

10-30-2008

U.S. DEPARTMENT OF COMMERCE
United States Patent and Trademark Office



103532780

To the Director of the U.S. Patent and

Documents or the new address(es) below.

1. Name of conveying party(ies)

E-PASS TECHNOLOGIES, INC.

2. Name and address of receiving party(ies)

Name: E-PASS TECHNOLOGIES, INC.

Internal Address: _____

Additional name(s) of conveying party(ies) attached? ☐ Yes ☒ No

3. Nature of conveyance/Execution Date(s):

Execution Date(s) September 29, 2008

- ☐ Assignment ☐ Merger
☐ Security Agreement ☐ Change of Name
☐ Joint Research Agreement
☐ Government Interest Assignment
☐ Executive Order 9424, Confirmatory License
☒ Other Notice of Patent Rights and Patent Dispute

Street Address: 23 Packman Lane

Home Green Kirk Ella

City: North Humberside

State: Hull

Country: United Kingdom Zip: HU10 7TH

Additional name(s) & address(es) attached? ☐ Yes ☒ No

4. Application or patent number(s):

☐ This document is being filed together with a new application.

A. Patent Application No.(s)

B. Patent No.(s)

5276311

Additional numbers attached? ☐ Yes ☒ No

5. Name and address to whom correspondence concerning document should be mailed:

Name: Daniel M. Cislo, Esq.

Internal Address: _____

Street Address: 1333 2nd Street, Suite 500

City: _____

State: California Zip: 90401

Phone Number: (310) 451-0647

Fax Number: (310) 394-4477

Email Address: dancislo@cislo.com

6. Total number of applications and patents involved: 1

7. Total fee (37 CFR 1.21(h) & 3.41) \$40.00

- ☐ Authorized to be charged by credit card
☐ Authorized to be charged to deposit account
☒ Enclosed
☐ None required (government interest not affecting title)

8. Payment Information

a. Credit Card Last 4 Numbers _____
Expiration Date _____

b. Deposit Account Number 03-2030

Authorized User Name Cislo & Thomas LLP

9. Signature:

Signature

Daniel M. Cislo, Esq., Assignee's Representative

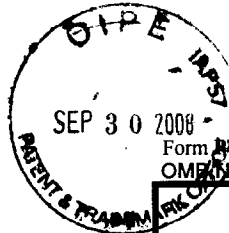
Name of Person Signing

Total number of pages including cover sheet, attachments, and documents:

108

Documents to be recorded (including cover sheet) should be faxed to (571) 273-0140, or mailed to:
Mail Stop Assignment Recordation Services, Director of the USPTO, P.O.Box 1450, Alexandria, V.A. 22313-1450

PATENT
REEL: 021763 FRAME: 0250



10 - 02 08

D\$

Form PTO-1595 (Rev. 08/05)
OMB No. 0651-0027 (exp. 6/30/2008)

10-08-2008

U.S. DEPARTMENT OF COMMERCE
United States Patent and Trademark Office



103528759

To the Director of the U.S. Patent and Trademark Office

T

Transmit the enclosed documents or the new address(es) below.

1. Name of conveying party(ies)

E-PASS TECHNOLOGIES, INC.

2. Name and address of receiving party(ies)

Name: E-PASS TECHNOLOGIES, INC.

Internal Address:

Additional name(s) of conveying party(ies) attached? ☐ Yes ☒ No

3. Nature of conveyance/Execution Date(s):

Execution Date(s) September 29, 2008

☐ Assignment

☐ Merger

☐ Security Agreement

☐ Change of Name

☐ Joint Research Agreement

☐ Government Interest Assignment

☐ Executive Order 9424, Confirmatory License

☒ Other Notice of Patent Rights and Patent Dispute

Street Address: 23 Packman Lane

Home Green Kirk Ella

City: North Humberside

State: Hull

Country: United Kingdom Zip: HU10 7TH

Additional name(s) & address(es) attached? ☐ Yes ☒ No

4. Application or patent number(s):

☐ This document is being filed together with a new application.

A. Patent Application No.(s)

B. Patent No.(s)

5276311

Additional numbers attached? ☐ Yes ☒ No

5. Name and address to whom correspondence concerning document should be mailed:

Name: Daniel M. Cislo, Esq.

Internal Address:

Street Address: 1333 2nd Street, Suite 500

City:

State: California Zip: 90401

Phone Number: (310) 451-0647

Fax Number: (310) 394-4477

Email Address: dancislo@cislo.com

6. Total number of applications and patents involved: 1

7. Total fee (37 CFR 1.21(h) & 3.41) \$40.00

☐ Authorized to be charged by credit card

☐ Authorized to be charged to deposit account

☒ Enclosed

☐ None required (government interest not affecting title)

8. Payment Information

a. Credit Card Last 4 Numbers _____
Expiration Date _____

b. Deposit Account Number 03-2030

Authorized User Name Cislo & Thomas LLP

9. Signature:

Signature

Date

Daniel M. Cislo, Esq., Assignee's Representative

Name of Person Signing

Total number of pages including cover sheet, attachments, and documents:

108

Documents to be recorded (including cover sheet) should be faxed to (571) 273-0140, or mailed to:
Mail Stop Assignment Recordation Services, Director of the USPTO, P.O. Box 1400, Alexandria, V.A. 22315-1400

01 FC:8021

40.00 00



25189

PATENT TRADEMARK OFFICE

**NOTICE OF PATENT RIGHTS AND
PENDING INFRINGEMENT DISPUTE**

This notice is hereby made as of the below-entered date by E-PASS TECHNOLOGIES, INC., having a place of business in the United Kingdom ("E-Pass"). I am President of E-Pass, and I am authorized to make this statement on its behalf.

E-Pass owns all right and title to U.S. Patent No. 5,276,311 ("the '311 patent"), entitled, "Method and Device for Simplifying the Use of a Plurality of Credit Cards, or the Like," and issued on January 4, 1994.

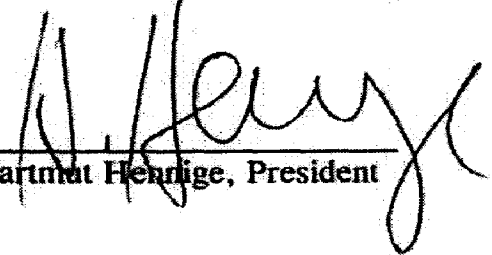
E-Pass asserted the '311 patent against certain defendants in litigation with an attorneys' fee award entered against E-Pass. This award is presently on appeal before the United States Court of Appeals for the Federal Circuit as Consolidated Appeal No. 2008-1144; 2008-1145; 2008-1146 ("the first appeal") and Consolidated Appeal No. 2008-1470; 2008-1471; 2008-1472 ("the second appeal"). E-Pass expects to prevail on the appeals. E-Pass attaches as Exhibits 1 and 2, respectively, its opening and reply briefs entered in the first appeal. The parties have not entered any briefs in the second appeal, but instead have stipulated to the consolidation of the second appeal with the first appeal and are presently awaiting the determination of the Court on this stipulation.

E-Pass hereby records this notice of patent rights and pending infringement dispute to ensure that any attempt to transfer any rights herein by or between any third parties is not without notice of these patent rights of E-Pass and the presently-pending appeals in the patent infringement litigation concerning these patent rights.

The statement herein is true and of my own knowledge, except as to those matters which are stated on information and belief, and as to those matters, I believe them to be true. I declare under penalty of perjury that the foregoing is true and correct.

IN WITNESS WHEREOF, E-Pass has executed this Notice on the date as set forth below.

E-PASS TECHNOLOGIES, INC.



Hartmut Hennige, President

Date: September 29, 2008

T:\07-19854\E-Pass's notice of patent rights and patent dispute.DOC

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

2008-1144, -1145, -1146

E-PASS TECHNOLOGIES, INC.

Plaintiff-Appellant,

v.

**3COM CORPORATION (also known as 3COM, Inc.),
PALM, INC., PALMONE, INC. and HANDSPRING, INC.,
Defendants-Appellees,**

and

**VISA INTERNATIONAL SERVICE ASSOCIATION
and VISA U.S.A., INC.,
Defendants-Appellees,**

and

**ACCESS SYSTEMS AMERICAS, INC. (formerly Palmsource, Inc.)
Defendant-Appellee,**

Appeals from the United States District Court for the Northern District of California in
case nos. 00-CV-2255, 03-CV-4747, and 04-CV-0528, Senior Judge D. Lowell Jensen.

**PLAINTIFF-APPELLANT E-PASS TECHNOLOGIES, INC.'S
OPENING BRIEF**

CORRECTED

Daniel M. Cislo, Esq.
Kelly W. Cunningham, Esq.
Mark D. Nielsen, Esq.
CISLO & THOMAS LLP
1333 2nd Street, Suite 500
Santa Monica, California 90401
Tel.: (310) 451-0647
Fax: (310) 394-4477
Email: dancislo@cislo.com
kcunningham@cislo.com

Date: May 27, 2008

CERTIFICATE OF INTEREST (CIRCUIT RULE 47.4)

Counsel for Appellant E-Pass Technologies, Inc. certifies the following:

1. The full name of every party or amicus represented by me is:

E-PASS TECHNOLOGIES, INC.

2. The name of the real party in interest (if the party named in the caption is not the real party in interest) represented by me is: N/A

3. All parent corporations and any publicly held companies that own ten (10) percent or more of the stock of the party or amicus curiae represented by me are: N/A

4. The names of all law firms and the partners or associates that appeared for the party or amicus now represented by me in the trial court or agency or are expected to appear in this court are:

CISLO & THOMAS LLP

Daniel M. Cislo, Esq., CA Bar No. 125,378
Kelly W. Cunningham, Esq., CA Bar No. 186,229
Mark D. Nielsen, Esq., CA Bar No. 210,023

MOSES & SINGER LLP

Stephen N. Weiss, Esq., NY Bar No. 1,004,225
Gregory J. Fleesler, Esq., NY Bar No. 2,810,745
Michael J. Pospis, Esq., NY Bar No. 4,105,938

SQUIRE SANDERS & DEMPSEY LLP

Mark S. Dosker, Esq., CA Bar No. 114,789
Joseph A. Meckes, Esq., CA Bar No. 190,279
Daniel T. Balmat, Esq., CA Bar No. 230,504

TABLE OF CONTENTS

CERTIFICATE OF INTEREST (Circuit Rule 47.4)

TABLE OF AUTHORITIES	iii
I. STATEMENT OF RELATED CASES	1
II. JURISDICTIONAL STATEMENT	2
III. STATEMENT OF ISSUES	3
IV. STATEMENT OF THE CASE	4
V. STATEMENT OF FACTS.....	6
A. E-Pass’s Valid and Enforceable ‘311 Patent and the Asserted Method Claims	6
B. Both Palm and Visa Participated in License Negotiations with E-Pass to License the ‘311 Patent Before They Commenced Their Plans to Infringe the Patent	8
C. E-Pass Initiated the Present Litigation to Stop the Inducement of Patent Infringement.....	10
D. Both Palm and Visa Planned to Massively Infringe E-Pass’s Patent Rights and Advocated Infringing the ‘311 Patent	11
E. E-Pass Initiated Further Litigation to Stop Visa and Palm’s Joint Plan to Infringe	15
F. The District Court Improperly Awarded Defendants \$2.37 Million in Attorneys’ Fees, Including Attorneys’ Fees Incurred Before Any Alleged Misconduct.....	18
VI. SUMMARY OF ARGUMENT	20
A. E-Pass’s Conduct Was in Good Faith and There Was Insufficient Litigation Misconduct	21

B.	Any Attorneys' Fees Award Should Have Been Limited to Those Fees Incurred After the Misconduct and Necessitated by the Misconduct	24
VII.	ARGUMENT.....	25
A.	The District Court Erred in Finding This an Exceptional Case Under 35 U.S.C. § 285 Because E-Pass's Infringement Claims Were Not in Bad Faith	26
1.	An Exceptional Case Finding Against a Patentee Should Be Reversed If the Patentee's Case for Infringement Could Reasonably Be Disputed	26
2.	The Exceptional Case Finding Was Erroneous Because E-Pass's Infringement Claims Were At Least Reasonably Disputable	29
B.	E-Pass Should Have Been Allowed to Maintain Its Action for Inducement Even after Discovery Produced No Direct Customer Infringement.....	33
C.	The District Court Abused Its Discretion in Awarding Attorneys' Fees Since the Award Included Attorneys' Fees Incurred Prior to any Alleged Misconduct.....	36
VIII.	CONCLUSION	39

ADDENDUM

1. November 21, 2006 District Court Order re: Attorneys' Fee Award Warranted
2. November 14, 2007 District Court Order re: Amount of Attorneys' Fee Award
3. U.S. Patent No. 5,276,311

PROOF OF SERVICE

CERTIFICATE OF COMPLIANCE

TABLE OF AUTHORITIES

CASES

<u>Beckman Instruments, Inc. v. LKB Produktor AB,</u> 892 F.2d 1547 (Fed. Cir. 1989)	24, 37, 38
<u>Brooks Furniture Manufacturing Inc. v. Dutailier International,</u> 393 F.3d 1378 (Fed. Cir. 2005)	28
<u>Computer Docking Station Corp. v. Dell, Inc.,</u> 519 F.3d 1366 (Fed. Cir. March 21, 2008).....	29
<u>Cyber Corp. v. FAS Technologies, Inc.,</u> 138 F.3d 1448 (Fed. Cir. 1998) (<i>en banc</i>)	36
<u>Digeo, Inc. v. Audible, Inc.,</u> 505 F.3d 1362 (Fed. Cir. 2007)	28
<u>Fina Research, S.A. v. Baroid Limited,</u> 141 F.3d 1479 (Fed Cir. 1998)	3, 22, 34, 36
<u>Forest Laboratories, Inc. v. Abbott Laboratories,</u> 339 F.3d 1324 (Fed. Cir. 2003)	26, 27
<u>Golden Blount, Inc. v. Robert H. Peterson Co.,</u> 438 F.3d 1354 (Fed. Cir. 2006)	30
<u>Lang v. Pacific Marine and Supply Co., Ltd.,</u> 895 F.3d 761 (Fed. Cir. 1990)	23, 35, 36
<u>Liquid Dynamics Corp. v. Vaughn Co.,</u> 449 F.3d 1209 (Fed. Cir. 2006)	30
<u>McNeil-PPC, Inc. v. L. Perrigo Co.,</u> 337 F.3d 1362 (Fed. Cir. 2003)	27
<u>Medimmune, Inc. v. Genentech, Inc.,</u> 549 U.S. 118, 127 S.Ct. 764, 166 L.Ed. 2d 604 (2007)	3, 23, 33
<u>Metabolite Labs., Inc. v. Lab. Corp. of Am. Holdings,</u> 370 F.3d 1354 (Fed. Cir. 2004)	31, 34, 35

<u>Molculon Research Corp. v. CBS, Inc.,</u> 793 F.2d 1261 (Fed. Cir. 1986)	30
<u>National Instruments Corp. v. MathWorks, Inc.,</u> 113 Fed. Appx. 895 (Fed. Cir. 2004).....	31
<u>Power MOSFET Tech. LLC v. Siemens AG,</u> 378 F.3d 1396 (Fed. Cir. 2004)	22, 33
<u>SanDisk Corp. v. STMicroelectronics, Inc.,</u> 480 F.3d 1372 (Fed. Cir. 2007)	23, 33
<u>Teva Pharmaceuticals USA, Inc. v. Novartis Pharmaceuticals Corp.,</u> 482 F.3d 1330 (Fed. Cir. 2007)	23, 33

STATUTES

28 U.S.C. § 1295(a)(1)	2
35 U.S.C. § 271(b).....	15, 33, 36
35 U.S.C. § 285	26
35 U.S.C. §271(a).....	15, 34, 35

I. STATEMENT OF RELATED CASES

Pursuant to Circuit Rule 47.5, Plaintiff-Appellant E-Pass Technologies, Inc. ("E-Pass") hereby states that the following two other appeals from the same civil actions were previously before this Honorable Court:

1. Federal Circuit Court of Appeal Case No. 02-1593 arose from the same civil action. This Court published its decision on Case No. 02-1593 on August 20, 2003. The Federal Reporter citation of the decision is entitled, E-Pass Technologies, Inc. v. 3Com Corporation, etc., et al., 343 F.3d 1364 (Fed. Cir. 2003), which indicates that the appellate panel consisted of Circuit Judges Raymond C. Clevenger III, Richard Linn, and Timothy B. Dyk.

