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**UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT**

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**BMC Resources, Inc.,**

**Plaintiff-Appellant,**

**v.**

**Paymentech, L.P.,**

**Defendant-Appellee.**

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**Appeal from the United States District Court for the Northern District  
of Texas in Case No. 3:03-CV-1927-M, Judge Barbara M.G. Lynn**

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**NON-CONFIDENTIAL  
REPLY BRIEF OF PLAINTIFF-APPELLANT BMC RESOURCES, INC.**

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Counsel for the Appellant, BMC Resources, Inc. certifies the following:

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BMC Resources, Inc.

2. The name of the real parties in interest (if the party named in the caption above is not the real party in interest) represented by me are:

N/A

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

FISERV, INC.

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## I. INTRODUCTION

Paymentech does not even attempt to support the District Court's summary judgment. First, Paymentech asserts the District Court got the law wrong because this Court does not recognize joint infringement. PT22-24.<sup>1</sup> No one but Paymentech, not even its *amicus*, advocates such a position and for good reason – *On Demand Machine Corp. v. Ingram Indus., Inc.*, 442 F.3d 1331 (Fed. Cir. 2006). Paymentech's abandons its no joint infringement argument when it later acknowledges that this Court has never addressed joint infringement. PT32.

Second, Paymentech does not support the Court's erroneous factual basis for summary judgment. For instance, Paymentech concedes that its PINless Debit Bill Payment ("PDBP") data message directed or controlled the debit networks and financial institutions (*i.e.*, banks) but argues not enough to warrant liability:

Second, although the data is the stimulus on which the ATM networks and banks act, it does not constitute 'control or direction' of those parties **sufficient** to provide a basis for imposing liability on Paymentech.

PT47. Paymentech also concedes that the financial institutions formed, comprised, and controlled the ATM debit networks:

The financial institutions established additional payment networks, the ATM network, to handle debit card transactions. PT10. ...The remote

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<sup>1</sup> The following abbreviations are used to cite to the various briefs that have been filed: BMC's opening brief, "BMC<pg>"; *Amicus* brief of Freedom Wireless, "FW<pg>"; Paymentech's response brief, "PT<pg>"; *Amicus* brief of Comcast, "CC<pg>".

payment network appointed by the institution to act as the gateway for card payment messages. PT19.

*See also*, A2982,A3316. The District Court's factual basis for the summary judgment gets no support from either party because there is none. On that basis alone, summary judgment should be vacated.

Comcast, Paymentech's *amicus*, concedes that where parties collaborate, it is appropriate to impose liability on the coordinator/mastermind. CC8. Paymentech is undisputedly the coordinator/ringleader/mastermind of the PDBP transaction actions it processes. BMC16-18,46-59.

[

]

A1344-45,A753-54,BMC47. It even indemnified customers (A1271-2,A1333-4,A1339-40), and actively encouraged and promoted these PINless debit bill payment services. A26,A1376 ,BMC48-50. It was not going to let the BMC patents get in the way of maintaining and increasing its business.

## **II. REPLY TO ISSUES AND CASE STATEMENT**

Paymentech's third issue is incorrectly framed. BMC has pled that Paymentech induced infringement under §271(b) but did not assert contributory infringement under §271(c). A4096-99.

Paymentech's case statement is incorrect in two significant respects:

1. Paymentech asserts that BMC's patented invention is not about PDBP, when that is the central focus of the invention. BMC12-16.
2. Contrary to Paymentech's statement, BMC filed a Rule 56(f) motion to seek discovery Paymentech was refusing to provide and additional discovery concerning Allstate, Alltel and CenturyTel. A3503-60. BMC also filed a related motion to compel which the Magistrate denied pending the outcome of the summary judgment proceedings. A42.

## **III. PAYMENTECH'S "FACTS" SHOULD BE DISREGARDED.**

Paymentech's "Statement of Facts" spans 12 pages and contains over 110 sentences, but less than 30% include any record cite. Over one-third of the cites do not support the "fact" asserted. Many statements baldly (and incorrectly) claim that there is no evidence of something. Paymentech's statement should be disregarded as unsupported attorney argument, not "facts." *Estee Lauder v.*

*L'Oreal, S.A.*, 129 F.3d 588, 595 (Fed. Cir. 1997). Three examples are discussed below.

