony. (Docket No. 226, p. 15.) Plaintiff's argument is without merit, as the authority it cites does not deal with a motion for invalidity based on prior public use, knowledge, or invention, like the instant motion. As this Court and Plaintiff are likely aware, expert testimony is wholly unnecessary when undisputed evidence establishes invalidity of patent claims.

As detailed below, each of Plaintiff's arguments lacks merit, thus the Court should grant Defendants' Motion.

II. ARGUMENT

A. The Litle & Co. Postage Advance Program Practiced Every Element of Claim 1

Plaintiff's Opposition brief attempts to make two arguments as to why the Litle & Co. Postage Advance program did not practice every element of claim 1. First, Plaintiff argues that claim 1 requires that the merchant processor be a different entity than the computerized payment receiver. Next, Plaintiff argues that Litle & Co. alone was the merchant processor, and because Litle & Co.'s sponsoring bank forwarded funds to Litle & Co.'s account, claim 1's step of forwarding from a merchant processor to a payment receiver is not satisfied.[3] Each of these arguments is addressed in turn below.

1. Claim 1 Does Not Require That The Merchant Processor Be a Different Entity Than The Computerized Payment Receiver

Plaintiff spends a considerable amount of its opposition brief arguing that claim 1 requires that the recited "merchant processor" be a different entity than the "computerized payment receiver." (Docket No. 226, p. 27) ("Using ordinary English, when a person is required to "forward" a payment to someone else, it is immediately understood that the forwarding cannot be to the party doing the forwarding.") (*See also id.*, pp. 4-6, 27-28.) Plaintiff's argument is disingenuous and <u>contradicts its own prior representations to this Court</u>.

[3] Plaintiff also attempts to argue that Defendants have presented no evidence that the "receiving and applying" step of claim 1 is practiced. Plaintiff's argument cannot stand. The documents make clear that upon receipt of payment, funds were applied to reduce the obligation. (Docket No. 215, Exs. C and D (postage advance agreements).) The testimony additionally shows that when payment was received, it was applied to reduce the obligation. (Litle Tr. 98:10-23; Bouchard Tr. 111:4-11). It is simply illogical to speculate—especially when uncontroverted documents and testimony reveal precisely the opposite—that a capital provider would not apply funds it receives to reduce the obligation of the party whose funds it receives when that is the only way in which the capital provider is repaid.

Plaintiff and Defendants agreed that the construction of "computerized payment receiver" should be "account or entity capable of receiving payments or credits electronically," which the Court adopted. *See* December 21, 2006 Memorandum Opinion and Order (Docket No. 182). This construction certainly does not preclude the possibility that the computerized payment receiver is the computerized merchant processor and/or a computerized merchant processor's account. Indeed, the parties agreed to the construction of "computerized payment receiver" because both parties recognized that <u>the '281 Specification explicitly provides for this possibility</u>. (Docket No. 215, Ex. A, '281 Patent, 1:35-37 ("The merchant processor may be . . . the same entity as the lender . . . ."), 5:21-25 ("The invention involves a merchant processor 300 designed to pay a portion of what would normally go to the merchant 20 to the lender 60 as repayment of at least a portion of the merchant's outstanding loan amount . . . .").) Plaintiff now attempts to argue that, even though the relevant terms ("computerized merchant processor" and "computerized payment receiver") have been properly construed, their constructions should now be changed so as to avoid invalidation of the patent claims.

In Plaintiff's Reply Claim Construction Brief, Plaintiff discussed the scope of claims 1 and 10 and stated:

> [T]he terms of claim 10 specifically limit the recited system to one where the forwarding of a portion of the payment is from the merchant processor to the third party. In contrast, claim 1 recites that the forwarding of the portion of the payment is to a "computerized payment receiver," which does not necessarily have to be a third party. It is the broader language of claim 1 to which the statements in the specification cited by Defendants are directed, not the narrower "third party" recited in claim 10.[4]
>
> The reason for the distinction between claim 1 and claim 10 is made clear in the specification. In one embodiment (set forth at length in the specification and in claim 10), the invention is performed by using a merchant processor to forward a

[4] The portion of the specification Plaintiff is referring to states "[t]he merchant processor may be . . . the same entity as the lender, or an entity affiliated in some way with the lender." (Docket No. 215, Ex. A, '281 patent, 1:35-38.) This portion of the specification also shows why Plaintiff's sudden reversal of positions should be rejected.