2. Federal Circuit Court of Appeal Case Nos. 06-1356, 06-1357, 06-1358 constituted a consolidated appeal that arose from the same civil action. This Court published its decision on this previous consolidated appeal on January 12, 2007. The Federal Reporter citation of the decision is entitled, E-Pass Technologies, Inc. v. 3Com Corporation, etc., et al., 473 F.3d 1213 (Fed. Cir. 2007), which indicates that the Federal Circuit panel consisted of Chief Judge Paul R. Michel and Circuit Judges Richard Linn and Sharon Prost.

Counsel is unaware of any other case now pending in this or any other court that will directly affect or be directly affected by this Court's decision.

II. JURISDICTIONAL STATEMENT

This is an appeal from the United States District Court for the Northern District of California's Orders dated November 21, 2006 and November 14, 2007. These orders comprise the District Court's post-judgment award of attorneys' fees against plaintiff-patentee E-Pass and accordingly constitute a final decision within the meaning of 28 U.S.C. § 1295(a)(1). As a result, this Court has exclusive appellate jurisdiction to review these orders pursuant to 28 U.S.C. § 1295(a)(1).

III. STATEMENT OF ISSUES

1. Whether the District Court erred in finding this case exceptional against plaintiff-patentee E-Pass for alleged litigation misconduct where E-Pass pursued Defendants who had publicly demonstrated that they were planning a massive program to infringe E-Pass's patent, and where E-Pass had a good faith belief that Defendants' public and in-house demonstrations constituted direct infringement.

2. Whether it was litigation misconduct for E-Pass to maintain its suit against Defendants under, Medimmune, Inc. v. Genentech, Inc., 549 U.S. 118, 127 S.Ct. 764, 777, 166 L.Ed. 2d 604 (2007), and Fina Research, S.A. v. Baroid Limited, 141 F.3d 1479, 1485 (Fed Cir. 1998), where Defendants encouraged and/or were preparing to extensively infringe E-Pass's valid and enforceable patent.

3. Whether the District Court abused its discretion in awarding Defendants attorneys' fees incurred prior to any alleged litigation misconduct, even though the District Court found that E-Pass's pre-filing investigation did not make the case exceptional.

IV. STATEMENT OF THE CASE

This case involves Defendants' efforts to roll out a massive program to infringe U.S. Patent No. 5,276,311 entitled, "Method and Device for Simplifying the Use of a Plurality of Credit Cards, or the Like," and owned by E-Pass ("the '311 Patent"). In 2002, the District Court first granted summary judgment that the Defendants did not infringe the '311 Patent based on a claim construction favoring the Defendants. This Court reversed and remanded the case finding that the District Court had construed the claims too narrowly.

After discovery, the District Court again granted summary judgment that the Defendants did not infringe the '311 Patent. This time, the District Court construed the claims more broadly finding that the accused methods still did not infringe because E-Pass had presented "no" evidence of direct customer infringement to support E-Pass's claims that the Defendants were inducing infringement. E-Pass appealed this decision.

While the appeal was still pending, and therefore without the benefit of this Court's decision or reasoning, the District Court ruled on Defendants' motions for attorneys' fees finding that the case was exceptional under 35 U.S.C. § 285 because of litigation misconduct. The District Court found that E-Pass had presented "no" evidence of direct infringement and that E-Pass should not have

proceeded with the case once failing to find any instances of direct customer infringement. The District Court then ordered Defendants to submit accountings of their attorneys' fees.

On January 17, 2007, this Court affirmed the District Court's second summary judgment decision, but only on the grounds that E-Pass's circumstantial evidence of direct infringement was insufficient to support a finding of inducing infringement. This Court, however, denied Appellees' motion for attorneys' fees, ~~finding that the appeal was not frivolous.~~

On November 21, 2007, after this Court had entered its decision on appeal, the District Court awarded Defendants \$2.37 million in attorneys' fees, including fees incurred back to the date of E-Pass's successful reversal and remand in 2003. The District Court's order was published as, E-Pass Technologies, Inc. v. 3Com, Inc., et al., 2007 U.S. Dist. LEXIS 89642 (N.D. Ca. 2007).

In the present appeal, E-Pass requests that this Court reverse the District Court's finding that the case was exceptional. In the alternative, E-Pass requests this Court reverse and remand ordering that the District Court apportion any attorneys' fees and award only those fees incurred after the alleged litigation misconduct and in proportion to the fees actually incurred as a result of any

alleged misconduct.

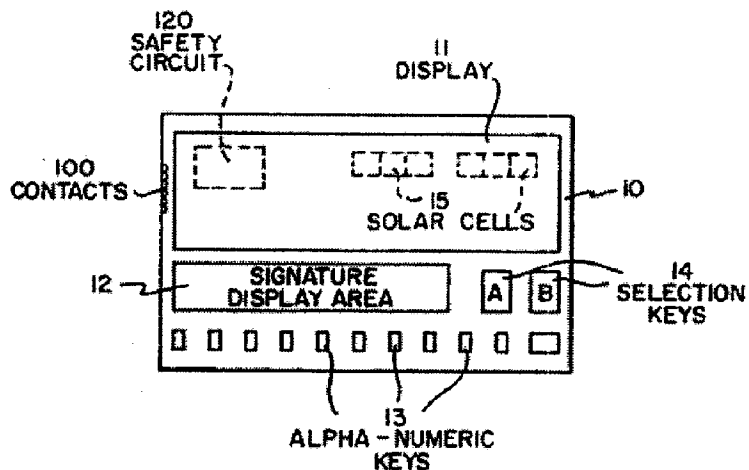
V. STATEMENT OF FACTS

A. E-Pass's Valid and Enforceable '311 Patent and the Asserted Method Claims

This case involved Appellee-Defendants' efforts to massively induce the infringement of U.S. Patent No. 5,276,311 entitled, "Method and Device for Simplifying the Use of a Plurality of Credit Cards, or the Like" (hereinafter, "the '311 Patent"). Plaintiff-Appellant E-Pass Technologies, Inc. ("E-Pass") is the owner by assignment of the '311 Patent and was formed to commercially exploit the invention of the '311 Patent. (A1356).

Hartmut Hennige, the inventor of the '311 Patent, conceived the idea of simplifying the use of a plurality of credit cards, check cards, and customer cards. (A257, A263). He disclosed a method and system involving an electronic multi-function card 10 (see, Figure 1b, reproduced to the

FIG. 1b



right from A258) that had an electronic memory for storing a plurality of

individual data sets representing individual single-purpose cards, displays 11 and 12, and input keys 13 and 14 and contact means 100 accessible from the outside that enable the user to enter a secret code, page through the stored data sets, and select an individual data set to be displayed and read out. (A263). The user would need to carry only the electronic multi-function card instead of the plurality of credit cards. (A263, col. 4, line 5).

The patent issued with forty-four (44) claims, all of which remain valid and enforceable to this day. (A266-A268). In the action below, E-Pass asserted claims 1, 2, 10, 11, 12, 13, 15, 17, and 19 against Defendants. Claim 1 is reproduced below:

1. A method for enabling a user of an electronic multi-function card to select data from a plurality of data sources such as credit cards, check cards, customer cards, identity cards, documents, keys, access information and master keys comprising the steps of:

- transferring a data set from each of the plurality of data sources to the multi-function card;
- storing said transferred data set from each of the plurality of data sources in the multi-function card;
- assigning a secret code to activate the multi-function card;
- entering said secret code into the multi-function card to activate the same;
- selecting with said activated multi-function card a select one of said data sets; and
- displaying on the multi-function card in at least one predetermined display area the data of said selected data set.

None of the Defendants brought any motion for summary judgment that any of the claims of the '311 Patent were invalid or unenforceable, and no court

has ever held any of the claims of the '311 Patent invalid or unenforceable. Had the Defendants rolled out their proposed and publicly demonstrated program to its customers, E-Pass contends that such conduct would have massively infringed the claims of the '311 Patent.

B. Both Palm and Visa Participated in License Negotiations with E-Pass to License the '311 Patent Before They Commenced Their Plans to Infringe the Patent

From its inception, E-Pass embarked on a tireless effort to find a partner within the industry to help it develop a commercial product or process in keeping with E-Pass's '311 Patent. E-Pass contacted, for example, Handspring, Inc., Hewlett-Packard, Casio, Elonex, Compaq Computer, Phillips Electronics, Xircom, Franklin Electronic Publishers, Siemens AG, and Motorola. (A9134-A9147) ~~(A9134)~~. E-Pass held several promising meeting with Microsoft Corporation and received a lucrative licensing proposal from Microsoft. (A9262).

In 1999, E-Pass's attorneys investigated whether 3Com and Palm were infringing or inducing customers to infringe the '311 Patent using Palm's handheld devices. E-Pass's then-attorney, Stephen Weiss, Esq. of Moses & Singer LLP obtained certain Palm handheld products, tested them to determine whether their functions fell within the claims of the '311 Patent, and concluded that there was in fact patent infringement. (A935-A936, ¶¶ 4-6).

In or about December 1999 or January 2000, E-Pass's counsel sent 3Com and Palm a letter seeking to license the rights to the '311 Patent and subsequently spoke to Mark Michael, Esq. and Bill Becker, Esq., 3Com's in-house counsel at the time. (A936, ¶6). Despite E-Pass's good faith attempts to license the '311 Patent, 3Com and Palm declined to license the technology. (A936, ¶8).

Sometime before February 2000, E-Pass also pitched its patented invention to Visa¹ executives. (A6830-A6831, ¶¶ 7-8). Visa showed great interest in the '311 Patent. As a result, E-Pass arranged and participated in a meeting with a number of Visa executives that took place at Visa's headquarters in Foster City, California around February 2000. (A6831, ¶9). Several Visa executives attended the meeting, including Susan Gordon-Lathrop, Vice-President of Product Development, Philip Yen, Senior Vice-President, and W.A. Thaw, Product Director for Chip Products. (A6831, ¶9). E-Pass presented the invention, its purpose, and copies of the '311 Patent to these and other Visa

¹ Visa expended considerable District Court time and attention on the professed differences between Visa U.S.A., Inc. and Visa International Services, Inc. Much of the District Court's criticisms of E-Pass in its orders awarding attorneys' fees were directed to E-Pass's supposed failure to tie Visa U.S.A. to Visa International Services or to any accused conduct. Visa's January 16, 2008 motion to this Court to conform the caption, however, reveals the elusive nature of the business relationship between these apparently conjoined Visa subsidiaries. Visa itself is responsible for any such confusion, causing even its own attorneys to change and then change again the identity of these parties.

executives. (A6831, ¶10). After the meeting, however, Visa did not pursue any further discussions with E-Pass or to discuss a possible partnership or licensing agreement. (A6831, ¶11). Needless to say, E-Pass was disappointed.

C. E-Pass Initiated the Present Litigation to Stop the Inducement of Patent Infringement

On February 28, 2000, based on the evidence and recommendation of E-Pass's then-litigation counsel, E-Pass² filed a complaint for patent infringement against 3Com in the Southern District of New York. On March 6, 2000, E-Pass's attorneys amended the complaint adding Palm as a defendant. (A9090). In the amended complaint, E-Pass accused 3Com and Palm of directly infringing and inducing their consumers to infringe the patented method using their handheld devices. (A9096-A9099). E-Pass's attorneys then consented to the Defendants' motion to transfer the action to the Northern District of California. (A9091).

² For ease of discussion and compliance with convention, any act referred to herein as an act by "E-Pass" also refers to an act by E-Pass's attorneys in handling the case on behalf of E-Pass. Such references must not be construed as any admission or suggestion that E-Pass itself made the deliberative determination to take any particular action that its attorneys elected to take in handling the litigation.

D. Both Palm and Visa Planned to Massively Infringe E-Pass's Patent Rights and Advocated Infringing the '311 Patent

After its initial meetings with Palm and Visa, E-Pass heard nothing from either of them until E-Pass saw a video of the 2001 Consumer Electronics Show in Las Vegas, Nevada ("CES"). Palm and Visa apparently had planned to massively infringe E-Pass's patent rights and had developed a joint program that advocated steps virtually identical to the patented methods of the '311 Patent and shown to them by E-Pass. Palm and Visa demonstrated their program at the country's largest consumer electronics tradeshow, the 2001 CES tradeshow. (A505). During this demonstration, Carl Yankowski, Palm's then-CEO, announced that Palm and Visa were jointly developing a solutions package that would soon transform a Palm handheld device into "a true wallet." (A502).

Mr. Yankowski took out his Palm handheld device and performed the infringing steps. (A505). He then introduced to the audience Susan Gordon-Lathrop as Visa's Vice President of Emerging Consumer Environments who took the microphone and announced the steps that Mr. Yankowski had just performed on his Palm handheld device. (A505). These steps were virtually identical to those recited in claim 1 of the '311 Patent and earlier presented to them by E-Pass. (A936, ¶6; A6831, ¶10).

The announcer described Mr. Yankowski's Palm handheld device as containing stored information associated with his credit cards, phone cards, driver's license, passport, social security card, smartcard door key, and various other cards that people may carry in their wallets. (A500, A505, A506). This mirrored the preamble of claim 1, namely, "A method for enabling a user of an electronic multi-function card to select data from a plurality of data sources such as credit cards, check cards, customer cards, identity cards, documents, keys, access information and master keys." (A266, col. 10, lines 54-58).

Mr. Yankowski selected his Visa card data that had previously been stored in his Palm handheld device. (A505). This mirrored several of the steps of claim 1, namely, "transferring a data set from each of the plurality of data sources to the multi-function card; storing said transferred data set from each of the plurality of data sources in the multi-function card; . . . selecting with said activated multi-function card a select one of said data sets." (A266, col. 10, lines 59-62, 67-68).

His Palm device also contained a secret personal identification number or PIN protecting his credit card data, which he entered to access the Visa credit card data. (A505). This likewise was recited in claim 1, namely, "assigning a secret code to activate the multi-function card; entering said secret code into the

multi-function card to activate the same.” (A266, col. 10, lines 63-66).

Soon afterwards, on April 3, 2001, E-Pass deposed Ms. Gordon-Lathrop about the CES demonstration, and she testified that she was able to see the credit card number displayed on Mr. Yankowski’s Palm device and that she could tell it was a Visa number. ^(A9104 at 14:3-22) ~~(A9100)~~. This mirrored the last element of claim 1, namely “displaying on the multi-function card in at least one predetermined display area the data of said selected data set.” (A267, col. 11, lines 1-3).