Paymentech states that the debit networks came up with PDBP because they were losing business. PT8-9. The first sentence lacks any cite and the second sentence cites A802, which does not support the statement. The evidence shows that BMC, then known as Telepay, invented and pioneered PDBP. BMC12-15. It also shows that the ATM networks were reluctant to process PDBP because of security issues. BMC15,A3057,A3052. Telepay was eventually able to convince PULSE to pilot PDBP in 1995. BMC15,A2989,3264,2994,3052,3051,3384. STAR did not agree to process PDBP until 1997. A2290. NYCE started PDBP in 2002. A2990.

Paymentech's transparent invalidity attack is also unsupported. PT10-12. For instance, Paymentech mischaracterizes the asserted claim by stating that there is no real-time limitation. PT11. However, the '456 Patent claims require charging the customer's account "during the session" (A61,A62), and the '298 Patent claims require debiting the customer's account "during the call." A78.

The asserted claims do not now cover existing credit card or signature debit systems because neither system processes in real-time. A2982. According to Paymentech's expert, it takes one to three days to actually place a charge on a credit card account or to debit a signature debit account. A2982. Thus,

Paymentech's statement, "Although BMC claims to have pioneered real time electronic bill payment, it has already been known in the art before filing the patents" (PT11), is based on credit card transactions and is simply not accurate because credit cards were not processed in real time.

Paymentech downplays its role in setting up, coordinating and performing PDBP transactions, pretending that it is a disinterested, passive middle man. The evidence is clear that Paymentech is the ringleader/mastermind that coordinated this entire PDBP transaction enterprise. BMC47-51,A102-03. [

] A3057-

58,A1344-45,A748-49,A753-54,A902-03,A1693.

Paymentech concludes with unsupported claims that certain claim elements are not met. However, the evidence shows that each step of the asserted claims is met. BMC18-20,46-60; *infra* at part IV.B.2.

#### IV. ARGUMENT

##### A. Joint Infringement Exists

Paymentech abandons any argument that there is support for the under-inclusive "direct or control" standard in the statute or prior court decisions. Instead, Paymentech argues that this Court does not even recognize joint infringement. Only the *amicus* continues to try to support "direct or control."

The appropriate standard for joint infringement is articulated in *On Demand*. Under *On Demand*, direct infringement occurs when participants work together or in concert to perform the steps of a patented method. This standard is supported by the statute, prior district court decisions, and affords inventors a meaningful right to exclude.

**1. On Demand Requires Combined Action of the Participants, Not “Direction” Or “Control.”**

Contrary to Paymentech’s allegations, BMC addressed the entire *On Demand* instruction. BMC23,29-32. The *On Demand* instruction imposes liability on joint infringers where infringement results from “the participation and combined action(s) of more than one person or entity.” BMC29-32. Liability is imposed on any participant including those who work together, work in concert, and have others perform steps.

Paymentech argues that the instruction read “as a whole” limits joint infringement to one person having another perform a step of the method for them. PT31. Paymentech’s analysis is based solely on the third sentence and ignores the other three sentences. PT31-2. The entire *On Demand* instruction states:

It is not necessary for the acts that constitute infringement to be performed by one person or entity. When infringement results from the participation and combined action(s) of more than one person or entity, they are all joint infringers and jointly liable for patent infringement. Infringement of a patented process cannot be avoided by having another perform one step of the process or method. Where the infringement is the result of the participation and combined

action(s) of one or more persons or entities, they are joint infringers and are jointly liable for the infringement.

*On Demand*, 442 F.3d at 1344-45 (underline added). The third sentence describes one situation where a finding of joint infringement cannot be avoided. It does not somehow affirmatively require an attempt to avoid the patent for joint infringement to exist.

The third sentence comes between two sentences that contain virtually identical language that hold all participants liable, not just those who have others perform steps for them:

Where infringement is the result of the participation and combined action(s) of one or more person or entities, they are all joint infringers and jointly liable for patent infringement.

*Id.* Thus, it is Paymentech that takes the *On Demand* instruction out of context because the instruction does not limit liability to those persons who have others perform steps.

Paymentech and *amicus* call *On Demand dictum*, but neither addresses BMC's analysis (BMC30-31) nor provides any explanation why this Court's approval of the joint infringement instruction was not a holding. Nor do they offer any reason why this Court would have issued a decision addressing an issue of first impression unless it was intended to be followed as part of this Court's charge to promote uniformity in patent law. Simply put, *On Demand* should have been followed by the District Court.

Paymentech also mischaracterizes BMC's *On Demand* and infringement arguments. BMC shows how Paymentech has the merchants, network and financial institutions all perform steps of the claimed methods at Paymentech's direction. BMC16-18,46-60, and *Supra*, parts VI.B. and C.