> portion of the payment to a separate third party entity. Claim 1, however is more broadly drafted to account for certain charge card systems (such as American Express) where the lender can be a large entity such as a financial institution where one division of the entity, acting separately as the "lender," can "forward a portion of the payment to another division of the same entity that acts as a "merchant processor."

(Docket Nos. 129 and 132, p. 8) (emphasis added).

Plaintiff again represented to the Court at the *Markman* hearing that the "computerized payment receiver" of claim 1 could be the same entity as the recited "merchant processor":

> The processor could be a lender or the third party that is owed the obligation under Claim 1, correct, but under Claim 10, in the specific steps that are required in Claim 10, it cannot be.

(Docket No. 140, 47:24 - 48:2) (emphasis added).

Plaintiff made its representations with respect to the scope of claim 1 so that it could advance its construction of the term "third party" in claim 10.[5] (Docket No. 140, 47:4 – 50:19.) Since Plaintiff was successful in advancing its construction of "third party," it is judicially estopped from now changing its mind with respect to the scope of "computerized payment receiver" in claim 1. *In re Food Fast Holdings, Ltd.* (E.D. Tex. Aug. 7, 2006) (Civil Action No. 6:04-cv-562 (Davis)). Accordingly, Plaintiff's argument that the "computerized payment receiver" of claim 1 can not be the same entity as the recited "merchant processor" should be rejected.

2. The Merchant Processor in the Litle & Co. Postage Advance Program Was a Combination of Entities and Was Not Solely Litle & Co.

Plaintiff also argues that Litle & Co. is the sole entity that acts as the merchant processor in the Litle & Co. prior art. (Docket No. 226, 11-13, 24-25.) Plaintiff even asserts that "[i]n reality, there is no such thing as a "processing entity" (*Id.*, p. 24), even though it had previously

[5] Plaintiff's proposed construction of Claim 10, which the Court adopted, precludes the computerized merchant processor from being the same entity as the third party; however, Plaintiff distinguished Claim 1 by acknowledging that Claim 1 is broader in scope and includes the possibility that the computerized merchant processor may be the same entity as the computerized payment receiver.

agreed that the construction of computerized merchant processor is "a computer-equipped entity or combination of entities that acquires or processes merchant transactions," which the Court adopted in its claim construction ruling. (Docket No. 182, Chart at 1.)

There can be no dispute that Litle & Co. did not act alone as the merchant processor. The Litle & Co. member agreement shows that Litle & Co., NPC and FNBL all took on some role in the processing of merchant transactions—and, indeed, all three entities were signatories to that agreement. (Docket No. 215, Ex. B, section 3(a)-(f).) A February 28, 1994 letter from Tim Litle to Museum Publications of America confirms that under the member agreement, each of these entities played some part in the processing of merchant transactions. (Ex. Z, February 28, 1992 letter from Litle & Co., NPC, and FNBL to Museum Publications of America (LI_00016) ("While NPC and FNBL have been a part of the processing system with Litle & co. all along, we are pleased that this involvement is being documented in the formal contractual agreement.").)

Deposition testimony from the relevant witnesses also supports the fact that Litle & Co. did not act alone as the merchant processor. For instance, Larry Bouchard testified that NPC would receive certain processing fees, on a per transaction basis, for the processing services that they performed. (Docket No. 215, Ex. M, 63:16-23, 80:24-82:14.) It would make no sense for NPC to receive processing fees if it in fact did no processing. In addition, Mr. Litle himself testified that NPC and FNBL were involved with the settlement of the merchant transactions. (Docket No. 215, Ex. L, 51:6-54:20, 131:9-132:6.)