That is, in spite of the ‘311 Patent and E-Pass’s presentations to Palm and Visa, the Defendants instead chose to develop their own infringing system which they publicly demonstrated at the nation’s leading tradeshow for consumer electronics. The presentation made it clear that Palm and Visa would be deploying their joint program very soon. Mr. Yankowski referred to this as “the world’s first” commercial credit card transaction performed on a Palm handheld device, one that was “actually going to show up” on his next Visa credit card billing statement because he was using his “real Visa” card number. (A505-A506). He assured the audience that this was not a concept demo, but the “real McCoy.” (A503). Ms. Gordon Lathrop echoed this reality by assuring Mr. Yankowski that he would in fact get a bill from this transaction (A506), and Mr. Yankowski shortly thereafter stated that he saw a digital receipt in his Palm

handheld and announced, "the first real commercial e-wallet purchase by a handheld anywhere." (A506). Palm also produced a promotional video that it exhibited at the CES tradeshow. In the video, Palm claimed that this "mobile e-wallet" is expected to be available in selected cities and stores "by the end of the year." (A473).

E-Pass subsequently learned that Visa had held a high-level in-house briefing in March 2001 on this planned program to massively infringe the '311 Patent. (A9161-A9162, ¶15). At the briefing, Malcolm Williamson, the then-CEO of Visa International, performed a demonstration of a wireless payment transaction using a Palm handheld device. (A9161-A9162, ¶15). He selected Visa credit card information stored in the device to be used in a wireless payment transaction. (A9162, ¶17). He was prompted to enter a password/PIN. (A9162, ¶17). After entering in a four-digit password/PIN, the device authorized transmission of payment card information from the Palm handheld device to the point-of-sale terminal. (A9162, ¶17). The Palm device displayed the Visa logo (A9110-A9111) and credit card information on the screen. ~~(A9109)~~.

At no time during her April 3, 2001 deposition did Ms. Gordon-Lathrop ever claim that the demonstration was merely a "simulation" or that Visa was not implementing this joint program throughout the United States. (A9100-A9118).

Thus, this in-house demonstration itself infringed at least one or more of the claims of the '311 Patent and had the apparent purpose of teaching Visa executives and personnel how to infringe the '311 Patent. It also foreshadowed the infringing program Visa had planned to deploy throughout the country.

E. E-Pass Initiated Further Litigation to Stop Visa and Palm's Joint Plan to Infringe

On August 12, 2002, the District Court granted summary judgment of non-infringement, finding that the patent claims were limited to conduct performed on a device the size and thickness of an actual credit card. (A8959). On August 20, 2003, this Court vacated the District Court's summary judgment and remanded the case, holding that this claim construction was too narrow. (A8959). Following the Federal Circuit's remand in the 3Com matter, E-Pass relied upon the advice of its then-litigation attorneys and filed a complaint against Visa International, Inc. and Visa USA, Inc. alleging that the Visa Defendants were inducing their customers to infringe the '311 Patent on Palm handheld devices and sought, among other remedies, that the Court "adjudge and decree" that Visa infringed and induced others to infringe the '311 Patent under 35 U.S.C. §271(a) and (b). (A6831, ¶12; A6832-A6833).

Shortly thereafter, E-Pass also filed a complaint against PalmOne, PalmSource, and Handspring, extending its allegations to include the next-generation Palm handheld devices and to PalmOne and PalmSource when E-Pass learned that Palm had split into these two entities. (A1355-A1356). In the complaint, E-Pass alleged and sought, among other remedies, that the Court “adjudge and decree” that PalmOne, PalmSource, and Handspring infringed, induced others to infringe, and have contributed to the infringement of the ‘311 Patent under 35 U.S.C. §271(a), (b), and (c). (A1358).

The District Court coordinated these cases, and a series of discovery disputes and law and motion matters ensued. After remand, the Defendants had filed two motions to dismiss (A151) and thirteen (13) different motions for summary judgment. (A1765, A1792, A2669, A3413, A163, A3516, A3983, A4001, A4341, A4561, A5080, A5141, and A9119). The District Court denied the motions to dismiss (A151), as well as a motion to compel E-Pass to supplement its patent infringement contentions brought by PalmSource. (A1761-A1762).

All of the motions for summary judgment prior to April 15, 2005 focused solely on the issue of claim construction. Then, on April 15, 2005, Visa belatedly submitted a declaration of Susan Gordon-Lathrop claiming that the

Defendants never rolled out their program in the United States and that, contrary to Ms. Gordon-Lathrop's deposition testimony four (4) years earlier, any public or in-house demonstrations were only "simulations." (A9162-A9163, at ¶¶ 12-18). That is, more than four years after the 2001 CES and in-house demonstrations and Ms. Gordon-Lathrop's sworn deposition conducted while these demonstrations were still fresh in her mind, Ms. Gordon-Lathrop changed her story and contradicted several of Mr. Yankowski's very public statements.

On the same day, Visa argued that E-Pass could not point to any instance of direct customer infringement. (A9159; A217; A3677). PalmSource likewise argued, for the first time, that if E-Pass cannot point to any instance of direct infringement, then its claim of inducement must fail. (A3522).

In view of this turn of events and just fourteen (14) days to file a reply, E-Pass's then-litigation counsel complained of Defendants' obstruction of discovery (A3675; A3617), with which the District Court apparently agreed. (A9166). As a result, on May 24, 2005, the District Court continued the hearing on the summary judgment motions to September 23, 2005 in order to give Defendants additional time to complete their responses to the outstanding discovery and to allow for a third and last round of summary judgment motion papers. (A9166). After considering their options, E-Pass's counsel ultimately

chose to drop their theory of inducement that was based on the Defendants' joint program and return to their original theory of inducement which was based on what they considered overwhelming circumstantial evidence of direct infringement. (A5486, fns. 8 and 9; A5504, fn. 3; A5507, fns. 12 and 13; A5511, fn. 27).

On March 17, 2006, the District Court granted summary judgment of non-infringement in favor of all Defendants, holding that the claim term, "electronic multi-function card" did not read on the accused handheld devices (A5710), and that E-Pass had presented "no" direct evidence of infringement. (A5691, A5699). The District Court did not separately address whether E-Pass's circumstantial evidence could support a finding of actual or imminent direct infringement. (A5691-A5699). E-Pass appealed this decision.

F. The District Court Improperly Awarded Defendants \$2.37 Million in Attorneys' Fees, Including Attorneys' Fees Incurred Before Any Alleged Misconduct

While the appeal was pending and without this Court's subsequent decision, the District Court granted Defendants' motions for attorneys' fees finding the case exceptional under 35 U.S.C. § 285. The District Court exercised its discretion to award attorneys' fees against E-Pass, and ordered Defendants to submit accountings of their fees. (A45). The District Court based

its decision on what it deemed litigation misconduct, but it never identified at what point E-Pass's litigation conduct amounted to misconduct warranting an award of attorneys' fees, nor did the District Court relate the award to the attorneys' fees incurred as a result of the misconduct.

The District Court specifically found that E-Pass's pre-filing investigation was sufficient to avoid making the case exceptional. (A26). The District Court awarded attorneys' fees incurred even before any alleged litigation misconduct, including fees as far back as the date the case was remanded from this Court in 2003. (A45). The District Court raised a number of criticisms of E-Pass's then-counsel, but the decision suggests that the District Court was foremost critical of how E-Pass changed its litigation theory after the belated testimony of Visa's Ms. Gordon-Lathrop on April 15, 2005.³

³ The District Court also criticized some litigation conduct that proceeded April 15, 2005, but a close review of this earlier conduct suggests that this conduct alone would not have resulted in an exceptional case finding. For example, the District Court criticized E-Pass for filing its claim chart three months late (A32) and added several new products to its list of accused products during the course of this lengthy litigation. (A42). The addition of these products, however, was precipitated by Defendants' own timing of its commercial launches of these new products. The District Court also criticized E-Pass for initially claiming, but then dropping direct and contributory infringement. (A29). Yet, withdrawing claims for relief as a case progresses should be encouraged, not made a basis for an exceptional case finding.

On January 12, 2007, this Court issued its decision on the appeal from the second summary judgment decision affirming the summary judgment decision, but on different grounds. This Court acknowledged that E-Pass had presented evidence in support of a finding of direct infringement and evaluated and separately addressed E-Pass's evidence. (A8970-A8971). It then concluded that E-Pass's circumstantial evidence was insufficient to support a claim of direct infringement. (A8969). Then, Visa filed a motion with this Court under Rule 38 of the Federal Rules of Appellate Procedure to recoup its attorneys' fees, but this Court denied the motion and no attorneys' fees were awarded against E-Pass. (A66-A67).

VI. SUMMARY OF ARGUMENT

Although this Court ultimately found E-Pass's circumstantial evidence of infringement to be insufficient, E-Pass's theory was at least plausible and justifiable at the time, albeit ultimately unsuccessful. E-Pass's chances of prevailing were at least reasonably disputable for purposes of the "exceptional case" determination. In fact, this Court denied Defendants' motion for attorneys' fees on appeal, ~~finding that E-Pass's appeal on these facts was not frivolous or in bad faith.~~ Also, any fee award should have been limited to those fees incurred as a result of the misconduct.

**A. E-Pass's Conduct Was in Good Faith and There Was
Insufficient Litigation Misconduct**

The District Court seemed to take offense at E-Pass's attorneys' decision to shift their theory of infringement, and it considered the shift to be improper. That is, a closer look at the record reveals that most of the District Court's criticisms of E-Pass arose primarily from E-Pass's attorney's reaction and response to Visa's belated claim that the CES demonstration was only a "simulation" and that its joint program with Palm to infringe was never implemented in the United States.

Defendants should not be rewarded for Palm and Visa's failure to disclose this very important information, regardless of whether this failure was intentional or inadvertent. They knew for years that E-Pass was intending to rely on this program and these demonstrations to show direct infringement as well as intent by Visa and Palm to induce customers to infringe. They also certainly knew long before April 15, 2005, that the program was never implemented and the demonstrations were mere "simulations." Their failure to disclose this in a timely manner caused E-Pass and the Court to waste substantial time and resources on what turned out to be a non-existent basis for liability and caused much of E-Pass's litigation conduct that was criticized by the District Court.

2004) (affirming district court's denial of attorneys' fees, despite exceptional case finding, on the grounds that the party seeking the award committed acts justifying the denial).

Even without any evidence of direct infringement or only weak circumstantial evidence, E-Pass should have been allowed to maintain its suit against Defendants and obtain at least a declaration that the planned and demonstrated conduct was infringing the '311 Patent. Defendants advocated infringing a valid and enforceable patent with the Defendants' products, and planned to do so in the future in a very big way. Simply because no direct customer infringement was uncovered during discovery, the District Court should not have precluded E-Pass from seeking at least a declaratory judgment that such conduct would constitute inducement and the equitable remedy of an injunction of such future infringing conduct.

In fact, this Court has held that a declaratory judgment action can be maintained in the absence of any direct infringement, and this is true even where only inducement is at issue. Fina Research, S.A. v. Baroid Limited, 141 F.3d 1479, 1485 (Fed Cir. 1998) (explicitly declining to create a *per se* rule that an actual controversy predicated solely on inducement can exist "only if direct

infringement has already occurred”); SanDisk Corp. v. STMicroelectronics, Inc., 480 F.3d 1372, 1381 (Fed. Cir. 2007) (accused party need not engage in the disputed activity before seeking a declaration of its legal rights); Teva Pharmaceuticals USA, Inc. v. Novartis Pharmaceuticals Corp., 482 F.3d 1330, 1337-38 (Fed. Cir. 2007) (justiciable controversy can arise from either actual or imminent injury) (citing, Medimmune, Inc. v. Genentech, Inc., 549 U.S. 118, 127 S.Ct. 764, 777, 166 L.Ed. 2d 604 (2007) (licensee need not breach license agreement to create a case or controversy))).

This Court has also held that a patentee has the equal right to seek a declaratory judgment that certain conduct would constitute direct infringement before it has been committed. Lang v. Pacific Marine and Supply Co., Ltd., 895 F.3d 761, 764 (Fed. Cir. 1990) (holding that patentee should be able to seek a declaration of infringement against a future infringer when a future infringer is able to maintain a declaratory judgment action under the same circumstances”).

Taken together, these decisions support a conclusion that a plaintiff-patentee, such as E-Pass, should have the right to maintain an equitable action alleging inducement even in the absence of direct infringement. In essence, this is what E-Pass’s previous litigation counsel was attempting when they argued that the circumstantial evidence supported a conclusion that there has been (or

implicitly will be) some direct infringement. E-Pass should have been permitted to maintain its action against Palm and Visa's joint program -- especially here where the direct infringement that these two industry leaders would cause throughout the country. E-Pass would have been gravely harmed and left with very limited remedial options, and certainly little prospect for exploiting its invention with others.

B. Any Attorneys' Fees Award Should Have Been Limited to Those Fees Incurred After the Misconduct and Necessitated by the Misconduct

Nevertheless, if the Court upholds the exceptional case determination, it should find that the District Court abused its discretion in the amount of attorneys' fees that were awarded in favor of a proper apportionment. That is, where a District Court justifies a fee award solely upon bad faith misconduct during litigation, as it did here, the award must be in some way related to the bad faith and misconduct. Beckman Instruments, Inc. v. LKB Produktor AB, 892 F.2d 1547 (Fed. Cir. 1989) (reversing an award of all fees from inception of case as unreasonable because the district court had justified the fee award solely upon the bad faith misconduct during litigation, and such an award must be "in some way related to" the bad faith and misconduct).

In this case, the District Court awarded attorneys' fees to PalmSource and

to the Visa Defendants from the inception of the lawsuits rather than apportioning the attorneys' fees to those incurred after the alleged misconduct. The District Court even acknowledged that E-Pass's pre-filing investigation did not make the case exceptional. (A26). The District Court should have apportioned any fees and awarded only those fees incurred after E-Pass should have dropped the suit, presumably once E-Pass failed to uncover instances of direct infringement or the Defendants' belated revelation that the infringing conduct was only a "simulation."

The fees awarded to Palm including fees incurred as early as the day this Court remanded the case in 2003 -- that is, the date E-Pass *successfully* overcame the District Court's first summary judgment decision. Palm's fees should have likewise been apportioned and only those fees that Palm incurred after this critical juncture should have been awarded, if any. Any alleged litigation misconduct should have been considered in the context of what Defendants' attorneys had to actually expend as a result of such misconduct.

VII. ARGUMENT

The District Court erroneously found the case below exceptional pursuant to 35 U.S.C. § 285 and abused its discretion in awarding \$2.37 million in attorneys' fees against E-Pass. This case does not meet the high standard of

Section 285 because E-Pass's litigation conduct was not in bad faith, and even if it had, the District Court did not properly apportion the attorneys to relate them to the alleged misconduct.

A. The District Court Erred in Finding This an Exceptional Case Under 35 U.S.C. § 285 Because E-Pass's Infringement Claims Were Not in Bad Faith

1. An Exceptional Case Finding Against a Patentee Should Be Reversed If the Patentee's Case for Infringement Could Reasonably Be Disputed

The District Court in "exceptional" cases may award reasonable attorneys' fees to the prevailing party. 35 U.S.C. § 285. The determination of whether a case is exceptional and, thus, eligible for an award of attorneys' fees under Section 285 is a two-step process. First, the district court must determine whether the prevailing party has proved by clear and convincing evidence that the case is exceptional. Forest Laboratories, Inc. v. Abbott Laboratories, 339 F.3d 1324, 1327 (Fed. Cir. 2003) (reversing exceptional case determination against patentee, despite the district court's finding that the patentee had acted in bad faith in bringing its suit, holding instead that the patentee's litigation position not "clearly and convincingly vexatious, unjustified, or frivolous"). Second, if the district court finds the case exceptional, it must then determine whether an award

of attorneys' fees is appropriate, which this Court reviews for an abuse of discretion. Id. at 1328.

