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

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

PLAINTIFF ADVANCEME, INC.'S SUR-REPLY IN OPPOSITION TO DEFENDANTS' PARTIAL SUMMARY JUDGMENT MOTION OF PATENT INVALIDITY

I. INTRODUCTION

The Defendants' reply brief only serves to highlight the many reasons why their anticipation defense fails. The Defendants' brief continues to ignore the limitations contained in the plain language of the patent claims, as well as the claim constructions adopted in the Court's Claim Construction Order. Rather than apply the plain meaning of the claims as interpreted by the Court, the Defendants' brief relies on bizarre interpretations of the claims that are unsupported by *any* expert declaration. Accordingly, the Defendants' motion should be denied.

II. ARGUMENT

A. The Defendants' Failure To Submit Expert Testimony Dooms Their Motion.

As was true with their opening brief, the Defendants' reply brief is completely unsupported by any expert testimony. In contrast, AdvanceMe has submitted declarations from two different experts to explain why the alleged prior art does not invalidate the patent claims. Declaration of Michael Shamos ("Shamos Decl."), ¶¶ 8-24; Declaration of Ed Hogan ("Hogan Decl."), Ex. 1, ¶¶ 9-18. The law of the Federal Circuit is clear that an anticipation defense must be supported by adequate expert testimony, regardless of whether the Defendants are claiming anticipation by printed publications or public use. *Schumer v. Lab. Computer Sys., Inc.*, 308 F.3d 1304, 1315 (Fed. Cir. 2002) (summary judgment on public use grounds improper where unsupported by adequate expert testimony). Since the Defendants have failed to submit any expert testimony, their motion must be denied.

B. The Defendants' Reply Fails To Address the Huge Distinction Between the Alleged Prior Art and the Method Claims of the '281 Patent.

The Defendants spend much of their reply arguing that, even though the plain language of the "forwarding" and "receiving" elements is clearly inapplicable to the alleged Litle prior art, the Court should ignore this huge distinction because it "contradicts" the arguments made by AdvanceMe during claim construction proceedings. This is simply incorrect.

During the claim construction proceedings, the parties' arguments focused on the term "third party" as it appeared in the means-plus-function claims. AdvanceMe contended that this term is narrower than the term "payment receiver," because the term "third party" requires that the merchant processor forward a portion of a payment to a wholly separate entity. As AdvanceMe explained, though Claim 1 was drafted to encompass the possibility that a merchant processor could forward a portion of a payment to a lending division that resides under the same corporate umbrella, this is not possible in Claim 10. In the Claim Construction Order, the Court agreed with this distinction and found that Claim 10 requires a portion of a payment to be forwarded to a separate entity from the merchant processor. Declaration of Michael Edelman in Support of AdvanceMe's Opposition ("Opposition Decl."), Ex. C, p. 12.

This distinction is irrelevant to the issues in the present motion. Regardless of whether the forwarding is from the merchant processor to a separate entity (as is required in Claim 10), or from the merchant processor to another division (as is permitted in Claim 1), the alleged Litle postage finance program simply did not perform the forwarding step. Under that program, Litle did <u>not</u> forward portions of payments to another division that had lent or otherwise provided advanced funds to the merchant. Litle did <u>not</u> forward portions to <u>any</u> third party. Since Litle did not forward any portions of payments to anyone, the "forwarding" and "receiving" steps are completely absent. Shamos Decl., ¶¶ 15-19.

The Defendants' reply brief attempts to maintain the fiction that the routine movement of funds from Litle's sponsoring bank to Litle itself constitutes "forwarding." This makes no sense. The transfer of funds between a sponsoring bank and its processor is simply a routine part of the typical credit card processing system on top of which the '281 inventions were built. Indeed, as Tim Litle testified, a merchant processor is required by the standard Visa and MasterCard regulations to use a sponsoring bank for the movement of funds. Opposition Decl., Ex. F at 31:3-8; 32:15-25. The fact that a sponsoring bank is required to move funds to the merchant processor is utterly irrelevant to the forwarding of payments from the merchant processor that the patent claims require.