Plaintiff cites to the deposition testimony of Mr. Litle as the only support for its argument that Litle & Co., alone, was the computerized merchant processor under the Court's claim construction.[6] (Docket No. 226, p. 11.) However, there is no evidence to indicate that Mr. Litle

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[6] Plaintiff also attempts to contort the deposition testimony of Larry Bouchard for the proposition that "[a]t all times, the funds being handled were Litle's own funds." (Docket No. 226, p. 12). Clearly, when read in context,

was testifying that Litle & Co., alone, was the computerized merchant processor within the meaning of the claims under the Court's claim construction. Indeed, at the time of Mr. Litle's deposition (September 6, 2006), the Court had not yet issued its claim construction ruling (issued December 21, 2006). Moreover, Mr. Litle's testimony does not contradict the undisputed *fact* that each of the parties—NPC, FNBL, and Litle & Co.—played a role in processing merchant transactions. Accordingly, there can be no dispute that it was the combination of NPC, FNBL, and Litle & Co. that operated as the computerized merchant processor within the meaning of the claims in the Litle & Co. prior art.[7]

3. The Litle & Co. Postage Advance Program Practiced Every Element of Claim 1

Because claim 1 does not require that the merchant processor be a separate entity from the computerized payment receiver, and because the merchant processor in the Litle & Co. postage advance program was the combination of NPC, FNBL and Litle & Co., there is no question that the Litle & Co. postage advance program practiced every element of claim 1.

Moreover, even if the Court accepts Plaintiff's argument that Litle & Co. alone was the merchant processor, and that FNBL was merely Litle & Co.'s agent (though such a characterization is contrary to the evidence), the postage advance program still practiced every element of claim 1. Claim 1 requires that the merchant processor forward a portion of the payment to a computerized payment receiver. It is undisputed that FNBL would not forward any

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Mr. Bouchard was referring to the cash advance provided by Litle & Co., and not any of the funds related to the processed transactions.

[7] Plaintiff also argues that because Defendants identified Litle & Co. as the merchant processor in its *initial* invalidity contentions and interrogatory responses, Defendants have admitted Litle & Co. is the sole merchant processor. (Docket No. 226, pp. 11, 22). These documents were preliminary, and no depositions related to the Litle & Co. prior art had been taken at the time they were served. Once discovery was taken, and it became clear to Defendants that the merchant processor in the Litle & Co. prior art was actually a combination of entities, Defendants amended their invalidity contentions and interrogatory responses. Accordingly, Plaintiff's argument should be rejected.

funds absent instructions from Litle & Co.—even Plaintiff acknowledges this fact. (Docket No. 226, p. 24). Given that FNBL acts upon forwarding instructions from Litle & Co., even under Plaintiff's strained agency theory, Litle & Co., as the merchant processor, would be forwarding funds to another of its bank accounts, which falls squarely within the scope of claim 1.

B. Claim 10 is Anticipated by the Litle & Co. Postage Advance Program

Plaintiff also makes two arguments as to why claim 10 is not anticipated by the Litle & Co. Postage Advance program: first, claim 10 requires that the merchant processor split funds and send a portion to the merchant as well as to the third party, and second, because Litle & Co. alone is the processor, it is not a "third party" to itself. As discussed below, Plaintiff's attempt to rewrite the claims and disregard the undisputed evidence should be rejected.

1. Claim 10 Does Not Require that the Merchant Processor Forward Any Portion of the Payment to the Merchant

Plaintiff argues that claim 10's "means for forwarding a portion of the payment to the third party to reduce the obligation" was not practiced by the Litle & Co. postage advance program because under the Court's construction of this term, the merchant processor must forward a portion of the payment to the third party and to the merchant. (Docket No. 216, p. 25-26.) Plaintiff's argument is not supported by the facts or the law.