This Court reviews *de novo* whether the district court applied the proper legal standard under Section 285 and reviews the district court's factual findings, including whether the case is exceptional, for clear error. Id. A finding is clearly erroneous when, despite some supporting evidence, the reviewing court on the entire evidence is left with "the definite and firm conviction that a mistake has been committed." Id.

In Forest Labs, this Court noted that findings of exceptionality under Section 285 against patentees are limited to circumstances in which it is necessary to prevent "a gross injustice" to the accused infringer and that the Federal Circuit has upheld findings of exceptionality against patentees only when the patentee procured its patent in bad faith or litigated its claim of infringement in bad faith. Id. at 1329. This Court has so held, in large part, because attorney fees are not to be routinely assessed against a losing party in litigation in order to avoid "penalizing a party for merely defending or prosecuting a lawsuit." McNeil-PPC, Inc. v. L. Perrigo Co., 337 F.3d 1362, 1372 (Fed. Cir. 2003) (reversing attorneys' fees award against patentee, despite the district court finding that the patents in suit were invalid, because the patents at the time of suit were presumed

valid and the patentee had advanced a plausible, albeit an ultimately wrong theory of infringement).

This is particularly important in the patent infringement area since the question of patent infringement is often difficult to determine, and a patent owner's "ultimately incorrect view of how a court will find" does not of itself establish bad faith. Brooks Furniture Manufacturing Inc. v. Dutailier International, 393 F.3d 1378, 1384 (Fed. Cir. 2005) (reversing attorneys' fees award against patentee that was based on a clearly erroneous finding that the patentee's pre-filing investigation was inadequate). So long as the infringement "can reasonably be disputed," the infringement action is not exceptional in terms of Section 285. Id.

In fact, this Court has looked to the accused infringer's conduct to support the Court's refusal to find a case exceptional. See, Digeo, Inc. v. Audible, Inc., 505 F.3d 1362, 1366-67 (Fed. Cir. 2007) (infringement suit found not exceptional even though publicly available patent assignment records suggested "sloppy" paperwork because, among other things, it took the accused infringer "at least a year of litigation" to discover the problem with the ownership of the patent in suit). The Court has also looked to whether the conduct on which the exceptional case finding was based was the sole issue in the action or only one of

many issues in the action. See, Computer Docking Station Corp. v. Dell, Inc., 519 F.3d 1366, 1380 (Fed. Cir. March 21, 2008) (affirming the district court's refusal to find case exceptional, in part on the grounds that the parties had devoted substantial portion of the case litigating other claim construction issues not related to the ultimately fatal claim construction).

2. The Exceptional Case Finding Was Erroneous Because E-Pass's Infringement Claims Were At Least Reasonably Disputable

In its November 21, 2006 Order, the District Court found that this was an exceptional case based upon litigation misconduct. A close evaluation of the District Court's criticisms reveals that misconduct was largely precipitated by the belated April 15, 2005 Declaration of Visa's Vice President of Product Development, Susan Gordon-Lathrop that Defendants never rolled out their program in the United States and that any public or in-house demonstrations were only "simulations" -- contrary to Ms. Gordon-Lathrop's deposition testimony taken within months of these demonstrations and before Visa was named as a defendant.

In response to this declaration, E-Pass's attorneys decided that they would have to focus instead on their original theory of inducement. This was based on circumstantial evidence of direct infringement in keeping with this Court's

decision in, Moleculon Research Corp. v. CBS, Inc., 793 F.2d 1261 (Fed. Cir. 1986). Moleculon owned a patent on the method for solving a Rubik's cube-like puzzle. It sued CBS for, among other things, inducing its customers to infringe Moleculon's method claim. Id. at 1263-64. To support its inducement claim, Moleculon presented only circumstantial evidence of direct infringement, namely, evidence of CBS's extensive puzzle sales, the instruction sheet disseminated with each puzzle that taught how to solve the puzzle, and the availability of a solution booklet also teaching how to solve the puzzle. Id. at 1272. Over challenges by CBS, the district court held that this circumstantial evidence was sufficient, and this Court affirmed. Id. The Court reaffirmed that "it is hornbook law" that direct evidence of a fact is not necessary and that circumstantial evidence is not only sufficient, but may also be more persuasive than direct evidence. Id.

This Court has found circumstantial evidence to be sufficient in a large and diverse variety of fact patterns. Liquid Dynamics Corp. v. Vaughn Co., 449 F.3d 1209, 1220 (Fed. Cir. 2006) (finding could reasonably rely on engineering manual to complete missing structural data for infringement determination); Golden Blount, Inc. v. Robert H. Peterson Co., 438 F.3d 1354 (Fed. Cir. 2006) (owner's guide is sufficient circumstantial evidence of direct infringement despite

contrary evidence by way of market research); National Instruments Corp. v. MathWorks, Inc., 113 Fed. Appx. 895, 898 (Fed. Cir. 2004) (training seminar and training materials found sufficient to support both direct and induced infringement); Metabolite, 370 F.3d at 1365 (Lab. Corp.'s own publications were sufficient to support both direct infringement and intent to induce). In light of this long and diverse line of precedent, E-Pass was within its rights to argue that a jury finding of direct infringement in this case could be supported by circumstantial evidence. At a minimum, the decision by E-Pass's then-litigation counsel to rely on circumstantial evidence should not have been used by the District Court to find the case exceptional.

Under these circumstances, E-Pass should have had the opportunity to maintain its action even without proof of direct infringement since the injury still appeared imminent and the dispute could be redressed by a judicial declaration or the equitable remedy of an injunction. At a minimum, these circumstances should not warrant an exceptional case finding.

Despite the District Court's claims that E-Pass had presented "no evidence of direct infringement," this Court acknowledged in the previous appeal that E-Pass had in fact presented several pieces of evidence. This Court evaluated this evidence at length, even though it ultimately concluded that the evidence was

insufficient to support a finding of direct infringement. This Court then refused to award attorneys' fees in the previous appeal against E-Pass. The District Court nevertheless repeated its claim that E-Pass had presented "no" evidence of direct infringement and awarded attorneys' fees, despite having before it the very same legal issues and factual record as did this Court upon refusing to award the attorneys' fees on appeal.

Moreover, Defendants should not be rewarded for Palm and Visa's failure (whether intentional or inadvertent) to disclose in an expeditious manner this very important information that they never rolled out their program or that its public and in-house demonstrations were mere "simulations." They knew for years that E-Pass was going to rely on this program and these demonstrations as its showing of direct infringement as well as intent by Visa and Palm to induce customer infringement. They also certainly knew long before April 15, 2005 that their joint program was never implemented and the demonstrations were only simulations, and their failure to disclose this earlier caused E-Pass and the Court to waste substantial time and resources on a what turned out to be a non-existent basis for liability. It is this failure by Palm and Visa that appears to be the root cause of much of E-Pass's litigation conduct that was criticized by the District Court. Where the party seeking the award committed bad acts itself, an award of

attorneys' fees is unwarranted. Power MOSFET, 378 F.3d at 1415.

B. E-Pass Should Have Been Allowed to Maintain Its Action for Inducement Even after Discovery Uncovered No Direct Customer Infringement

E-Pass should have been allowed to maintain its action alleging inducement under 35 U.S.C. § 271(b) even after discovery suggested that there might not be any direct customer infringement. E-Pass should have been permitted to see its action through to its rightful conclusion of a declaratory judgment or injunctive relief from Defendants' planned acts of infringement.

The Supreme Court and this Court has recently clarified that the declaratory judgment statute does not require an act of direct infringement in order for there to be an Article III actual case or controversy. Medimmune, Inc. v. Genentech, Inc., 549 U.S. 118, 127 S.Ct. 764, 777, 166 L.Ed. 2d 604 (2007) (holding that patent licensee need not commit direct infringement by breaching the license agreement to create an actual case or controversy); SanDisk Corp., 480 F.3d at 1381 (holding that case or controversy will arise where a patentee asserts patent rights based on certain identified planned activity of another party and that the party need not engage in the identified activity before seeking a declaration of its legal rights); Teva Pharmaceuticals USA, Inc. v. Novartis Pharmaceuticals Corp., 482 F.3d 1330, 1337-38 (Fed. Cir. 2007) (holding after

Medimmune that a justiciable controversy can arise from either an actual or an imminent injury that can be redressed by judicial relief and postponing a decision would work a substantial hardship on the challenging party).⁴

Additionally, this Court has held that, even where only inducement is at issue, the accused inducer is not precluded from maintaining a declaratory judgment action just because the accused inducement is only prospective. Fina Research, S.A. v. Baroid Limited, 141 F.3d 1479, 1485 (Fed Cir. 1998) (explicitly declining to create a *per se* rule that an actual controversy predicated on inducement can exist “only if direct infringement has already occurred”).

Although not as common as the a declaratory judgment by an alleged infringer, it is possible for a patentee to also seek a declaratory judgment against a future infringer. Metabolite, 370 F.3d at 1369. Principles of fairness mandate that a patentee should be able to seek a declaration of infringement against a future infringer when a future infringer is able to maintain a declaratory judgment

⁴ In 1994, Congress broadened the definition of a patent infringer to include anyone who “offers to sell. . .” 35 U.S.C. § 271(a), as amended on December 8, 1994. This amendment demonstrates that Congress likewise saw the wisdom of not barring a patentee from bringing suit until after the ‘deed is already done’ since this amendment had the effect of opening up patent infringement actions to such acts even before -- or even in the absence of -- any actual sale of infringing goods within the United States.

action for noninfringement under the same circumstances. Lang, 895 F.3d at 764 (holding that any concern that the alleged future infringer might alter its course of conduct or discontinue it altogether should not cause a dismissal of a suit by the patentee any more than it should in a suit by the accused infringer).

All that a patentee needs to satisfy for the controversy requirement against an alleged future infringer is: (1) the defendant must be engaged in an activity directed to making, selling, or using, subject to an infringement charge under 35 U.S.C. § 271(a), or be making meaningful preparation for such activity; and (2) acts of the defendants must indicate a refusal to change the course of its actions in the face of action by the patentee sufficient to create a reasonable apprehension that a suit will be forthcoming. Lang, 895 F.3d at 764 (applying the pre-Medimmune reasonable apprehension test); see, also, Metabolite, 370 F.3d at 1369 (Fed. Cir. 2004) (applying Lang to dismiss an declaratory judgment action by a patentee against a licensee because the license was, in essence, prior to Medimmune, the patentee's covenant not to sue the licensee).

Taken together, the foregoing decisions dictate that a plaintiff-patentee such as E-Pass may bring an action alleging inducement in good faith, even if it later fails to uncover any direct infringers because the Defendants have yet to roll out their extensive program to infringe. E-Pass should have been permitted, like

the alleged infringer in Fina Research, to obtain a declaratory judgment that the Palm and Visa Defendants' proposed and demonstrated systems would constitute infringement under 35 U.S.C. § 271(b) should Defendants fully implement their infringing program.

Moreover, E-Pass should not be held liable for Defendants' attorneys' fees before April 15, 2005 when, after four (4) years of silence, Palm and Visa belatedly claimed that their CES demonstrations were mere "simulations," and that they had never implemented the demonstrated program in the United States.

C. The District Court Abused Its Discretion in Awarding Attorneys' Fees Since the Award Included Attorneys' Fees Incurred Prior to any Alleged Misconduct

If this Court is not willing to reverse the District Court's exceptional case finding, then it should reverse the District Court's determination of the amount of attorneys' fees awarded. A district court abuses its discretion when its decision is based on clearly erroneous findings of fact, is based on erroneous interpretations of the law, or is clearly unreasonable, arbitrary, or fanciful. Cyber Corp. v. FAS Technologies, Inc., 138 F.3d 1448, 1460, 1461 (Fed. Cir. 1998) (*en banc*) (finding that the refusal to award enhanced damages was not an abuse of discretion "particularly in light of" willful infringer's "justifiable albeit unsuccessful" arguments regarding non-infringement).

Cir. 1989), the district court had found the case exceptional on the grounds of litigation misconduct and awarded of all of the prevailing party's attorneys' fees. The Federal Circuit held that the district court had abused its discretion in awarding *all* of the prevailing party's attorneys' fees on the grounds that the amount awarded was unreasonable. Id. at 1552 and 1553. This Court held that the amount of the award was unreasonable because, where the district court justifies the fee award solely upon the bad faith misconduct during litigation, the award "must be in some way related to the bad faith and misconduct." Id. at 1553. The award of *all* of the party's attorneys' fees from the inception of the suit was an abuse of discretion. Id.

Here, the District Court made the same mistake by not apportioning the attorneys' fees in proportion to the alleged misconduct and the attorneys' fees Defendants incurred as a result thereafter. The District Court's award of PalmSource's and the Visa Defendants' attorneys' fees starting from the inception of their respective cases was unreasonable and an abuse of discretion. Likewise, the District Court's award of the Palm Defendants' fees starting from the very date E-Pass successfully obtained a reversal of the District Court's first summary judgment decision, was unreasonable and an abuse of discretion. None of these

fee awards bear any reasonable relation to the misconduct alleged by the District Court.

As this Court held in Beckman, awarding all attorneys was reversible error under these circumstances. The District Court should have apportioned the fees and awarded only those fees incurred after E-Pass should have dropped the suit, presumably once E-Pass failed to uncover instances of direct infringement, and finding out that the actual infringement demonstrated at the CES show was only a “simulation.”

The fees awarded to Palm were also unreasonable. The District Court awarded Palm the fees it incurred after the remand from this Court in 2003, but this is not when E-Pass allegedly committed any litigation misconduct even according to the District Court. In fact, E-Pass had just been vindicated by this Court in 2003, which had just entered a decision reversing the District Court’s summary judgment against E-Pass and agreeing with E-Pass’s proposed claim construction of the disputed “electronic multi-function card.” The District Court should have instead awarded only those fees that Palm incurred after E-Pass’s alleged misconduct, if any, and that were related to Defendants’ resulting attorneys’ fees incurred.

The District Court never identified at what point E-Pass's litigation conduct rose to the level of misconduct warranting an exceptional case determination. It specifically found that E-Pass's pre-filing investigation was sufficient to avoid making the case exceptional. (A26). This means that neither filing the complaints themselves, nor the early law and motion practice justified an exceptional case finding. The District Court failed to identify the point in time where the litigation misconduct occurred and apportion the fee award accordingly. Such failure is reversible error because the award bears no relation to the misconduct or the subsequent additional attorneys' fees incurred by the Defendants as a result.

VIII. CONCLUSION

The District Court improperly found this case to be exceptional and improperly awarded attorneys' fees against E-Pass untethered to any alleged misconduct. The District Court's finding should be reversed because E-Pass was well within its rights to pursue the massive infringement planned and demonstrated by the Defendants. Recent Supreme Court law and this Court's pronouncements make clear that a patentee does not have to wait for defendants to infringe before seeking a declaration of infringement. Absence of a direct infringer does not preclude relief.

Equally importantly, any award of attorneys' fees against E-Pass should not have included fees incurred from prior to the alleged misconduct. Any fee award must be determined from Defendants' fees incurred as a result of the litigation misconduct, not in advance of the misconduct. Here, the District Court failed to make this determination of when the misconduct occurred and what attorneys' fees resulted therefrom.

For these and the other foregoing reasons, the District Court's attorneys' fee award should be reversed and the case dismissed. Or, at a minimum, the case should be remanded for a proper calculation limited to fees incurred as a result of the litigation misconduct, if any, not in advance of the misconduct.

Respectfully submitted,

CISLO & THOMAS LLP

Date: May 27, 2008



Daniel M. Cislo, Esq.

Kelly W. Cunningham, Esq.

Counsel for Plaintiff-Appellant
E-PASS TECHNOLOGIES, INC.