## **2. *Fromson Did Not Decide Joint Infringement.***

Paymentech's lead argument is that the District Court got the law wrong because this Court rejected joint infringement over 20 years ago in *Fromson v. Advance Offset Plate, Inc.*, 720 F.2d 1565 (Fed. Cir. 1983). PT22. This Court did not decide joint infringement prior to *On Demand*, and Paymentech admits as much by quoting this Court's December 2005 Order in *Freedom Wireless, Inc. v. Boston Communications Group, Inc.*, Nos. 06-1020,--1078,--1079,--1098,--1099 (Fed. Cir. Dec. 15, 2005), which states: "[t]his court has not addressed the theory of joint infringement...." PT32.

In *Fromson*, this Court stated "this appeal hinges on construction of 'reaction.'" *Fromson*, 720 F.2d at 1569. The district court found no infringement because an aluminum silicate product was not formed by the reaction. *Fromson v. Advance Offset Plate, Inc.*, 219 U.S.P.Q. 83, 89 (D. Mass. 1983). This Court reversed and remanded because the term "reaction" did not require an aluminum silicate to be formed. *Id.* at 1570-71. On remand, the District Court found infringement. *Fromson v. Advanced Offset Plate, Inc.*, 223 U.S.P.Q. 1132, 1138

(D. Mass. 1984). Nothing in the holding mentions, much less discusses, joint infringement.

Paymentech crops a portion of the second sentence from the second paragraph of “C. The Advanced Plates” section of the Background to assert this Court does not recognize joint infringement. PT22. Uncropped, this background statement reads:

It is undisputed that Advance manufactured and sold “wipe-on” plates comprising an anodized aluminum sheet that had been treated with an aqueous solution of sodium silicate, and that its customers applied a diazo coating to those plates. Because the claims include the application of a diazo coating or other light sensitive layer and because Advance’s customers, not Advance, applied the diazo coating, Advance cannot be liable for direct infringement with respect to those plates but could be liable for contributory infringement. It is also undisputed that Advance, not its customers, applied the diazo resin to certain “presensitized” plates. For those presensitized plates, Advance could be liable for direct infringement.

*Fromson*, 720 F.2d at 1567-68 (underlining added to show cropped portion).

Uncropped, the second paragraph refers to the asserted product claims, not the method claims. It starts by providing context, “Advance manufactured and sold ‘wipe-on plates’” and describes the structure of those plates using standard “comprising” language – not “comprising the steps of” language. *Id.* It points out that plates that do not contain one of these structural elements would not directly infringe, but that selling those plates could be contributory infringement if they are

made into an infringing product. *Id.* at 1568. Such non-controversial statements about product claim infringement are found in a background discussion.

Moreover, language found in “background” sections does not represent part of the holding, particularly on a significant issue of first impression such as joint infringement. *See, e.g., Shell Rocky Mountain Prod., LLC v. Ultra Res., Inc.*, 415 F.3d 1158, 1169 (10th Cir. 2005).

### 3. *Cross Medical Is Inapposite.*

*Amicus* claims that this Court addressed joint infringement in *Cross Medical Prods., Inc. v. Medtronic Sofamor Danek, Inc.*, 424 F.3d 1293 (Fed. Cir. 2005). CC5-6. Cross Medical sued Medtronic for infringement of a patented apparatus, not a method. The claim required an interface that was in contact with bone, so the apparatus was not “made” until a doctor screwed the interface into a bone. *Cross Medical*, 424 F.3d at 1310-11.

Cross Medical asserted Medtronic directly infringed because the Medtronic apparatus was capable of infringing, Medtronic representatives were in the operating room, and the doctors were Medtronic’s agents. *Id.* at 1311. This Court rejected Medtronic’s arguments, pointing out that the doctors were not agents of Medtronic, Medtronic did not make the claimed apparatus, and the doctors were the only ones who could have made the patented apparatus:

[I]f anyone makes the claimed apparatus, it is the surgeons, who are, as far as we can tell, not agents of Medtronic. Because Medtronic

does not itself make an apparatus with the “interface” portion in contact with bone, Medtronic does not directly infringe. *Id.*

The agency theory was asserted in an attempt to make Medtronic liable for the acts of the doctors where Medtronic itself had not made the patented apparatus, not as a basis for finding joint infringement.