The only function recited in the "means for forwarding" element of claim 10 is the function of "forwarding a portion of the payment to the third party to reduce the obligation." No mention is ever made of forwarding a portion of the payment to the merchant. Accordingly, the only structure from the specification that should be construed to correspond to this function is the structure that is necessary to perform the function of forwarding a portion of the payment to the third party. *Northrop Grumman Corp. v. Intel Corp.*, 325 F.3d 1346, 1352 (Fed. Cir. 2003) ("Features that do not perform the recited function do not constitute corresponding structure and thus do not serve as claim limitations.”). Thus, while the Court identified column 5, lines 21-37 as containing the algorithm corresponding to claim 10’s forwarding step, the only portion of that algorithm that should be included in the construction is the portion that is necessary to forward payment to the third party, *i.e.*, selecting an amount to forward and forwarding it.

It would be improper to incorporate a function from the specification into claim 10 that is not specifically recited in the claim. *Gart v. Logitech, Inc.*, 254 F.3d 1334, 1343 (Fed. Cir. 2001) (it is improper to import limitations from a preferred embodiment in the specification in an attempt to narrow the meaning of claims). If Plaintiff wanted claims reciting that the merchant is forwarded a portion of the funds, it could have explicitly included the language “forwarding a portion of the payment to the merchant” in claim 10. In fact, Plaintiff did have claims reciting that a portion of the payment is forwarded to the merchant, but that language was not carried forward to the issued claims. (Ex. AA, July 20, 1999 Preliminary Amendment, claims 20 and 29.) In other words, Plaintiff explicitly <u>removed</u> this limitation from the claims during prosecution.

Because Claim 10 claims a “means for forwarding a portion of the payment to the third party” and <u>not</u> a “means for forwarding a portion of the payment to the merchant,” Plaintiff’s attempt to rewrite the claims to include an additional limitation should be rejected.

2. Claim 10’s Means for Forwarding to a Third Party is Satisfied by the Litle & Co. Postage Advance Program

Plaintiff next argues that claim 10’s “means for forwarding a portion of the payment to the third party to reduce the obligation” was not practiced in the Litle & Co. postage advance program because *only* Litle & Co. was the merchant processor. (Docket No. 226, p. 22-25.) However, as described above, because there were three entities necessarily involved in processing the payment transactions in the Litle & Co. prior art (i.e., NPC, FNBL and Litle &

Co.), the combination of these entities (*i.e.*, the Litle Processing Entity, a defined term in Defendants' Motion) is what constitutes the merchant processor.

Litle & Co. (the sole entity to whom repayments were owed under the postage advance agreements (Docket No. 215, Exs. C and D)) is thus a third party to the joint Litle Processing Entity identified in the Member Agreement (Docket No. 215, Ex. B). Because FNBL (as part of the Litle Processing Entity) used computers with memory and modems executing the algorithm identified by the Court to forward payment unrelated to the combination's processing functions to a Litle & Co. account (pursuant to the postage advance agreements), the Litle & Co. Postage Advance program satisfies claim 10's "third party" limitation. Accordingly, claim 10 is also anticipated by the Litle & Co. postage advance program.

C. The Hanover Finance Program Anticipates Claims 1 and 10

Plaintiff's Opposition makes only one argument as to why the Litle & Co. Hanover Finance program does not practice every element of claims 1 and 10 of the '281 patent: that the merchant processor forwards *all* payments to Hanover Finance and thus does not forward a "portion" of the payment as required by the claims.[8] (Docket No. 226, p. 36-37.) Again, Plaintiff's argument contradicts the claim language and uncontroverted evidence cited by Defendants.

The Hanover Finance agreement itself details that only a portion of the payment is forwarded to Hanover Finance, *i.e.*, the "third party." The agreement explicitly states that Hanover Finance's security interest is subject to Litle & Co.'s rights "to payment under a demand promissory note, dated January 21, 1994, the principal amount of which outstanding at the date hereof is $179,220.28, and a demand promissory note, dated January 28, 1994, the

[8] Plaintiff also argues that the Hanover Finance program does not anticipate claim 10 because claim 10 requires a split of the payment between the third party and the merchant. As explained in section B(1) above, however, this argument is without merit.