PATENT

REEL: 021763 FRAME: 0301

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

2008-1144, -1145, -1146

E-PASS TECHNOLOGIES, INC.,
Plaintiff-Appellant,

v.

3COM CORPORATION (also known as 3COM, Inc.),
PALM, INC., PALMONE, INC. and HANDSPRING, INC.,
Defendants-Appellees,

and

VISA INTERNATIONAL SERVICE ASSOCIATION
and VISA U.S.A., INC.,
Defendants-Appellees,

and

ACCESS SYSTEMS AMERICAS, INC. (formerly PalmSource, Inc.),
Defendant-Appellee,

Appeals from the United States District Court for the Northern District of California in
case nos. 00-CV-2255, 03-CV-4747, and 04-CV-0528, Senior Judge D. Lowell Jensen.

PLAINTIFF-APPELLANT E-PASS TECHNOLOGIES, INC.'S
REPLY BRIEF

Daniel M. Cislo, Esq.
Kelly W. Cunningham, Esq.
Mark D. Nielsen, Esq.
CISLO & THOMAS LLP
1333 2nd Street, Suite 500
Santa Monica, California 90401
Tel.: (310) 451-0647
Fax: (310) 394-4477
Email: dancislo@cislo.com
kcunningham@cislo.com

Date: August 11, 2008

CERTIFICATE OF INTEREST (CIRCUIT RULE 47.4)

Counsel for Appellant E-Pass Technologies, Inc. certifies the following:

1. The full name of every party or amicus represented by me is:

E-PASS TECHNOLOGIES, INC.

2. The name of the real party in interest (if the party named in the caption is not the real party in interest) represented by me is: N/A

3. All parent corporations and any publicly held companies that own ten (10) percent or more of the stock of the party or amicus curiae represented by me are: N/A

4. The names of all law firms and the partners or associates that appeared for the party or amicus now represented by me in the trial court or agency or are expected to appear in this court are:

CISLO & THOMAS LLP

Daniel M. Cislo, Esq., CA Bar No. 125,378
Kelly W. Cunningham, Esq., CA Bar No. 186,229
Mark D. Nielsen, Esq., CA Bar No. 210,023

MOSES & SINGER LLP

Stephen N. Weiss, Esq., NY Bar No. 1,004,225
Gregory J. Fleesler, Esq., NY Bar No. 2,810,745
Michael J. Pospis, Esq., NY Bar No. 4,105,938

SQUIRE SANDERS & DEMPSEY LLP

Mark S. Dosker, Esq., CA Bar No. 114,789
Joseph A. Meckes, Esq., CA Bar No. 190,279
Daniel T. Balmat, Esq., CA Bar No. 230,504

TABLE OF CONTENTS

CERTIFICATE OF INTEREST (Circuit Rule 47.4)

TABLE OF AUTHORITIES	iv
I. INTRODUCTION	1
II. ARGUMENT	3
A. Appellees Did Not Refute that Palm and Visa’s Joint Program Infringed E-Pass’s Patent	3
1. The Question of Whether the Palm Devices Constituted Electronic Multi-Function Cards Under the Doctrine of Equivalents Was Reasonably Disputable	6
2. The Question of Whether the Claimed Steps Must Be Performed in the Order Written Was Reasonably Disputable	9
3. Whether the Joint CES Demonstration and Visa’s In- House Demonstration Constituted Evidence of Direct Infringement and Intent to Induce Was Reasonably Disputable	11
a. The Belated Lathrop Declaration Should Have Been Disregarded on Summary Judgment as Inherently Unreliable and Controverted By Her Own Earlier Deposition Testimony	16
b. Claim 1 of the ‘311 Patent Does Not Require any “Commercial Transaction” and Yankowski Performed All the Recited Method Steps.....	20

B.	Appellees Did Not Refute E-Pass’s Right to Pursue an Infringement Determination or an Injunction of Palm-Visa’s Imminent Infringement	23
C.	Neither E-Pass Nor Appellees Found Any Authority to Suggest that this Case Became Exceptional Because E-Pass Was “Shifting” Legal Theories of Infringement.....	29
D.	Appellees Did Not Refute That E-Pass’s Circumstantial Evidence of Direct Infringement Was Reasonably Disputable	30
E.	Appellees Did Not Refute that the District Court’s Award of Attorneys’ Fees Back to this Court’s Remand in 2003 Bears No Relationship to Any Purported Litigation Misconduct	34
F.	Appellees’ Other Arguments that the Case Was Exceptional Also Fail	36
1.	E-Pass Sufficiently Placed all Visa and Palm Defendants on Notice that E-Pass Contended They Were Liable for the Joint CES Demonstration in Las Vegas.....	36
2.	E-Pass Did Not Name or Maintain Visa USA as a Defendant in Bad Faith.....	38
3.	The District Court Did Not Base Its Exceptional Case Determination on E-Pass’s Pre-Filing Investigation.....	40
4.	Visa’s Allegations of Misconduct That Were Not Cited By the District Court Should Not Be Considered and Cannot Be a Basis for an Exceptional Case Determination	41

5. Palm's Allegations of Litigation Misconduct Are

Equally Unavailing..... 43

G. E-Pass's Appeal Is Not Frivolous as to Any of the Defendants..... 45

III. CONCLUSION 48

PROOF OF SERVICE

CERTIFICATE OF COMPLIANCE

TABLE OF AUTHORITIES

CASES

<u>Altris, Inc. v. Symantec Corp.,</u>	
318 F.3d 1363 (Fed. Cir. 2003)	9
<u>Brooks Furniture Manufacturing Inc. v. Dutailier International,</u>	
393 F.3d 1378 (Fed. Cir. 2005)	15, 30
<u>Caraco Pharmaceutical Labs, Ltd. v. Forest Labs, Inc.,</u>	
527 F.3d 1278 (Fed. Cir. 2008)	45
<u>Cybor Corp. v. FAS Technologies, Inc.,</u>	
138 F.3d 1448 (Fed. Cir. 1998) (<i>en banc</i>)	8
<u>eBay, Inc., et al. v. MercExchange LLC,</u>	
547 U.S. 388, 126 S.Ct 1837, 164, L.Ed.2d 641 (2006).....	26
<u>Fina Research, S.A. v. Baroid Limited,</u>	
141 F.3d 1479 (Fed Cir. 1998)	25
<u>Forest Laboratories, Inc. v. Abbott Laboratories,</u>	
339 F.3d 1324 (Fed. Cir. 2003)	30
<u>Franks v. Nimmo,</u>	
796 F.2d 1230 (10th Cir. 1986).....	17, 19
<u>Glaxo, Inc. v. Novopharm Ltd.,</u>	
110 F.3d 1562 (Fed. Cir. 1997)	26
<u>Golden Blount, Inc. v. Robert H. Peterson Co.,</u>	
438 F.3d 1354 (Fed. Cir. 2006)	32
<u>Lang v. Pacific Marine and Supply Co., Ltd.,</u>	
895 F.3d 761 (Fed. Cir. 1990)	25, 28

<u>Loral Fairchild Corp. v. Sony Corp.,</u>	
181 F.3d 1313 (Fed. Cir. 1999)	9
<u>MedImmune, Inc. v. Genentech, Inc.,</u>	
549 U.S. 118, 127 S.Ct. 764, 166 L.Ed. 2d 604 (2007)	24, 27, 28
<u>Metabolite Labs., Inc. v. Lab. Corp. of Am. Holdings,</u>	
370 F.3d 1354 (Fed. Cir. 2004)	32
<u>Moleculon Research Corp. v. CBS, Inc.,</u>	
793 F.2d 1261 (Fed. Cir. 1986)	32, 35, 40
<u>National Instruments Corp. v. MathWorks, Inc.,</u>	
113 Fed. Appx. 895 (Fed. Cir. 2004).....	32
<u>Power MOSFET Tech. LLC v. Siemens AG,</u>	
378 F.3d 1396 (Fed. Cir. 2004)	35
<u>Reactive Metals & Alloys Corp. v. ESM, Inc.,</u>	
769 F.2d 1578 (Fed. Cir. 1985)	41
<u>Schumer v. Laboratory Computer Systems, Inc.,</u>	
308 F.3d 1304 (Fed. Cir. 2002)	46
<u>Serio-US Industries, Inc. v. Plastic Recovery Technologies Corp.,</u>	
459 F.3d 1311 (Fed. Cir. 2006)	15, 29
<u>Sinskey v. Pharmacia Ophthalmics, Inc.,</u>	
982 F.2d 494 (Fed. Cir. 1992)	17, 19
<u>Stephens v. Tech International, Inc.,</u>	
393 F.3d 1269 (Fed. Cir. 2004)	41
<u>Teva Pharmaceuticals USA, Inc. v. Novartis Pharmaceuticals Corp. et al.,</u>	
482 F.3d 1330 (Fed. Cir. 2007)	24, 28

STATUTES

35 U.S.C. §271(a)	26
35 U.S.C. §271(b)	26
35 U.S.C. §285	15, 22

RULES

Federal Rule of Appellate Procedure 38	45
--	----

I. INTRODUCTION

Despite all of the Appellees' arguments,¹ the record unequivocally demonstrates that Palm and Visa International publicly announced their program to infringe E-Pass's valid and enforceable patent at the 2001 Las Vegas Consumer Electronics Show ("CES"). Also, their joint demonstration at CES and Visa's subsequent in-house demonstration constituted instances of direct infringement and evidence of intent to induce others to infringe in the very near future. E-Pass believed that the Appellees were in the process of infringing its patent after presenting to them licensing proposals -- and in fact they were as evidenced by their later public demonstrations.

Yet, even if these demonstrations were the only insights into Palm and Visa's future plans to infringe, E-Pass should have been permitted to maintain its suit against Defendants to seek an injunction or, at the very least, to obtain a determination that such conduct would infringe E-Pass's patent. Such arguments

¹ Appellant E-Pass Technologies, Inc. ("E-Pass") replies to Appellees' three separate briefs. "Palm" or "the Palm Defendants" collectively refers to 3Com Corporation; Palm, Inc.; PalmOne, Inc.; and Handspring, Inc.; "Visa" or "the Visa Defendants" collectively refers to Visa International Service Association and Visa U.S.A., Inc.; "PalmSource" refers to Access Systems Americas, Inc., formerly PalmSource, Inc.

for challenging the improper attorneys' fees award were never waived since these arguments were appropriate only on appeal or only in view of the law as it had evolved after the attorneys' fee motions were argued before the District Court.

The District Court therefore erred in finding this an exceptional case based on its erroneous conclusion that E-Pass's case was objectively baseless. In fact, the District Court did not make the required finding that E-Pass brought the case in subjective bad faith and that the litigation was objectively baseless. To the contrary, E-Pass's case was reasonably disputable, and there was no clear and convincing evidence that the litigation was brought in bad faith or that it was objectively baseless.

Ultimately, the District Court's attorneys' fee award was riddled with inconsistencies and misinterpretations, and it even misquoted this Court's January 12, 2007 decision, thus warranting a reversal for clear error, abuse of discretion, or both. The District Court also abused its discretion by awarding attorneys' fees having no relationship to the District Court's grounds for the award, including fees that Defendants incurred prior to any alleged litigation misconduct.

Therefore, the District Court's exceptional case finding and attorneys' fee award should be reversed.

II. ARGUMENT

A. Appellees Did Not Refute that Palm and Visa's Joint Program Infringed E-Pass's Patent

Despite the Palm Defendants' and the Visa Defendants' best efforts to show otherwise, the underlying record unequivocally demonstrates that Palm's CEO, Carl Yankowski ("Yankowski"), professed at the Las Vegas 2001 Commercial Electronics Show ("CES") that he was performing the steps of claim 1 of E-Pass's patent in essentially the order recited in the claim. (A500-A506). Through this demonstration, Palm and Visa promoted their very-soon-to-be-launched joint program that would have resulted in massive infringement of E-Pass's patent.

The following is a detailed comparison of the precisely ordered steps of claim 1 and the corresponding steps Yankowski announced at his CES demonstration which Appellees did not refute:

Steps of Claim 1 of the '311 Patent

1. A method for enabling a user of an electronic multi-function card to select data from a plurality of data sources such as credit cards, check cards, customer cards, identity cards, documents, keys, access information and master keys comprising the steps of:
(A266 at col. 10, lines 54-58).

transferring a data set from each of the plurality of data sources to the multi-function card;
(A266 at col. 10, lines 59-60).

storing said transferred data set from each of the plurality of data sources in the multi-function card;
(A266 at col. 10, lines 61-62).

assigning a secret code to activate the multi-function card;
(A266 at col. 10, lines 63-64).

The Steps Performed by Yankowski

Yankowski performed a method for enabling a user of a Palm handheld device to select data from a plurality of data sources, such as medical insurance card, social security card, driver's license, passport, smartcard door key, phone cards, which he would otherwise carry in his wallet (A500 at lines 15-22) -- including his credit cards (A505 at lines 1-2).

Yankowski described his Palm handheld as a device into which he "put all" (A500 at line 21) the data sets from his credit cards (A505 at line 2) and other cards from his wallet which he said otherwise feels "six-foot thick." (A500 at lines 17-21).

Yankowski described his Palm handheld as consequently having stored in it all these data sets to "lighten the load" (A500 at line 22) -- later adding, "You will no longer have to carry credit cards." (A502 at line 22 - A503 at line 1).

Yankowski next described the importance of "identification and security" (A501 at lines 1-4) that makes "secure communications" and "true exploitation of

a real e-wallet” possible (A501 at lines 9-11), suggesting thereby that his Palm handheld has at a minimum an assigned secret code to securely activate his device for secure financial transactions. (A501 at line 12-13).

entering said secret code into the multi-function card to activate the same;
(A266 at col. 10, lines 65-66).

According to Lathrop, Yankowski “activated his e-wallet” (A505 at line 20), and later she added that Yankowski entered his personal ID number. (A505 at line 21).

selecting with said activated multi-function card a select one of said data sets;
(A266 at col. 10, lines 67-68).

Yankowski stated, “I am going to push a button, select my Visa card [data set]” (A505); Lathrop announced that Yankowski “chose Visa, of course.” (A505 at line 20).

displaying on the multi-function card in at least one predetermined display area the data of said selected data set.
(A267 at col. 11, lines 1-3).

Yankowski stated, “This is my real Visa” (A505), and “As you saw, I now have a digital receipt in my Palm handheld.” (A506, emphasis added). Lathrop also testified under oath that, when Yankowski activated his Palm handheld to perform the transaction during rehearsal the day of the CES demonstration, she specifically saw the device displaying a Visa credit card number. (A9104 at 14:3-22).

Appellees' only challenges to this application of claim 1 were (1) that Yankowski's Palm handheld did not constitute an electronic multi-function card, (2) that the steps he performed were in a different order than that recited in the patent claim, and (3) that he did not actually perform some or all of the steps he expressly professed he had performed at the Las Vegas show. Their challenges are easily refuted by the record below.

1. The Question of Whether the Palm Devices Constituted Electronic Multi-Function Cards Under the Doctrine of Equivalents Was Reasonably Disputable

The question of whether or not the Palm handhelds constituted electronic multi-function cards under the doctrine of equivalents remained an open question. Strikingly, Palm repeatedly misrepresented this Court's January 12, 2007 decision, including quoting it out of context. (Palm's brief at p. 6). Contrary to Palm's misrepresentations, this Court never affirmed the District Court's judgment of non-infringement as to the "electronic multi-function card" limitation of claim 1 of the '311 Patent. (Cf., Palm's brief at pp. 6, 7, and 9 at fn. 2; and A8966-A8969).