#### **4. Section 271(a) Covers Joint Infringement.**

Neither Paymentech nor *amicus* offer any credible alternative construction for “whoever.” Paymentech continues to argue that “whoever” is plural, but covers only a group of persons who each individually perform all of the steps of the patented method (PT37), which makes “whoever” singular, not plural. *Amicus* simply ignores the plain meaning of “whoever.”

Neither Paymentech nor *amicus* dispute that the operative statutory language is “whoever...uses...any patented invention...infringes the patent,” or that “whoever” is plural and refers to “whatever person or persons.” Thus, 271(a) is violated where any person performs the patented method steps, and where any persons together perform the patented method steps. BMC32-33.

This construction is confirmed by the similar use of “whoever” in §101 and the use of joint inventors in §116. FW5-7. Paymentech admits that “whoever” in §101 encompasses joint inventors. PT38. The same term is presumed to have the same meaning when used in separate sections of a statute. *Gustafson v. Alloyd Co., Inc.*, 513 U.S. 561, 568 (1995); *Voracek v. Nicholson*, 421 F.3d 1299, 1304

(Fed. Cir. 2005). Paymentech offers no authority to support its novel theory that this presumption is overcome because additional statutory sections do not exist to support giving “whoever” the same meaning in §271(a). PT38.

Moreover, §116 does not limit or expand the meaning of “whoever.” Section 116 simply requires that if “whoever” invents under §101 includes two or more persons acting jointly, then the joint inventors must apply jointly.

*Amicus* ignores the meaning of “whoever” and recites the well-known but irrelevant all elements rule. CC4-5. That rule addresses what conduct constitutes an infringement but not by whom. There is no question that all of the steps of the BMC method are performed. *See* BMC51-57 and parts VI.C. and D. The question of “who” focuses on the term “whoever” in the context of §271(a).

#### **5. *Neither 271(b), (c) or (g) Preclude Joint Infringement.***

Paymentech and *amicus* attempt to redefine 271(a) using 271(b), (c) and (g), which reflects a basic misunderstanding of the interrelationship between these statutory sections. BMC34-35, FW10-11. These sections provide complementary and overlapping bases for imposing liability. *Id.*

Paymentech now admits that 271(b) and (c) continue to apply in circumstances where 271(a) does not. PT35. Thus, these sections are not rendered superfluous. BMC35.

Paymentech's new claim that these sections are superfluous "in the context of multiple infringers" is wrong. 271(b) and (c) continue to apply where an entity does not perform any steps of the method but aids the participants in a joint infringement. And, when seeking liability for inducement, a patent owner can obtain broader injunctive relief to prevent aiding and abetting a direct infringement. BMC has done just that here.

Paymentech cites no authority for its novel partially superfluous theory. Without apprising the Court, Paymentech cites to the dissent in *Regions Hosp. v. Shalala*, 522 U.S. 448, 466-67 (1998), which does not support Paymentech's theory.

Congress never intended to exclude joint infringement when it enacted 271(a), (b) and (c). By 1952, several courts had recognized joint infringement. *Crowell v. Baker Oil Tools, Inc.*, 143 F.2d 1003, 1004 (9<sup>th</sup> Cir. 1944); *Robert Findlay Mfg. Co. v. Hygrade Lighting Fixture Co.*, 288 F. 957, 958 (E.D.N.Y. 1923); *New Jersey Patent Co. v. Schaeffer*, 159 F.171, 173 (E.D. Pa. 1908), *aff'd*, 178 F. 276 (3d Cir. 1909). Sections 271(b) and (c) were enacted to codify existing law of contributory infringement, not to change existing law of direct infringement. *Hewlett-Packard Co. v. Bausch & Lomb, Inc.*, 909 F.2d 1464, 1469 (Fed. Cir. 1990); P.J. Federico, *Commentary on the New Patent Act*, 75 J. PAT. & TRADEMARK OFF. SOC'Y 161, 212 (1993).

Likewise, 271(g) was not enacted to address joint infringement (PT36-37), because liability for joint infringement had been consistently imposed in several district court decisions prior to its enactment. BMC35-38,A3606-3608. Section 271(g) was enacted to close a perceived loophole that allowed the circumvention of process patents by their use outside of the United States. *Eli Lilly & Co. v. American Cyanamid Co.*, 82 F.3d 1568, 1571-72 (Fed. Cir. 1996). Not a single joint infringement decision since 1988 has found liability under, or even mentions, 271(g).