principal amount of which outstanding at the date hereof is $112,551.59 and to interest thereunder (the "Promissory Note Obligations").[9] (Docket No. 215, Ex. I.) In other words, for any given amount of daily payments received by the merchant, a portion would be paid to Litle & Co. to reduce the 1994 promissory note obligations and a portion would be paid to Hanover Finance. (*Id*.) Larry Bouchard confirmed this in his testimony when he said that for the merchant's transactions, the processing fees would first be taken off, then Litle & Co. would be repaid for its postage advance, a portion would be paid to Hanover Finance and, if necessary, the remaining portion would be paid to the merchant. (Docket No. 215, Ex. M, 115:2-119:11, more specifically 117:7-118:4). Plaintiff's citation to Mr. Bouchard's testimony for the proposition that 100% of the net proceeds is paid to Hanover is simply taken out of context and does not create an issue of fact. (*Id*.) Accordingly, there can be no dispute that the Hanover Finance program satisfies each element, and therefore anticipates, claims 1 and 10.

Moreover, even if 100% of the net proceeds were paid to Hanover Finance, it would still anticipate claims 1 and 10. First, Claim 1 requires that the computerized merchant processor forward "at least a portion of the payment to a computerized payment receiver." It cannot be disputed that "at least a portion" includes 100%. Claim 10 claims a "means for forwarding a portion of the payment to the third party." One hundred percent constitutes "a portion," and even if it did not, Claim 10 does not state "means for forwarding only a portion." Therefore, neither Claim 1 nor Claim 10 prohibits the merchant processor from forwarding 100% of the payment amount to the computerized payment receiver or third party.

Regardless, it cannot be disputed that the Litle Processing Entity never forwarded 100% of the payment amount to any third party. As specifically defined in the Member Agreement,

[9] Plaintiff argues that there is insufficient corroboration of the Hanover Finance program because the 1994 demand promissory notes have not been provided to the Court. (Docket No. 226, p. 34.) Plaintiff is mistaken. (See Docket No. 215, Ex. D, schedules E-3 and E-4.)

"Net Proceeds" are equal to 100% of the payment amount less processing fees. (Docket No. 215, Ex. B, definition of "NET PROCEEDS" (LI_00018) and Section 3(e) (LI_00019).) Thus, even if all of a merchant's net proceeds was forwarded to a third party (which is not the situation in Docket No. 215, Ex. I), such forwarding would still satisfy the claimed "forwarding a portion of the payment" step of claims 1 and 10.

D. Because There Was Extensive Commercial Use of the Litle & Co. Prior Art, There Was a Public Use and the Litle & Co. Prior Art Was Publicly Known

1. The Litle & Co. Prior Art Was Publicly Used

Even though both the Litle & Co. Postage Advance and Hanover Finance programs were commercially used, Plaintiff's Opposition argues there was no public use of these systems.[10] However, "[t]he ordinary use of a machine or the practise [sic] of a process in a factory in the usual course of producing articles for commercial purposes is a public use." *Elec. Battery Co. v. Shimadzu*, 307 U.S. 5, 20 (1939). Plaintiff seems to argue that each of the elements of the claimed invention must be somehow publicly displayed for there to be a public use, however that is not the law. Specifically, in the case of *Lockwood v. American Airlines*, the Federal Circuit held:

> As we have concluded earlier in this opinion, American's public use of the high-level aspects of the [prior art] system was enough to place the claimed features of the '359 patent in the public's possession.

107 F.3d 1565, 1570 (Fed. Cir. 1997); *see also Netscape Communications Corp. v. Konrad*, 295 F.3d 1315, 1323 (Fed. Cir. 2002) (following *Lockwood*).

Plaintiff has attempted to analogize the instant case to those involving the secret commercialization of product-by-process claims. (Docket No. 226, p. 18 (citing *W.L. Gore &*

[10] To the extent that Plaintiff argues that a "public use" must be accompanied by an enabling disclosure, Plaintiff is wrong. The Federal Circuit has explicitly abandoned such a requirement. *In Re Epstein*, 32 F.3d 1559, 1567-68 (Fed. Cir. 1994) ("Beyond this 'in public use or on sale' finding, there is no requirement for an enablement-type inquiry.")