This Court only agreed with the District Court that the claim term “electronic multi-function card” did not literally read on the accused Palm devices, but it expressly rejected the District Court’s judgment as it pertained to the doctrine of equivalents. (A8966-A8968). According to this Court, the District Court’s analysis of this claim limitation under the doctrine of equivalents was “too summary.” (A8967 at line 15).

To support its attorneys’ fee award, the District Court also misinterpreted this Court’s decision, claiming that this Court “rejected E-Pass’s argument under the doctrine of equivalents.” (A62 at lines 2-3). It even misquoted this Court, claiming that E-Pass’s efforts to demonstrate infringement under the doctrine of equivalents was “totally defective.” (A62 at lines 3-5). To the contrary, nowhere has this Court ever said that E-Pass’s position on the doctrine of equivalents was “totally defective” or in any way rejected E-Pass’s argument under the doctrine of equivalents. Instead, it was the *District Court’s* doctrine of equivalents analysis that this Court rejected:

The above discussion does not resolve the question of whether the accused devices might meet the “card” limitation of claim 1 under the doctrine of equivalents. The district court held

that . . . performance on something that is not a card . . .

cannot constitute infringement by the doctrine of equivalents.

However, this conclusion is too summary.

(A8967 at lines 9-15).

In fact, this Court *credited* E-Pass with articulating the correct equivalents test (A8968 at lines 3-7), before ultimately deciding the appeal on other grounds. (A8968 at lines 12-17). Thus, E-Pass's doctrine of equivalents arguments was at least plausible, and the District Court's misinterpretation and misquotation of this Court are clearly erroneously and appear to have infected its attorneys' fee analysis. The District Court's attorneys' fee decision should be reversed on the grounds that it was based on clearly erroneous findings of fact or erroneous interpretations of the law. Cybor Corp. v. FAS Technologies, Inc., 138 F.3d 1448, 1460, 1461 (Fed. Cir. 1998) (*en banc*) (trial court did not abuse its discretion by not awarding attorneys' fees where accused infringer presented "justifiable, albeit unsuccessful" non-infringement arguments).

///

///

///

2. The Question of Whether the Claimed Steps Must Be Performed in the Order Written Was Reasonably Disputable

This Court has held that the steps in a method claim need not be performed in any particular order, unless the steps of a method “actually recite an order” or the specification, logic, or grammar requires that the steps be performed in the order written. Altris, Inc. v. Symantec Corp., 318 F.3d 1363, 1369 (Fed. Cir. 2003) (reversing summary judgment on grounds that district court improperly held that the method steps had to be performed in the order written). Whether the patented steps in this case had to be performed in the specific order recited remained an open question until this Court’s January 12, 2007 decision. Until this decision, the issue of whether or not the specification, logic, or grammar required that the steps of claim 1 be performed in the order written was reasonably disputable.

Moreover, this Court previously held that, where a specific order of method steps is required, there could still be infringement under the doctrine of equivalents by an accused method in which the steps are performed in a different order. Loral Fairchild Corp. v. Sony Corp., 181 F.3d 1313, 1322 (Fed. Cir. 1999) (holding no literal infringement since accused method steps are performed

in a different order, and thereafter evaluating whether there was infringement under the doctrine of equivalents). Since this Court elected not to rule on infringement under the doctrine of equivalents and refused on procedural grounds to review the evidence of Yankowski's performance at the CES demonstration (A8969 at fn. 2), it was disputable whether or not this Court would hold Yankowski's sequence to be a substantial equivalent to the sequence of steps recited in E-Pass's patent. This is true even if Yankowski indeed reversed only the order of the steps of "entering" a secret code and "selecting" one of the stored data sets as the Defendants now claim.

E-Pass offered evidence of direct infringement at least under the doctrine of equivalents, but the District Court never properly analyzed infringement under the doctrine of equivalents before rendering its summary judgment decision even though E-Pass certainly argued and alleged infringement under the doctrine of equivalents. (A5484 at lines 4-15, A5504 at fn. 3, A5505 at lines 14-15, A4814 at lines 11-25, A4820 at line 12 - A4821 at line 25). The District Court's determination that E-Pass's case was unjustified was incomplete, and therefore clearly erroneous.

3. Whether the Joint CES Demonstration and Visa's In-House Demonstration Constituted Evidence of Direct Infringement and Intent to Induce Was Reasonably Disputable

The record demonstrates that Yankowski in fact performed the steps of claim 1 at the largest annual commercial electronics tradeshow in the country with Visa's Vice President of Emerging Consumer Environments, Susan Gordon-Lathrop ("Lathrop"), describing the steps that Yankowski had just performed (A500-A506). At that demonstration, Yankowski invited the audience to, "Please witness the first real commercial e-wallet purchase by a handheld computer, anywhere" and assured the audience that this was "not a concept demo; it is the real McCoy." (A503, emphasis added). According to Yankowski, this was "the world's first" (A505), "the first real commercial e-wallet purchase by a handheld anywhere" (A506, emphasis added), one that was "actually going to show up" on his next Visa credit card billing statement (A505, emphasis added) because he was using his "real Visa [credit] card [number]." (A505, emphasis added).

Lathrop herself echoed this by assuring Yankowski that he would in fact get a real bill from this transaction (A506), and Yankowski shortly thereafter

stated, "As you saw, I now have a digital receipt in my Palm handheld." (A506). In its promotional video exhibited at the CES tradeshow, Palm claimed that this "mobile e-wallet" is expected to be available in selected cities and stores "by the end of the year." (A473). Yankowski repeated this at the CES demonstration, saying, "Beginning this year," Palm users "will" have this capability -- "as if a credit card or debit card were inside the handheld itself." (A502, emphasis added).

Visa's in-house demonstration soon followed. In this demonstration, the method steps were performed by Visa International's then-CEO, Malcolm Williamson at Visa's headquarters before Visa personnel. (A9110 at 38:7-10 and 39:11-13, A9162-A9163 at ¶15). Lathrop testified and the District Court found that the steps performed by Williamson to be essentially identical to the steps performed by Yankowski. (A9163 at ¶18, A5698 at lines 27-28). He selected Visa credit card information stored in the device which suggests that the credit card information had previously been transferred to and stored in the memory of his handheld device. (A9110 at 39:14-17, A9163 at ¶17). At some point, he entered his password/PIN (A9110 at 40:12-14, A9163 at ¶17), and the device displayed on the screen the Visa logo (A9110 at 39:14-20) and credit card

Two months later, Lathrop testified at her deposition that, when she stated at the CES demonstration that Yankowski used his Visa card and that the transaction would appear on his next Visa bill, she said it believing it to be true and that, at the time of her deposition, she still had no reason not to believe it to be true:

Q. Do you know if there was actually a purchase made by a Visa card on stage at the CES in 2001?

A. I don't know.

Q. Now, did you yourself make any statements on stage at the CES in 2001?

A. Yes.

Q. Isn't it true that you yourself stated to the public that Yankowski used his Visa card and that the transaction would appear on his next Visa bill? Do you recall making that statement?

A. Yes.

Q. Was that true?

A. I don't know.

Q. Did you believe it to be true when you made that statement?

A. I believed it to be true.

Q. Is there any reason why you don't believe it to be true as you sit here today?

Q. I have no way of knowing.

(A9103 at 11:14-12:8).

Visa now argues that Lathrop testified that she could not see the display on Yankowski's Palm device when she was with him on stage during the CES demonstration. Yet, Visa failed to recall that Lathrop testified in this same deposition that she could in fact see the display on Yankowski's Palm device during the several rehearsals that he performed the day of the CES demonstration and that she could see his device display a Visa number when Yankowski practiced and rehearsed the transaction:

Q: Okay. From the time you got the first draft up until the time that you read that statement on stage, did you yourself do anything to make certain that the statements you were going to read to the public was true and accurate?

A: There was a rehearsal where the transaction was done on several occasions prior to actually going in front of the public.

Q: So the answer is that's what you did to make sure that it was true and accurate?

A: Yes.

Q: Anything else?

A: Absolutely not.

Q: Did there come a time during any of the rehearsals when you yourself visually saw what was on Mr. Yankowski's Palm when he activated it to do a transaction.

A: I saw the No. 4 at the beginning knowing that was a Visa number.

(A9104 at 14:3-21).

It was clear error for the District Court to conclude that E-Pass's case for direct infringement or intent to induce others to infringe was not reasonably disputable and objectively baseless. E-Pass did not bring the litigation in bad faith and the litigation was not objectively baseless. Serio-US Industries, Inc. v. Plastic Recovery Technologies Corp., 459 F.3d 1311, 1322 (Fed. Cir. 2006) (absent misconduct in the litigation or in securing the patent, a trial court may only sanction the patentee if both "the litigation is brought in subjective bad faith and the litigation is objectively baseless."). Where the infringement "can reasonably be disputed," the infringement action is not exceptional in terms of Section 285. Brooks Furniture Manufacturing Inc. v. Dutailier International, 393 F.3d 1378, 1384 (Fed. Cir. 2005) (reversing attorneys' fees award against patentee that was based on a clearly erroneous finding that the patentee's pre-filing investigation was inadequate).

a. The Belated Lathrop Declaration Should Have Been Disregarded on Summary Judgment as Inherently Unreliable and Controverted By Her Own Earlier Deposition Testimony

Years after the demonstration and commencement of the lawsuit, and in Visa's last of its three summary judgment motions, Visa claimed for the very first time that Yankowski never really performed these infringing steps. To do so, Visa introduced a highly suspicious declaration that should have been disregarded as an improper and an inadequate attempt to contradict prior deposition testimony. Visa used this declaration to claim that the demonstration did not result in a "commercial transaction," and thus, there can be no infringement. Yet, an actual "commercial transaction" is not an element of claim 1. At the very least, this difference in testimony should have been weighed by the finder of fact, not by the District Court on summary judgment in which it used this declaration to find that these demonstrations did not constitute instances of direct infringement. E-Pass does not try to reverse the summary judgment decision, but only to show that E-Pass's claims were not brought in subjective bad faith nor objectively baseless.

///

///

A party cannot create or remove an issue of fact simply with a declaration contradicting his or her prior deposition testimony without explaining in the declaration the contradiction or attempting to resolve the disparity. Sinskey v. Pharmacia Ophthalmics, Inc., 982 F.2d 494, 498 (Fed. Cir. 1992) (disregarding a contradictory declaration submitted to oppose summary judgment since it did not attempt to explain the facial inconsistency, reconcile the conflict, or even address the prior inconsistent testimony at all). Factors for evaluating the contradictory declaration include whether the declarant was cross-examined during his earlier testimony, whether he or she had access to the pertinent evidence at the time of his earlier testimony or whether the declaration was based on newly discovered evidence, and whether the earlier testimony reflects confusion which the declaration attempts to explain. Franks v. Nimmo, 796 F.2d 1230, 1237 (10th Cir. 1986) (disregarding inconsistent declaration where declarant at the time of his deposition had access to the relevant evidence, was carefully cross-examined, and was unequivocal, and in his declaration made no reference to his earlier contrary testimony).

The subsequent and contradictory Lathrop declaration does not meet any of these criteria so as to be admissible or given any weight. On April 15, 2005,

long after the CES demonstration and the Lathrop deposition, Visa filed the Lathrop declaration in which Lathrop stated without any supporting facts or explanation that “to the best of her knowledge,²” Yankowski’s demonstration at the CES was “merely a simulation of future technologies.” (A9163). This flatly contradicted statements she made at the time of the demonstration, her earlier sworn deposition testimony, and also several statements that Yankowski made to the audience at the 2001 CES demonstration. When cross-examined at her deposition, Lathrop already had access to all the pertinent evidence concerning whether or not the CES demonstration was an actual commercial transaction. The deposition was just three (3) months after the demonstration and just one (1) month after Visa’s in-house demonstration. Her recollection and knowledge of the circumstances of these demonstrations would have been fresh in her mind. Her deposition testimony reflected no confusion as to whether her colleague Yankowski performed the steps witnessed and claimed.

Yet, in her later declaration, Lathrop did not attempt to explain away any confusion in her prior testimony, and in fact she did not even refer to any of her

² In fact, Lathrop’s belated declaration testimony concerning the CES demonstration was even less specific than her belated declaration testimony concerning Visa’s in-house demonstration. (Cf., A9162 at ¶13 and A9163 at ¶16).

earlier deposition testimony or even disclose that she had given any earlier deposition testimony. Her declaration was not based on newly discovered evidence, but was instead a bald, unsubstantiated attempt to remove an issue of fact in order for Visa to prevail on its summary judgment motions.

Instead of nullifying a question of fact, her declaration raised further questions and sought to have the District Court weigh in on her credibility and reliability, and her own conflicting testimony. Applying the reasoning in Sinskey and Franks, this declaration contradicted her own earlier sworn testimony, attempted to nullify several public statements by both her and Yankowski, and should therefore have been disregarded by the District Court. Instead, it became the linchpin of the summary judgment decision and a principal basis for the attorneys' fee award. E-Pass did not have subjective bad faith in believing that the Appellees were actually infringing or were very soon to infringe its patent, and E-Pass's claim was not objectively baseless in view of this evidence.

After the District Court accepted this erroneous declaration, E-Pass had no choice but to shift its legal theory of the case. Simply shifting one's legal theory does not cause a case to be exceptional. Appellees cite no authority to the

contrary. Here, even if E-Pass did “shift” its theory of infringement as a result of the erroneous decision, E-Pass stayed within the four corners of its complaint in pursuing its infringement case.

**b. Claim 1 of the ‘311 Patent Does Not Require any
“Commercial Transaction” and Yankowski
Performed All the Recited Method Steps**

Moreover, claim 1 does not require that the recited steps must result in a real “commercial transaction.” The steps Yankowski performed and Lathrop described would infringe regardless of whether or not those steps resulted in a transaction, commercial or otherwise. Since the April 15, 2005 Lathrop declaration, the Visa Defendants vigorously argued that the 2001 CES demonstration did not result in a real transaction. Yet, performing a real “commercial transaction” is not one of the steps of E-Pass’s patent claims.

Visa therefore raises this argument in an attempt to characterize Yankowski and Lathrop as having lied to the audience at the 2001 CES Show. According to Visa’s argument, if Yankowski and Lathrop were lying about the demonstration resulting in a real purchase, then perhaps Yankowski was also lying about having multiple data sets transferred to and stored in his Palm

handheld, entering a secret code, selecting his Visa card, seeing the receipt, or practically anything else. Even if the steps Yankowski said he performed at the 2001 CES demonstration fall within the patent claim, so the argument goes, he did not really perform these steps, and therefore E-Pass's evidence of direct infringement fails and part of its evidence of inducement and intent to induce fails.

Yet, even the District Court found that there was "some direct evidence" of infringement as a result of the CES event. (A41 as lines 19-20). Even if this incredible declaration can successfully turn the several detailed and emphatic statements at the demonstration claiming that Yankowski performed an actual transaction into lies, this alone cannot refute the other statements by which Yankowski essentially admitted to performing the steps of claim 1. These steps that Yankowski insisted that he had performed were sufficient for an infringement determination, let alone being sufficient to support an infringement argument that was sufficiently disputable and not objectively baseless. Even if no damages would result, E-Pass should have been able to seek an equitable remedy of an injunction or a finding of infringement.

E-Pass is not attempting to reverse the summary judgment, but merely demonstrating that its case was reasonably disputable and not objectively baseless for purposes of Section 285 -- even after the April 15, 2005 Lathrop declaration and Visa's new argument. The CES joint demonstration and Visa's in-house demonstration were arguably acts of direct infringement.