**6. Prior District Court Decisions Support On Demand.**

Contrary to Paymentech's assertions, the *On Demand* participation and combined action standard finds ample support in prior court decisions. *See, e.g., W.R. Grace & Co. v. Conoco, Inc.*, 60 F.Supp.2d 316, 326-27 (D. Del. 1999); *FMC Corp. v. Up-Right, Inc.*, 816 F. Supp. 1455, 1461 (N.D. Cal. 1993); *McDermott v. Omid Int'l*, 723 F. Supp. 1228, 1236 (S.D. Ohio 1988); *Shields v. Halliburton Co.*, 493 F.Supp. 1376, 1389 (W.D. La. 1980); *Robert Findlay*, 288 F. at 958. This principle has been around for almost 100 years, dating back to the 1908 decision in *New Jersey Patent Co.*, 159 F. at 173.

*Shields* is a classic application of the participation and combined action standard. In *Shields*, 493 F. Supp. at 1389, the court found two companies,

Halliburton and Brown and Root, liable for direct infringement when they combined to perform the steps of a patented grouting method. BMC37,n.3.

Paymentech and *Amicus* misread *Shields*. *Amicus* parenthetically claims that *Shields* involved employees of a “joint venture” working together. CC8. However, the Court in *Shields* found two separate companies, Halliburton and Brown & Root, not one joint venture, liable. *Id.* at 1389.

Paymentech incorrectly asserts that this Court has held that *Shields* involved a situation where steps were performed “at the direction of, but not by a party.” PT27-28. This Court simply repeated what *Cross Medical* argued *Shields* meant. *Cross Medical*, 424 F.3d at 1311. Even *Faroudja Labs. v. Dwin Elecs., Inc.*, 1999 WL 111788 at \*5-6 (N.D. Cal. 1999), a case relied upon by Paymentech and *Amicus*, characterizes *Shields* as a case where separate entities “worked in concert with other entities to complete the process of infringement.”

Paymentech no longer attempts to defend the “direct” or “control” standard. PT24-31. Instead, Paymentech opts for a new standard, arguing that the district court decisions permit joint infringement only where a person has “someone perform one or more steps for him.” PT24. Most of the district court decisions do not mention or support Paymentech’s theory. BMC35-41. Moreover, Paymentech waived this argument by not presenting it to the District Court. *Conoco, Inc. v. Energy & Environmental Int’l, L.C.*, 460 F.3d 1349, 1358 (Fed. Cir. 2006).

Paymentech's analysis of the district court decisions and criticism of BMC is also replete with misquotes, crops, and misstatements:

- Paymentech falsely claims that BMC "incorrectly states the holding in *Cordis*." (*Cordis Corp. v. Medtronic AVE, Inc.*, 194 F.Supp.2d 323 (D.Del. 2002)). PT30. BMC correctly stated that the "[d]octors directly infringed," not Boston Scientific. BMC38.
- Paymentech incorrectly states that *Faroudja* denied summary judgment because of material fact issues on "control." PT30. *Faroudja* held that joint infringement occurs where there is "**some connection** between the entities performing the steps of the patent." 1999 WL 111788 at \*5-6.
- Paymentech mischaracterizes *Pay Child Support Online, Inc. v. ACS State & Local Solutions, Inc.*, 2004 WL 741465, \*9 (D.Minn. 2004), asserting that all of the steps were performed by PCSO. PT29. The Court actually held that: "PCSO initiates the transfer of payments and payment information **as described in the patents**." The patent states that the payment is initiated when "an employer transfers information to an accumulator agency." *Id.*
- Paymentech incorrectly asserts that *Charles E. Hill v. Amazon.com, Inc.*, 2006 WL 151911, \*2 (E.D. Tex 2006) required direction or control unless there is a contractual or agency relationship. PT29-30. Paymentech ignores the Court's explicit recognition that concerted activity is sufficient to find joint infringement. *Id.*

Only *Amicus* still clings to the view that district courts require direction or control. CC7-8. *Amicus* does not even attempt to explain how *Cordis* and *E.I. Dupont de Nemours and Co. v. Monsanto Co.*, 903 F.Supp. 680 (D.Del. 1995), held that the directed or controlled (induced) participant is liable for direct infringement. BMC39-40.

*Amicus's* insistence on the "direct" or "control" standard is not surprising, because one of its lawyers appears to be its creator. In 2004, Mr. Lemley published an article advocating direction or control, while at the same time advocating that standard on behalf of clients. The Lemley article is terse, fails to consider most of the joint infringement decisions, and misreads *Shields* and *Monsanto*. The District Court adopted "direction" or "control" shortly after publication of the Lemley article and cited it for support. A27. *Amicus* now cites this case as authority for the proposition Lemley created. Other than this case, no other case supports direction or control. BMC35-41.