Assocs. v. Garlock, 721 F.2d 1540 (Fed. Cir. 1983) and *TorPharm, Inc. v. Ranbaxy Pharms.*, 336 F.3d 1322 (Fed. Cir. 2003).) These cases are easily distinguishable from the facts of the instant case because *W.L. Gore* involved active concealment of the process used to produce the product, and *TorPharm* merely cited *W.L. Gore* without applying it.

However, Plaintiff has provided no evidence to support its argument because it has provided no evidence that the practice of either the Litle & Co. Postage Advance or Hanover Finance programs was concealed or kept secret. Indeed, it cannot because the evidence reveals that none of the high-level, claimed method steps were in any way concealed or kept secret. Plaintiff has not alleged that it was secret that merchants accepted customer identifiers and electronically forwarded information related to the payment to the Litle Processing Entity. Plaintiff has not alleged that it was secret that the Litle Processing Entity acquired, authorized, and settled card transactions. Indeed, even the patent acknowledges that the processing of card transactions was known in the prior art, and thus the public was aware that these claimed steps were necessarily performed in the Litle & Co. Postage Advance and Hanover Finance programs. (Docket No. 215, Ex. A, 1:17-22, 3:10-5:3.)

With respect to the existence of the Postage Advance and Hanover Finance programs, the evidence clearly establishes that this also was not kept secret. Plaintiff attempts to mischaracterize the testimony of Jim Alexander in support of its argument. (Docket No. 226, pp. 20-21.) However, when read in context, it is clear that Mr. Alexander testified that he was aware that Litle & Co. provided financing to merchants, processed merchants' card transactions, and was repaid out of merchants' card payments. (*Id.*; Docket No. 226, Ex. L, pp. 14-16.) Similarly, Plaintiff's citation to the testimony of Mr. Abbott is misleading at best. The particular details of which Mr. Abbott was unaware need not be known to the public for there to be a public use.

Plaintiff's argument with respect to Mr. Abbott is particularly unpersuasive given that Mr. Abbott worked with Mr. Litle to develop and implement the Postage Advance Program, thus he certainly knew the high-level details required to constitute a public use. (Docket No. 215, Ex. E.)

Furthermore, the confidentiality clause[11] in the Litle & Co. member agreement that Plaintiff characterizes as "broad" specifically refers to only two types of confidential information: (1) cardholder account information or other personal information, and (2) material containing cardholder account numbers or card imprints (Docket No. 215, Ex. B, clause 17), and does not contradict the relevant Litle & Co. witnesses who unequivocally testified that the relevant details of the Litle & Co. Postage Advance and Hanover Finance programs were not confidential. Plaintiff's misinterpretation of the documents, which are clear on their face and which were explained (contrary to Plaintiff's misinterpretation) by the involved parties, does not serve to contradict the undisputed fact that the Litle & Co. prior art was publicly used.

The fact that the Litle & Co. postage advance program existed was established by the Forbes article and confirmed by Plaintiff's Expert. (Docket No. 226, Hogan Decl. ¶ 14.) Plaintiff's claims of secrecy regarding unspecified "details" are irrelevant because they have no bearing on the public's knowledge that Litle & Co. was involved in processing card payments and had the capability to discount credit card receivables as payment of a postage advance obligation, which is all that is required for public use under 35 U.S.C. § 102(b). *Lockwood*, 107 F.3d at 1570 ("It is undisputed, however, that the public was aware that [Defendant's system]

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[11] Plaintiff's argument that because certain Litle & Co. documents were marked confidential, the Litle & Co. prior art was confidential is specious at best. Defendants produced these documents with a confidential designation out of an abundance of caution, and before the deposition of any Litle & Co. witness. Since the relevant Litle & Co. witnesses testified at their depositions – depositions that Plaintiff's attorneys also attended – that none of the documents cited in Defendants' Motion were confidential and that nothing about the Litle & Co. postage advance and Hanover Finance programs were confidential, Defendants have removed the confidentiality designations on these documents. (Docket No. 215, Ex. L, Litle Tr. 80:13-17, 289:19-290:15, Ex. M, Bouchard Tr. 58:9-59:16; Ex. BB, Litle Tr. 290:16-292:8.)

possessed this capability and that the public had been using [Defendant's system] . . . prior to [Plaintiff's] date of invention.").