The District Court should not have based its exceptional case finding on E-Pass's purported shift in legal theories or change in position that arose in response to this declaration. Much of these eleventh-hour changes were the fruit of an eleventh-hour shift in legal theories by the *Appellees*. It was Visa's witness who reversed herself, and the other Appellees quickly jumped aboard Visa's coattails in their own shift of legal theories. E-Pass is not aware of any instance in which any Appellee disavowed the Lathrop declaration or the poisonous effects of this contradictory testimony or shift in legal theories.

///

///

///

B. Appellees Did Not Refute E-Pass's Right to Pursue an Infringement Determination or an Injunction of Palm-Visa's Imminent Infringement

E-Pass should have been permitted to seek an infringement determination or an injunction of Palm and Visa's imminent infringement, regardless of whether or not Yankowski or anyone else had actually yet performed a real "commercial transaction." Public release of the program, according to Yankowski, was imminent -- before the end of the year. (A502 and A473). Yankowski claimed that he performed the patented steps at the country's largest annual commercial electronics tradeshow before an audience of which some eighty percent (80%) owned a Palm handheld. (A478 at lines 9-15). This audience had come to hear Palm's CEO as the afternoon's featured speaker. (A476 at lines 4-5).

Visa's in-house demonstration less than a month later was presented by its CEO to Visa personnel at Visa's headquarters, (A9110 at 38:7-10, A9162-A9163 at ¶15), to describe what Visa was "doing" and "working on." (A9110 at 38:18-23). Palm and Visa were also developing this joint program with full knowledge of E-Pass's patent since E-Pass had previously presented its patent and made a joint development proposal to Visa (A9146 at 368:13 - A9147 at 3710:2; A6831

at ¶10; A9107 at 27:13 - A9108 at 30:6), and had much earlier presented and discussed E-Pass's patent and licensing possibilities with Palm (A936 at ¶6). After receiving a cold reception from Palm, E-Pass's previous litigation appeared to anticipate that Palm was developing an infringing program without E-Pass, and the CES demonstration proved that previous counsel was correct.

E-Pass had a reasonably disputable case for maintaining its infringement action, and it should have been allowed to seek a judicial determination against Defendants who encouraged and/or were preparing to extensively infringe E-Pass's valid and enforceable patent. The Supreme Court and Federal Circuit recently explained their rationale for expanding the jurisdictional reach for such determinations. *See, e.g., MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 127 S.Ct. 764, 777, 166 L.Ed. 2d 604 (2007) (licensee need not breach license agreement to create a case or controversy); Teva Pharmaceuticals USA, Inc. v. Novartis Pharmaceuticals Corp. et al., 482 F.3d 1330, 1337 (Fed. Cir. 2007) (applying the "all the circumstances" standard of MedImmune as potentially covering not only actual injury but also imminent injury).

Likewise, E-Pass should have been permitted to pursue its action to seek an injunction to stop this imminent and infringing program or at the very least pursue a determination that such conduct infringes. See, Fina Research, S.A. v. Baroid Limited, 141 F.3d 1479, 1485 (Fed Cir. 1998) (explicitly declining to create a *per se* rule that an actual controversy predicated solely on inducement can exist “only if direct infringement has already occurred”); and Lang v. Pacific Marine and Supply Co., Ltd., 895 F.3d 761, 764 (Fed. Cir. 1990) (holding that patentee should be able to seek a declaration of infringement against a future infringer “when a future infringer is able to maintain a declaratory judgment action under the same circumstances”).

Appellees argued on appeal that E-Pass should be barred on procedural grounds from maintaining a suit for an infringement determination because E-Pass did not (1) also cite 28 U.S.C. § 2201 in its complaints as an additional jurisdictional basis for its infringement suit or (2) did not raise this argument at the District Court level. Both arguments are without merit.

Appellees failed to cite any authority for their proposition that a plaintiff-patentee must separately recite Section 2201, in addition to Section 1338, in

order to obtain a determination that conduct infringes. Every patent infringement plaintiff necessarily seeks a judicial determination that the accused conduct constitutes patent infringement as a threshold finding on its way to obtaining an injunction, damages, or both. See, e.g., eBay, Inc., et al. v. MercExchange LLC, 547 U.S. 388, 391, 126 S.Ct 1837, 164, L.Ed. 2d 641 (2006) (patent found valid and infringed, but no permanent injunction issued). Indeed, a patentee may, under the right circumstances, prove infringement by showing that the alleged infringer “will likely market” an infringing product. Glaxo, Inc. v. Novopharm Ltd., 110 F.3d 1562, 1570 (Fed. Cir. 1997) (holding that, what “is likely to be sold, or, preferably, what will be sold,” will ultimately determine whether infringement exists).

Under such circumstances, a judicial determination may be obtained, even if damages are not awarded or an injunction is not issued. There is no prohibition against a determination of infringement against a defendant where there are no damages. In fact, the element of damages is not an element to prove infringement under either 35 U.S.C. §271(a) or (b).

Moreover, E-Pass specifically placed each Defendant on notice that E-Pass was seeking both a judicial determination of patent infringement and an injunction of the infringing conduct. In particular, the prayer for relief in each of E-Pass's complaints requested, among other remedies, that the Court determine that the conduct infringes:

Adjudge and decree that [the Defendant] has infringed and has induced others to infringe E-Pass's '311 Patent under 35 U.S.C. §271(a) and (b); [and]

Permanently enjoin [the Defendant] from infringing, inducing others to infringe, and contributing to the infringement by others of E-Pass's '311 Patent.

(A9094 at ¶¶A-B, A1869 at ¶¶B-C, A6832 at ¶B, A6833 at ¶¶C-D, A2870 at ¶¶A-C, A1358 at ¶¶A-B).

E-Pass therefore expressly notified both the Court and the Defendants that it sought a determination of infringement and inducement.

If the scope of declaratory judgment actions under MedImmune has been expanded to be broad enough to seek infringement determinations before risking

the exposure and harm that comes from actual infringement, certainly a direct infringement action should likewise be allowed such a determination of infringement. See, e.g., Lang, 895 F.3d at 764 (patentee should be able to seek a declaration of infringement against a future infringer “when a future infringer is able to maintain a declaratory judgment action under the same circumstances”).

Also, E-Pass did not waive this argument at the District Court level. E-Pass’s oppositions to the Defendants’ motions for attorneys’ fees were due on or about May 26, 2006. This deadline preceded the Supreme Court’s MedImmune decision and this Court’s subsequent decisions, such as Teva Pharmaceuticals, which expanded a court’s ability to make infringement determinations. Teva Pharmaceuticals, 482 F.3d at 1337 (justiciable controversy can arise from either actual or imminent injury). Under the prevailing case law in May 2006, E-Pass would have no reason raise this issue of law to the District Court, or to ask the District Court to rule contrary this Court’s then-applicable decisions. The District Court was not in a position to rule contrary to the mandatory authority of this Court’s pre-MedImmune jurisprudence. In contrast, this Court now, post-MedImmune, is in a position to consider the question of

whether a plaintiff-patentee, such as E-Pass, should have the right to maintain an equitable action alleging inducement even in the absence of direct infringement.

C. Neither E-Pass Nor Appellees Found Any Authority to Suggest that this Case Became Exceptional Because E-Pass Was “Shifting” Legal Theories of Infringement

E-Pass has uncovered no case in which the mere shifting of a plaintiff’s legal theory of infringement, or dropping a legal theory of infringement when the evidence elicited during discovery warranted such a change in direction, caused a case to be exceptional. None of the Appellees have cited any legal authority in which a plaintiff has been held liable for shifting its theory of infringement when discovery or belated evidence proffered by an opponent appeared to warrant the shift. In fact, the law should encourage a plaintiff to drop or shift infringement theories if discovery or a court ruling, as in this case, make the existing theory untenable.

The standard for an exceptional case finding is whether the case was brought in subjective bad faith and the litigation was objectively baseless. Serio-US Industries, Inc. v. Plastic Recovery Technologies Corp., 459 F.3d 1311, 1322 (Fed. Cir. 2006). This standard does not here or elsewhere make a

changed legal theory an exceptional case. There is no allegation here that E-Pass ever ventured outside of the scope of its original or amended complaints against any of the Defendants. In fact, inducement of infringement was pled in each complaint (A9093, A1868, A2869, A1358), and proof of direct infringement based on circumstantial evidence was also the basis of E-Pass's preliminary infringement contentions. (A1523-A1534). Therefore, any shift in legal theory itself does not make this case exceptional since it was not done in subjective bad faith nor was it objectively baseless.

D. Appellees Did Not Refute That E-Pass's Circumstantial Evidence of Direct Infringement Was Reasonably Disputable

Appellees argued that, since this Court previously found E-Pass's circumstantial evidence insufficient to prove direct infringement, the District Court was right to base its exceptional case finding on this failed legal theory. This Court has repeatedly held, however, that failed legal arguments ordinarily do not create a basis for finding a case exceptional. See, e.g., Brooks Furniture, 393 F.3d at 1384 (holding a patent owner's "ultimately incorrect view of how a court will find" does not of itself establish bad faith); Forest Laboratories, Inc. v. Abbott Laboratories, 339 F.3d 1324, 1327 (Fed. Cir. 2003) (reversing exceptional case determination against patentee, despite the district court's

finding that the patentee had acted in bad faith in bringing its suit, holding instead that the patentee's litigation position not "clearly and convincingly vexatious, unjustified, or frivolous"). The question is whether clear and convincing evidence shows that the case was brought in subjective bad faith and that the claims were objectively baseless.

The District Court seriously misinterpreted this Court's January 12, 2007 decision, and this misinterpretation played a major role in the District Court's finding that this case was exceptional. In particular, the District Court erroneously claimed that this Court "concurred with [the District Court] that E-Pass had *entirely failed* to present evidence of infringement," (see, A61 at lines 24-26; emphasis added), and "concluded . . . that E-Pass had presented *no* evidence to support its claims [as to the Palm V]." (A66 at lines 3-4; emphasis added). The District Court also twice incorrectly quoted this Court as calling E-Pass's position and argument concerning evidence of direct infringement "fatally flawed." (A62 at lines 26-27, A66 at lines 2-3).

To the contrary, nowhere in this Court's January 12, 2007 decision did this Court state that E-Pass's position or argument was fatally flawed. Instead, the

Court carefully reviewed and evaluated at length E-Pass's several pieces of circumstantial evidence of infringement. (A8970-A8971). It compared this evidence with its earlier holding in, Moleculon Research Corp. v. CBS, Inc., 793 F.2d 1261 (Fed. Cir. 1986). (A8970). Ultimately, it concluded that E-Pass's evidence was not sufficient to support a finding of direct infringement and affirmed summary judgment of non-infringement. (A8971).

This Court has found sufficient circumstantial evidence in a large variety of circumstances. See, e.g., Golden Blount, Inc. v. Robert H. Peterson Co., 438 F.3d 1354 (Fed. Cir. 2006) (owner's guide is sufficient circumstantial evidence of direct infringement despite contrary evidence by way of market research); National Instruments Corp. v. MathWorks, Inc., 113 Fed. Appx. 895, 898 (Fed. Cir. 2004) (training seminar and training materials found sufficient to support both direct and induced infringement); Metabolite Labs., Inc. v. Lab. Corp. of Am. Holdings, 370 F.3d 1354, 1365 (Fed. Cir. 2004) (the defendant's own publications were sufficient to support both direct infringement and intent to induce). In light of these precedents, E-Pass's circumstantial evidence for a direct infringement finding was reasonably disputable and should not have been used by the District Court against E-Pass to find the case objectively baseless.

Moreover, the District Court erroneously believed that this Court had found that E-Pass “presented no evidence” and “failed entirely to present evidence” in its effort to show direct infringement and had found that E-Pass’s position was “fatally flawed.” This Court’s decision was misconstrued, misquoted, and misapplied, which led to the erroneous determination that the case was exceptional.

Palm also incorrectly suggested that E-Pass said the District Court “ignored” E-Pass’s circumstantial evidence of direct infringement. This Court in its January 12, 2007 decision stated that it had no reason to believe the District Court ignored any of E-Pass’s evidence. (A8970). E-Pass correctly noted in its opening brief simply that the District Court did not separately address whether any of E-Pass’s circumstantial evidence could support a finding of actual or imminent direct infringement. (A5691-A5699). In fact, the District Court referred to E-Pass’s evidence of Palm’s instruction manuals only as E-Pass’s evidence of “intent to induce infringement” and never for its intended dual purpose as evidence of direct infringement as well. (A5689 at lines 19-22).

The District Court has repeatedly stated that E-Pass had presented “no” evidence of direct infringement (A5691 at lines 21-23, A66 at line 4) and even misinterpreted and misquoted this Court as likewise finding that E-Pass had presented no such evidence. (A66 at line 4). This appears to have greatly biased the District Court’s attorneys’ fee decision.

E. Appellees Did Not Refute that the District Court’s Award of Attorneys’ Fees Back to this Court’s Remand in 2003 Bears No Relationship to Any Purported Litigation Misconduct

The District Court abused its discretion by awarding attorneys’ fees back to the very date this Court vacated the first summary judgment against E-Pass and remanded the case to the District Court for further proceedings. This particular point of time bears no relationship to the purported litigation misconduct of continuing the case.

It was Visa who failed to disclose the Lathrop declaration in a timely manner and the Appellees who shifted their legal theory which caused E-Pass and the Court to waste substantial time and resources on what, according to Visa, was a non-existent basis for liability and caused much of E-Pass’s litigation conduct that was criticized by the District Court. Power MOSFET Tech. LLC v.

Siemens AG, 378 F.3d 1396, 1415 (Fed. Cir. 2004) (affirming district court's denial of attorneys' fees on the grounds that the party seeking the award committed acts justifying the denial). Why Visa did not bring to anyone's attention for several years that there never was really any "commercial transaction" remains a litigation mystery.

It was primarily E-Pass's actions after the April 15, 2005 declaration (or even after the District Court's May 24, 2005 order) that the District Court described as "shift[ing] theories" or not conducting the authorized depositions to find instances of direct infringement. Once the District Court accepted the Lathrop declaration, E-Pass's previous counsel apparently felt it had no choice but to reduce their reliance on the allegedly fraudulent CES demonstration and Visa's in-house demonstrations and rely instead on their theory of circumstantial evidence based on the Moleculon line of cases.

The District Court nevertheless awarded attorneys' fees against E-Pass not back to the date of this May 24, 2005 order, but instead back to the very date E-Pass received this Court's favorable remand of the original action against Palm in 2003, two years earlier. The District Court clearly abused its discretion in

awarding attorneys' fees for any conduct of the litigation prior to the May 24, 2005 order.

F. Appellees' Other Arguments that the Case Was Exceptional Also Fail

1. E-Pass Sufficiently Placed all Visa and Palm Defendants on Notice that E-Pass Contended They Were Liable for the Joint CES Demonstration in Las Vegas

Palm argues on appeal that Visa, if anyone, was solely responsible for the 2001 infringing CES demonstration in Las Vegas, while Visa argues on appeal that Palm, if anyone, was solely responsible for that demonstration. Yet, both Palm and Visa were intending to work together and induce customers to infringe E-Pass's patent and/or were directly infringing claim 1 of the patent.

Yankowski was unequivocal at the 2001 CES demonstration: Palm and Visa were jointly developing this solutions package that was soon going to transform Palm handhelds into "true wallets." (A502). Both Yankowski and Lathrop were on stage before an audience of avid, mostly Palm customers promoting a joint program to infringe at least claim 1 and, in the process, increase Palm sales and Visa transactions.

Palm also claimed that E-Pass should be procedurally barred from arguing that Palm might be liable for the CES demonstration. It was Yankowski, however, Palm's own CEO, who publicly performed the steps recited in claim 1 at the CES demonstration. He performed the steps on behalf of Palm to promote Palm and Visa's new joint e-wallet program. The demonstration also constituted the necessary intent (at the time) to induce their vast number of customers to perform these steps in the near future. Less than a month later, Visa's then-CEO, Williamson, performed the identical steps to his staff at Visa's headquarters.