Indeed, the patent claims were drafted in such a manner as to ensure that the standard movement of funds between the merchant processor and its sponsoring bank, or between the processor and other of its affiliates, does not alone satisfy the forwarding step. Under the plain language of the claims, the payment must be settled at the merchant processor. The Court's claim construction of "settling the payment" requires that payment be "transferred or credited to the merchant processor." Opposition Decl., Ex. C, p. 22. The routine movement of funds from a processor's sponsoring bank to the processor is simply a part of this standard settlement process. The forwarding step, however, is focused on the forwarding of payments by the merchant processor which is in addition to this settlement process, not merely with routine steps that may occur as part of the settlement process. This additional forwarding step is completely absent from the alleged Litle prior art.

The Defendants' artificial labeling of Litle and its sponsoring bank as the "Litle Processing Entity" does nothing to avoid this problem. There is no question that Litle's sponsoring bank had to play some role in the settlement process, because Visa and MasterCard regulations required that all merchant processors were only permitted to handle funds through the intermediary of a sponsoring bank. The fact that Litle was required, like all other merchant processors, to use a sponsoring bank to move funds around simply has no bearing on the issues in this motion.

In any event, even if the Defendants were successful in relabeling the merchant processor and its sponsoring bank as the "Litle Processing Entity," it makes no difference. If the "Litle Processing Entity" qualified as the "merchant processor," then the claims would still require that this entity collectively forward a portion of payments to a subsequent destination. Just as Litle could not perform the inventions simply by keeping the payments for itself, so the alleged Litle Processing Entity could not perform the inventions by keeping the payments for itself rather than forwarding them.

C. The Defendants' Reply Fails To Apply This Court's Construction of the Forwarding Element in Claim 10.

The Defendants' reply brief does not dispute, because it cannot, that the Claim Construction Order requires that the forwarding of a portion of a payment from a merchant processor under Claim 10 must be to an entity that was neither the merchant nor the merchant processor. The Defendants' reply brief also does not dispute, because it cannot, that the Court required this forwarding to occur pursuant to a particular algorithm explicitly disclosed in the specification. Since the alleged Litle program did not involve any forwarding to a third party, it is simply impossible for the program to qualify as anticipating prior art.

In addition to ignoring the Court's construction of the term "third party," the Defendants' reply brief also ignores the Court's limitation of the forwarding element in Claim 10 to the precise algorithm described in the patent specification. In the Claim Construction Order, the Court was clear that the forwarding element was limited to the algorithm identified in Column 5, lines 21 through 37 of the patent specification. Opposition Decl., Ex. C, p. 19 (requiring "software executing an algorithm as described at column 5, lines 21-37, and equivalents thereof") (emphasis added). In turn, these lines from the specification disclose an algorithm whereby (1) the merchant processor starts with the full amount of the credit card transaction, (2) the processor subtracts from this amount the fraction that is to be sent to the payment receiver, and (3) the processor forwards this fraction to the payment receiver, with the rest being forwarded to the merchant. '281 Patent, col. 5, lines 21-37. The Defendants cannot seriously argue that the alleged Litle prior art performs this algorithm, and indeed the Defendants' reply brief does not even attempt to demonstrate this.

Despite the clarity of the Claim Construction Order, the Defendants now contend they are permitted to ignore a portion of the algorithm identified by the Court, because the only structure that should limit the claim element is "the structure that is necessary to perform the function of forwarding a portion of the payment to the third party." Reply, p. 7. The Defendants overlook, however, that this necessary structure includes the structure for determining <u>how</u> that portion is derived. This is why the Court explicitly pointed out that the algorithm specified in Column 5, lines 21 through 37 includes the "derivation" of the payment portion that is forwarded. Edelman Decl., Ex. C, p. 19 ("In relation to the forwarding of a portion of the customer payment to a third party lender, the '281 patent specification describes in the context of the $100 customer purchase example the <u>derivation</u> of a portion of the payment that is sent to the lender.") (emphasis added). The Court also explained that the required algorithm involves a <u>subtraction</u> by the processor of the payment amount that would otherwise go to the merchant, such that the payment is split between the merchant and the third party. *Id.* Moreover, AdvanceMe's expert has submitted an <u>unrebutted</u> declaration attesting to the importance of this algorithm from the perspective of one of ordinary skill in the art. Shamos Decl., ¶ 22 ("It is the split of the payments by the processor, with a portion sent to the receiver and a portion sent to the merchant, that is the core of the algorithm implemented by the patent claims.”). Accordingly, in order to perform the required algorithm, the Claim Construction Order requires that payment be split between the merchant and the third party. It is undisputed that the alleged Litle prior art did not perform this split, and therefore the Defendants’ anticipation defense is again revealed as meritless.