In sum, the law is clear and Plaintiff has not disputed that the public had *relevant* knowledge about the Litle & Co. prior art programs many years prior to the '281 patent's filing and invention date. Therefore, the Litle & Co. prior art was publicly used in this country more than one year prior to July 9, 1997, and the '281 Patent is invalid under 35 U.S.C. § 102(b).

2. The Litle & Co. Prior Art Was Publicly Known

Moreover, because the Litle & Co. Postage Advance and Hanover Finance programs were used, it is clear that they were known by others (i.e., by someone other than Barbara Johnson). Although Defendants have established knowledge of the Litle & Co. Postage Advance and Hanover Finance programs by more than one person, only one person is required. *Coffin v. Ogden*, 85 U.S. 120, 124-25 (1873) ("The prior knowledge and use by a single person is sufficient. The number is immaterial."). The '281 Patent, as well as Plaintiff, acknowledges that the combination of elements for the processing of card transactions was known in the art. (Docket No. 215, Ex. A, '281 Patent, 1:17-25; Docket No. 226, p. 3.) The only alleged novelty of the invention is modifying the prior art payment processing method and system such that "the merchant processor now diverts a portion of the amount that would have normally gone to the merchant to a payment receiver or third party (*e.g.*, arrow 29 in Figure 2)." (Docket No. 226, p. 4; Ex. A., 281 Patent, 5:29-32.) The fact that Litle & Co. performed this allegedly novel element was disclosed by the Forbes article and known by many people, including the people that implemented or used the Litle & Co. Postage Advance and Hanover Finance programs. (See e.g., Docket No. 215, Ex. J, Exs. B and C (postage advance agreements), Ex. I (Hanover Finance letter), Ex. L, Litle Tr. 28:22-29:7, Ex. M, Bouchard Tr. 110:14-111:11, Ex. N, Bourne Decl. ¶¶ 11-18, Ex. P, Abbott Decl. ¶¶ 8-14; Ex. CC, Alexander Tr. 29:3-24.) How to perform the claimed invention was thus known by someone other than Barbara Johnson before the '281 Patent's date of invention, and the '281 patent is therefore invalid under 35 U.S.C. § 102(a).

E. Plaintiff Does Not, And Can Not, Argue That The Litle & Co. Prior Art Was Abandoned, Suppressed or Concealed.

As discussed above with respect to public use, the evidence also shows that the Litle & Co. Postage Advance and Hanover Finance programs had not been "abandoned, suppressed, concealed" for purposes of 35 U.S.C. § 102(g). "Abandonment" of an invention does not occur where there is reasonable diligence between the time of conception and either commercialization or public disclosure of the invention. *See Palmer v. Dudzik*, 481 F.2d 1377, 1387 (C.C.P.A. 1973). It is clear from the contemporaneous documents that the Litle & Co. Postage Advance and Hanover Finance programs were quickly put into commercial use—and thus not abandoned. (Docket No. 215, Ex. E (Abbott Letter), Ex. F (Litle Memo), Exs. C and D (Postage Advance Notes), Ex. B (member agreement), Ex. I (Hanover Finance letter).)

Regarding suppression or concealment, it applies only

> . . . when an inventor actively conceals his invention from the public. *Fujikawa v. Wattanasin*, 93 F.3d 1559, 1567 (Fed. Cir. 1996). Active concealment "refers to situations in which an inventor designedly, and with the view of applying it indefinitely and exclusively for his own profit, withholds his invention from the public." *Id.*

Eolas Tech. v. Microsoft Corp., 399 F.3d 1325, 1333 (Fed. Cir. 2005). Here, there is no evidence of active concealment with respect to the Litle & Co. postage advance and Hanover Finance programs, as confirmed by the Forbes article and the unequivocal testimony of the Litle & Co. witnesses. Consequently, the '281 patent is also invalid under 35 U.S.C. § 102(g)(2).