E-Pass's preliminary infringement contentions provided sufficient notice that E-Pass contended that both the Palm and Visa Defendants were liable for the performance of Yankowski at the 2001 CES demonstration. (A1516 at lines 9-10, A1521-A1522).

///

///

///

2. E-Pass Did Not Name or Maintain Visa USA as a Defendant in Bad Faith

As to Visa International, the District Court found that there was “some direct evidence” of direct infringement on a Palm V device as a result of the CES event. (A41 at lines 19-20).³ Visa USA was named as a Defendant because E-Pass’s previous counsel considered Visa USA to be equally and vicariously responsible for Visa International’s involvement in the CES demonstration and Visa International’s further in-house demonstration. Visa USA continued to withhold documents from E-Pass right up to its failed motion for a protective order. (A3872-A3874, and A3959-A3961). In fact, the Visa Defendants were originally obligated to produce their documents by July 21, 2004, and when they nevertheless held onto responsive, non-privileged documents, they were ordered on May 17, 2005 to produce the documents they were withholding by June 7, 2005. (A3956 at line 1). They nevertheless continued to withhold these documents requiring the Magistrate Judge to order the Visa Defendants on June 28, 2005 for the second time to produce these documents. (A3956 at lines 7-8). The documents ultimately were received after being twice ordered, just weeks

³ The District Court was internally inconsistent and, in another place in the same order, claimed that E-Pass had not provided any evidence of direct infringement on the Palm V at the CES demonstration. (A15 at line 25-27).

before E-Pass's oppositions to the thirteen (13) separate summary judgment motions were due. (A3956 at line 8-9). Here, if there was any litigation misconduct or gamesmanship during discovery, it was not undertaken by E-Pass.

Moreover, despite these tactics and the other glaring potential and actual conflicts of interest Visa International and Visa USA would have had if they were truly independent and unrelated entities, they nevertheless shared counsel throughout this action. In fact, on January 17, 2008, Visa International and Visa USA filed a motion with this Court to conform the caption, revealing that they had indeed merged back on October 3, 2007 as a new company named simply Visa, Inc. (See, Entry No. 14).

This merger occurred well before the District Court entered its November 14, 2007 attorneys' fee decision, but the District Court evidently continued to believe that these Defendants were separate entities. E-Pass's current appellate counsel has uncovered no record of Visa, Inc. notifying the District Court of this merger. Visa International and Visa USA are themselves responsible for any such confusion and lack of clarity as to whether they were a single entity, two inherently conjoined departments under the same corporate umbrella, or two

independent entities. In any event, such distinction was rendered moot by the time of the District Court's attorneys' fee decision, since they were both certainly one and the same by that time, and the decision appears to be based in part on the District Court's lack of notice from Visa.

3. The District Court Did Not Base Its Exceptional Case Determination on E-Pass's Pre-Filing Investigation

Contrary to Palm and PalmSource's contentions, the District Court did not find that E-Pass's pre-filing investigation against any of the Defendants would support an exceptional case determination. Instead, as both Palm and PalmSource acknowledged, the District Court felt compelled to identify only post-filing acts by E-Pass's previous counsel to support its exceptional case finding. These post-filing acts such as "shifting" legal theories of infringement were insufficient to support an exceptional case determination, and were a consequence of the improper April 2005 Lathrop declaration, submitted four years after the 2001 demonstration.

There were cases from this Court, including the Moleculon decision, that supported E-Pass's failed alternative theory based on circumstantial evidence.

The District Court should not have used E-Pass's reliance on this legal theory in making its exceptional case determination. The District Court was wrong when it claimed that this Court had found that E-Pass presented "entirely no evidence" of direct infringement.

4. Visa's Allegations of Misconduct That Were Not Cited By the District Court Should Not Be Considered and Cannot Be a Basis for an Exceptional Case Determination

Visa improperly raised a number of purported acts by E-Pass's previous counsel. They are largely a mischaracterization and wholly irrelevant. Visa itself does not recite them anywhere in its brief, and this Court should not expand its evaluation beyond those purported acts that the District Court itself relied upon in making its exceptional case determination.

It is the District Court that must provide the reasoning for its finding, and it is this that forms the basis for this Court's meaningful review. Stephens v. Tech International, Inc., 393 F.3d 1269, 1276 (Fed. Cir. 2004); Reactive Metals & Alloys Corp. v. ESM, Inc., 769 F.2d 1578, 1582 (Fed. Cir. 1985) (in order to

provide a basis for meaningful review, it is incumbent on the trial court to articulate the acts from which the exceptional circumstances finding follows).

If, however, this Court should choose to consider Visa's "examples," it can easily be seen that they do not rise to any level of misconduct. Most of them derive directly from Visa's own discovery maneuvering, including the belated and contradictory Lathrop declaration in April 2005. One of Visa's examples -- that E-Pass expanded the number of accused devices during the course of this litigation -- was the result of Defendants' introduction of new models during the suit's pendency.

Visa also raised as an issue about E-Pass amending its complaint against Visa to simply correct paragraph 13 of the complaint. (Cf., A6832 and A2869). Contrary to the impression made by Visa, the amendment simply corrected E-Pass's account of what Lathrop said at the CES demonstration. The corrected version is much more detailed and damning, and the District Court never made this any part of its exceptional case determination.

5. Palm's Allegations of Litigation Misconduct Are Equally Unavailing

Palm's first enumerated criticism of E-Pass's conduct -- that E-Pass switched its defense of Palm's summary judgment motion -- was in fact a result of the delinquent Lathrop declaration. Palm's other criticism of E-Pass's conduct -- that E-Pass purportedly presented no evidence of actual use -- is incorrect since this Court evaluated E-Pass's evidence in its January 12, 2007 decision, and the evidence of the CES and Visa's in-house demonstrations would have been additional evidence of direct infringement, except for the District Court's unwarranted use of the delinquent Lathrop declaration.

Palm likewise listed a number of purported criticisms that, according to Palm, showed E-Pass's misconduct, but still other criticisms were the result of Defendants' introduction of new models while this action was proceeding. If E-Pass's litigation conduct really rose to any level of misconduct, then the District Court would have held E-Pass's former litigation counsel at least equally liable since this conduct was the litigation strategy and failure of counsel, but the District Court did not do so. The District Court found that, while counsel for E-Pass made certain "tactical" decisions, "those actions were not so egregious as

to warrant a joint award of attorneys' fees." (A72 at lines 23-27). Thus, any tactical decisions in the case were not misconduct, including shifting legal theories.

Palm's remaining criticisms -- that E-Pass sought to delay its own day in court -- are simply nonsensical. Palm repeatedly claimed that E-Pass was attempting to delay the proceedings, but E-Pass was the plaintiff-patentee, and it was litigating this dispute against several large defendants who continued to threaten to launch a joint program that would massively infringe. E-Pass enjoyed no preliminary injunction against any of the Defendants, and the Defendants could therefore proceed with their plans. Under such circumstances, E-Pass had entirely no reason to delay any of the proceedings.

It was the Defendants who belatedly produced volumes of long-requested documents only after being ordered to do so. (A3872-A3874, A3959-A3961, A3964 at lines 18-25). And even then, Defendants' document production was delayed until the very eve -- literally -- of E-Pass's deadline for filing its last round of oppositions to the Defendants' thirteen (13) different summary judgment

motions. (A5515, A5538, A5539, A3675, A3617, A5483 at fn. 2, A5503 at fn. 2).

As for E-Pass's pre-filing investigation into the Palm devices, the District Court did not find that there was an inadequate pre-filing investigation and, in fact, even "some direct evidence" of infringement that was part of the CES event. (A41 at lines 17-21).

G. E-Pass's Appeal Is Not Frivolous as to Any of the Defendants

PalmSource's lengthy request that this Court act *sua sponte* is greatly misplaced and unwarranted. At least one Judge of this Court has admonished appellees not to devote portions of their appellee briefs to requesting the Court to act *sua sponte* under Federal Rule of Appellate Procedure 38 to give notice that an appeal appears frivolous. See, e.g., Caraco Pharmaceutical Labs, Ltd. v. Forest Labs, Inc., 527 F.3d 1278, 1299-1300 (Fed. Cir. 2008) ("In making the frivolity argument, which occupied five pages of its brief, Forest's counsel was neither helping his client's case nor aiding the court in performing its appellate function.").

PalmSource failed to mention that Palm and PalmSource were one company at the time of the 2001 CES demonstration or that it spun off from Palm only afterwards for the purpose of being the entity that owned and licensed the software back to Palm for use in all Palm devices at all time relevant to this action. PalmSource owns and licenses the software that operates each of the accused Palm handheld devices knowing that Palm sells its handheld devices with the user manuals submitted with E-Pass's oppositions to the Defendants' thirteen (13) motions for summary judgment.

PalmSource also did not dispute that it was aware that Palm and Visa would be using PalmSource software for their infringement program which would convert its handhelds into e-wallets "by the end of the year." PalmSource's software was in fact the means by which Palm customers could themselves perform the method steps claimed in E-Pass's patent. Clearly, the Palm devices and PalmSource's software worked together and were coordinated to do so, and thus PalmSource infringed E-Pass's patent claim 1 as does Palm. Thus, PalmSource was properly named as a party to this action to the same extent as Palm. *See, Schumer v. Laboratory Computer Systems, Inc.*, 308 F.3d 1304, 1306 (Fed. Cir. 2002) (Laboratory Computer System held liable for

infringement where its software drivers used on third-party's devices executed the recited steps of Schumer's method claims).

Additionally, PalmSource has itself to blame for being maintained as a Defendant, not only for the above reasons, but also because of its delay in producing the responses and documents responsive to E-Pass's discovery requests. PalmSource, like Visa, wrongfully sought to delay discovery and to prevent E-Pass's previous litigation counsel from even seeing its responsive, non-privileged documents. After the delay was accomplished, the Magistrate Judge assigned to oversee discovery denied PalmSource's motion for protective order to the extent that it sought to exclude E-Pass's attorneys. (A3964 at lines 18-25). PalmSource continued to delay production until just one day before E-Pass's final oppositions to the numerous summary judgment motions were due. (A5483 at fn. 2, A5515).

PalmSource's software was the means by which Palm customers could themselves perform the method steps claimed in E-Pass's patent, and thus, PalmSource was properly named as a party to this action to the same extent as Palm.

III. CONCLUSION

The District Court improperly found this case to be exceptional basing its decision on errors of fact and law, including several serious misinterpretations and misquotations of this Court's January 12, 2007 decision. The District Court never offered clear and convincing evidence that E-Pass subjectively brought the litigation in bad faith and that the litigation was objectively baseless. In this case, patent infringement could be "reasonably disputed."

The District Court's finding should therefore be reversed. E-Pass was well within its rights at a minimum to pursue an infringement determination or an injunction of the infringement planned and demonstrated by the Palm and Visa International. Recent Supreme Court law and this Court's pronouncements make clear that a patentee does not have to wait for actual harm before seeking an infringement determination or, in this instance, the equitable remedy of an injunction. E-Pass should not preclude relief where the infringement is imminent as claimed at the 2001 CES Las Vegas Show.

E-Pass's other theory of infringement, that its circumstantial evidence could support a finding of direct infringement based on the Moleculon line of cases, was at least reasonably disputable. E-Pass had notified both the Palm Defendants and PalmSource in its original preliminary infringement contentions that E-Pass believed its circumstantial evidence supported a finding of direct infringement and of intent to induce others to infringe. The District Court repeatedly misquoted this Court, and its misinterpretations of this Court's decision infected the whole of the District Court's attorneys' fee decision.

The District Court also abused its discretion by improperly awarding attorneys' fees against E-Pass that bore no relationship to any of the alleged misconduct. Any award of attorneys' fees against E-Pass should not have included fees incurred as early as the date this Court remanded this case in 2003, but instead should have been reasonably related to Defendants' fees incurred as a result of the purported litigation misconduct, not in advance of the misconduct.

///

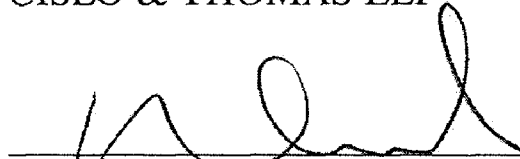
///

///

For these and the other foregoing reasons, the District Court's attorneys' fee award should be vacated and the case dismissed. Or, at a minimum, the case should be reversed and remanded for a proper calculation limited to fees incurred directly as a result of the litigation misconduct.

Respectfully submitted,

CISLO & THOMAS LLP

A handwritten signature in black ink, appearing to read 'Daniel M. Cislo', written over a horizontal line.

Daniel M. Cislo, Esq.

Kelly W. Cunningham, Esq.

Counsel for Plaintiff-Appellant
E-PASS TECHNOLOGIES, INC.

Date: August 11, 2008

T:\07-20432\E-Pass's reply brief.doc

PROOF OF SERVICE

I am over the age of eighteen (18) years, employed in the State of California, and not a party to the above-entitled action. My business address is 1333 2nd Street, Suite 500, Santa Monica, California 90401-4110.

On Monday, August 11, 2008, I served:

PLAINTIFF-APPELLANT E-PASS TECHNOLOGIES, INC.'S REPLY BRIEF

to be sent by Federal Express to:

Clerk of the Court
United States Court of Appeals for the Federal Circuit
717 Madison Place NW
Washington, DC 20439

and one copy of each of the documents identified above to be sent by Federal Express to the following:

John Allcock, Esq.
Edward H. Sikorski, Esq.
DLA PIPER RUDNICK GRAY CARY LLP
401 B Street, Suite 2000
San Diego, California 92101-4240

Attorneys for
Defendants 3COM, INC., PALM, INC.,
PALMONE, INC., and HANDSPRING, INC.

Madison C. Jellins, Esq.
Julie J. Han, Esq.
TOWNSEND AND TOWNSEND AND CREW
379 Lytton Avenue
Palo Alto, California 94301

Attorneys for
Defendant VISA INC. (formerly VISA
INTERNATIONAL SERVICE ASSOCIATION
and VISA USA, INC.)

Mark D. Rowland, Esq.
Andrew T. Oliver, Esq.
ROPES & GRAY LLP
525 University Avenue
Palo Alto, California 94301-1903

Attorneys for
Defendant ACCESS SYSTEMS AMERICAS,
INC. (formerly PALMSOURCE, INC.)

I declare, under penalty of perjury under the laws of the United States that the foregoing is true and that I am employed in the office of a member of the Bar of this Court at whose direction the service was made.

Executed on Monday, August 11, 2008, at Santa Monica, California.



Christopher Eckart

CERTIFICATE OF COMPLIANCE

The undersigned certifies that the attached brief complies with the type-volume limitation of Federal Rule of Appellate Procedure 32(a)(7)(B) and Federal Circuit Rule 32(b). The brief contains 9,230 words, excluding the parts of the brief exempted by Federal Rule of Appellate Procedure 32(a)(7)(B)(iii) and Federal Circuit Rule 32(b).

This brief complies with the typeface requirements of Federal Rule of Appellate Procedure 32(a)(5) and the type style requirements of Federal Rule of Appellate Procedure 32(a)(6). This brief has been prepared in proportionately-spaced typeface using Microsoft Word 2003 with the CG Times typeface in fourteen point.

Date: August 11, 2008



Kelly W. Cunningham, Esq.

Counsel for Plaintiff-Appellant
E-PASS TECHNOLOGIES, INC.

T:\07-20432\E-Pass's reply brief.doc