The Defendants further contend that, since certain of the claims that were canceled during prosecution recited a portion of the payment being forwarded to the merchant, this somehow means that this portion of the algorithm should not be required. In fact, however, this evidence overwhelmingly supports AdvanceMe’s argument. The canceled claims that the Defendants are referring to were not means-plus-function claims, but rather were method and system claims. The reason these claims were canceled was because the prior means-plus-function claims had just been found by the Board of Patent Appeals to be valid over the prior art, and therefore continued prosecution of the additional claims was unnecessary. Indeed, the means-plus-function claims of the ‘281 Patent (i.e., claims 10-19) were inserted into the application at the same time the system claims were canceled. Edelman Sur-Reply Decl., Ex. A. The fact that the system claims required splitting between a merchant and payment receiver clearly demonstrates that the means-plus-function claims were intended to encompass this same structure.

D. The Defendants’ Arguments on the Hanover Finance Program Are Meritless.

The Defendants’ reply brief represents that AdvanceMe’s opposition only made “one argument” as to why the alleged Hanover Finance program does not practice every claim element. Reply, p. 9. To the contrary, AdvanceMe made numerous such arguments. In its opposition, AdvanceMe demonstrated that the Hanover Finance arrangement submitted by the Defendants does not involve an automated method or system. Opposition, pp. 35-36. The Defendants’ reply brief does not respond to this argument at all, and therefore appears to concede the point. AdvanceMe also demonstrated that the Hanover Finance arrangement did not practice the "receiving" element of the method claims, or numerous of the limitations set forth in the means-plus-function claims. *Id.*, pp. 37-38. The Defendants ignore these points as well.

The only argument that the Defendants address in their reply brief is AdvanceMe's point that the Hanover Finance arrangement does not forward a portion of the payment as required by the patent claims. Though the Defendants' reply brief contends that a portion of payments was forwarded from Litle to Hanover Finance, the Defendants still have not submitted any corroborating documentation to demonstrate that, in fact, Litle ever actually forwarded anything to Hanover Finance.

The Defendants also contend that the patent claims do not require forwarding of portions at all. This makes no sense. Claim 10 specifically requires forwarding of a portion of a payment, and the algorithm identified by the Court in the Claims Construction Order specifically requires the splitting of payments in portions between a third-party payment receiver and a merchant. Further, Claim 1 specifically provides that the payment receiver only apply a portion of the payment, and distinguishes this portion from the entire payment that would otherwise have been received by the merchant. And the specification itself characterizes the overall invention as requiring a split in portions. '281 Patent, col. 5, lines 21-25. Accordingly, the patent claims clearly require that payments be forwarded and applied in portions. Since the Hanover Finance arrangement did not involve forwarding or applying by portions, it cannot possibly anticipate the patent claims.[1]

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[1] The Defendants also contend that a "portion" was allegedly sent to Hanover Finance because processing fees were deducted. However, the Court has already determined that the claims of the '281 Patent was not concerned with the handling of processing fees, which were fully disclosed by the applicant as part of the prior art. Opposition Decl., Ex. C, pp. 6-8. The patent repeatedly makes clear that, by referring to a "portion" of a payment, it is referring to a split of the amount which would normally go to the merchant, i.e., the amount of the transaction minus

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E. The Defendants' "Public Use" Argument Is Meritless.

The Defendants' reply brief continues to misconstrue the relevant case law on "public use" under Section 102(b). It is not sufficient for the mere existence of a prior art program to be leaked to the public; rather, the case law requires that the elements of the claimed invention be publicly available. *Lacks Indus., Inc. v. McKechnie Vehicle Components USA, Inc.*, 322 F.3d 1335, 1350-51 (Fed. Cir. 2003). Here, the Defendants contend that the "forwarding" and "receiving" steps were performed through the forwarding of payments from FNBL. Even assuming this was sufficient to perform the patent claims, the Defendants are required to demonstrate by clear and convincing evidence that this forwarding and applying of payments from FNBL was publicly available. The Defendants have presented no such evidence at all.