F. There Is Ample Evidence Establishing and Corroborating the Extensive Use of the Litle & Co. Prior Art

Plaintiff's argument that the Litle & Co. prior art is insufficiently corroborated is neither factually nor legally correct. Plaintiff's misunderstanding of the corroboration requirement and disregard for the uncontroverted, unbiased testimony of four third party witnesses, as explained below, reveal the lack of merit in its argument.

Corroboration is only required of oral testimony—not contemporaneous documents—and in determining whether oral testimony is corroborated, the Federal Circuit applies a "rule of reason" analysis. *Price v. Symsek*, 988 F.2d 1187, 1195 (Fed. Cir. 1993) ("An evaluation of all pertinent evidence must be made so that a sound determination of the credibility of the inventor's story may be reached."); *Woodland Trust v. Flowertree Nursery, Inc.*, 148 F.3d 1368, 1371 (Fed. Cir. 1998). The only "strictness" regarding corroboration is that a patent cannot be invalidated solely on the oral testimony of the alleged inventor. *See Id.* at 1371; *Sandt Tech. v. Resco Metal and Plastics*, 266 F.3d 1344, 1350-51 (Fed. Cir. 2001); *Knorr v. Pearson*, 671 F.2d 1368, 1374 (C.C.P.A. 1982) ("The law does not impose an impossible standard of 'independence' on corroborative evidence by requiring that every point [necessary to prove invalidity] be corroborated by evidence having a source totally independent of the inventor; indeed such a standard is the antithesis of the rule of reason.").

In other words, the corroboration requirement is a tool to ensure that the oral testimony of witnesses, alone, does not invalidate claims of a patent. Such a concern is not present here—Defendants have offered extensive contemporaneous documentation and testimony of four disinterested third party witnesses establishing how the Litle & Co. Postage Advance and Hanover Finance programs operated (which is cited throughout Docket No. 215, Defendants' Motion, and Exs. S-V thereto, Defendants' Statement of Undisputed Facts). The documentation has been authenticated and consistently explained by the four disinterested third party witnesses. Plaintiff has not offered a single witness' testimony controverting any of the facts to which the four witnesses testified or calling into question the documents' authenticity. Instead, Plaintiff simply asserts, without explanation, that the strict corroboration requirement has not been met.

This testimony and contemporaneous documentary evidence establish that the claimed invention in the '281 Patent was publicly known and used in this country by others more than a year before the '281 Patent's priority and invention date. Because the evidence establishing the existence and operation of Litle & Co. consists of contemporaneous documentary evidence and testimony of four different witnesses, Plaintiff's argument that the evidence is not sufficiently corroborated should be rejected.

III. CONCLUSION

There is no genuine issue of material fact that every one of claims 1-3, 5-7, 9-12, 14-16 and 18-19 are invalid as a matter of law under each of 35 U.S.C. § 102(a), (b) and (g)(2) in light of the Litle & Co. Postage Advance and Hanover Finance programs. In addition, there is no genuine issue of material fact that dependent claims 4, 8, 13, and 17 are obvious under 35 U.S.C. § 103 in view of the same Litle & Co. prior art and the disclosures in the '281 patent. Accordingly, Defendants respectfully request that this Court grant summary judgment invalidating all of claims 1-19 of the '281 patent in view of the Litle & Co. prior art discussed in this motion.

Defendants also respectfully request oral argument with respect to this motion.

April 13, 2007

Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that the foregoing document was filed electronically in compliance with Local Rule CV-5(a). As such, this document was served on all counsel who are deemed to have consented to electronic service. Local Rule CV-5(a)(3)(A). All other counsel of record not deemed to have consented to electronic service were served with a true and correct copy of the foregoing by First Class Mail on this the 13th day of April, 2007.

/s/ Joseph Gray
Joseph D. Gray