Realizing that they cannot possibly meet this legal standard, the Defendants are forced to try to lower the standard. To this end, the Defendants contend it is not required that "each of the elements of the claimed invention must be somehow publicly displayed for there to be a public use," relying on the case of *Lockwood v. American Airlines*, 107 F.3d 1565, 1570 (Fed. Cir. 1997). However, the *Lockwood* case merely held that the details necessary to enable the patented invention need not be publicly accessible. The case did not question the well-settled rule that the elements of the patented inventions must be publicly available.

Similarly, the Defendants contend that the public had "knowledge" that Litle "was involved in processing card payments and had the capability to discount credit card receivables as payment of a postage advance obligation," and this is "all that is required for public use under

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the applicable processing fees. '281 Patent, col. 5, lines 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, as indicated by an arrow 29."); col. 5, lines 32-37.

35 U.S.C. § 102(b)." Reply, p. 13. However, the patent claims do not simply claim the generic processing of card payments or the discounting of credit card receivables. Rather, the claims set forth a particular method for payment, which requires the specific steps of authorizing, settling, forwarding, receiving, and applying. In order to constitute public use, the Defendants must show by clear and convincing evidence that these claim elements were available to the public. The Defendants do not even attempt to make this showing.

In case there was any doubt on this subject, the confidentiality provision in the Litle Member Agreement resolves it. Contrary to the Defendants' contention in their reply, this provision was not limited to only "cardholder account information" or "material containing cardholder account numbers or card imprints." Reply, p. 13. Rather, according to its terms, the provision applied to all proprietary or confidential information of any of the signatories: "Each party hereto agrees to hold in confidence, and to use only in connection with performance of its obligations hereunder, all confidential or proprietary information of any other party which it receives or gains access to in connection with this AGREEMENT and to use reasonable efforts to ensure such confidence by its employees with access to such information." Defendants' Motion, Ex. B (emphasis added). As AdvanceMe's expert has testified -- without any rebuttal from the Defendants -- it is well-understood in the industry that this type of clause is intended to preserve the confidentiality of how a proprietary program offered by a merchant processor would operate. Hogan Decl., Ex. 1, ¶¶ 10-18. By itself, this confidentiality clause precludes the Defendants from ever demonstrating public use by clear and convincing evidence.

The Defendants alternatively rely upon Section 102(g)(2). However, as explained in AdvanceMe's evidentiary objections, the Defendants attempted to assert this defense in its invalidity contentions immediately before the close of discovery, without any attempt to seek approval of this amendment by the Court. Further, the Defendants attempted to assert this defense without identifying the prior "inventor" that allegedly invented the patent claims, or any of the other information required under this Court's rules. Patent Rule 3-3(a) ("Prior art under 35 U.S.C. § 102(g) shall be identified by providing the identities of the person(s) or entities involved in and the circumstances surrounding the making of the invention before the patent applicant(s)…."). Without identification of a prior inventor, it is not possible for the Defendants to even allege (much less demonstrate) that this inventor did not "abandon, suppress, or conceal" the invention. In any event, the evidence of suppression and concealment with respect to Section 102(b) would also apply to defeat any Section 102(g) defense in this case.

F. The Defendants Fail To Satisfy the Corroboration Requirement.

The Defendants' reply brief heavily relies on the contention that the operation of the inventions is shown by the testimony of "four disinterested third party witnesses." The Defendants' position that this witness testimony is sufficient to meet the corroboration requirement is simply incorrect. In its opposition, AdvanceMe cited precedent which makes clear that the corroboration requirement cannot be met unless the performance of the claim elements is corroborated by something other than oral testimony. Opposition, pp. 15, 31-32. Here, however, the Defendants themselves contend that the most critical claim elements are only disclosed by uncorroborated oral testimony. This is insufficient as a matter of law.

III. CONCLUSION.

For all the reasons stated above, the Defendants' motion should be denied.

Date: April 19, 2007

Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that all counsel of record who are deemed to have consented to electronic service are being served with a copy of this document via the Court's CM/ECF system per Local Rule CV-5(a)(3). Any other counsel of record will be served by facsimile transmission and/or first class mail this 19th day of April, 2007.

/s/ Michael N. Edelman

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