**7. *Paymentech's and Amicus' Restrictions On Joint Infringement Are Inconsistent With Patent Policy.***

Method patents could be circumvented and practiced with impunity, for instance, by dividing the steps between participants involved in arms-length business relationships as long as no one directs or controls the others. BMC41-6. *Amicus* openly advocates for this enormous loophole. CC9. But, such an enormous loophole is too large to have ever been contemplated by Congress, especially given that joint infringement was recognized prior to enactment of the 1952 Patent Act. BMC41-46.

Despite all of the decisions that consistently recognize joint infringement, Paymentech pretends that joint infringement "is not the law." PT39,42,43. Outside this lawsuit, Paymentech believes the opposite. [

] A776-77.

Paymentech also owns U.S. Patent 6,169,974, which describes and claims a method that is carried out by several participants, including: a “business entity,” a “merchant,” a “bank card association,” and a “credit card issuer.” A4192,A4196(1:52–2:21),A4199. If Paymentech really believed that joint infringement was not the law, it would not have obtained the ‘974 patent.

Paymentech’s business method patent concerns throw the baby out with the bath water. PT40-42. *All* method patents would become easy to circumvent if joint infringement is significantly restricted, not just patents covering business methods, including methods of making a product, using a product, operation, and treatment.

Paymentech’s litany of “adverse consequences” is a red herring. PT43-46. All of these consequences mistakenly assume that joint infringement is not the law. The reality is just the opposite, and all of these purported “adverse consequences” are already routine matters in business and litigation.

Businesses, particularly “deep pockets,” regularly confront and address patent infringement issues. PT44. They assess and allocate the risks of infringement through analysis, investigation and contractual provisions whether the issue is direct, indirect or joint infringement. Paymentech attempts to do just that here. A1271-72,A1333-34,A1339-40.

Paymentech has no real “proliferation” of litigation or problem of proof concerns. PT43-45. Paymentech can simply seek to implead other joint infringers in this action to the extent Paymentech has not already indemnified them. A1271-72,A1333-34,A1339-40. Patent owners have the burden of proof on both liability and damages, so defendants like Paymentech will always know what steps are performed and what profits are earned by other participants. In this case, Paymentech is intimately aware of what the other participants are doing. A311,A1280,A1011-16,A1322-23,A1328-30,A1709-26,A1798,A1376.

“Better claim drafting” does not alleviate the need for joint infringement. PT43-44, CC13-14. This purported “solution” renders many method patents worthless. BMC45. It penalizes inventors of methods that involve multiple participants. Instead of being able to accurately describe and claim their invention, these inventors will be forced to rely on a patent attorney to engage in “clever” claim drafting that isolates a step that cannot be performed by a single entity to obtain protection for their invention.

Ultimately, any method claim can be avoided by subdividing performance of the steps between several entities that act independently. BMC46. The most Paymentech offers is the rhetorical question, how could the “merchant avoid a properly drafted claim?” PT43. This question is easily answered: by dividing the different prompting steps between computers owned by different entities.

**B. Paymentech Is Liable Under *On Demand*.**

Paymentech devotes much of its argument trying to prevent summary judgment of infringement from being entered against it. PT54-61. Under *On Demand*, or even a more stringent “concerted activity” standard, summary judgment that Paymentech infringes should be entered.

**1. *The Entities Participate And Combine To Process Each Infringing PDBP Transaction.***

Paymentech, Verizon, and a Paymentech selected debit network/affiliated financial institution participate and combine actions to process each PDBP transaction. BMC47-57. Paymentech never denies that these entities all work together and in concert to perform each PDBP transaction and instead tries to divert attention away from it.

Paymentech points out that it was not involved in the initial decision to allow PDBP transactions. PT33,46-47. Of course not; BMC and its predecessor pioneered PDBP and persuaded the networks to allow these transactions. BMC12-15. [

] BMC4,16;A3057-

58,A1344-45,A748-49,A753-54,A902-03,A1693,A1697-8,A630-1,A638,A748-9.

Paymentech mischaracterizes BMC’s argument as one that requires “coordination,” rather than entities working together or in concert. PT32-33. BMC agrees with Paymentech that “coordination” is not required under *On*

*Demand*; that standard is met when participants work together or in concert to perform the steps of a patented method. Nevertheless, the fact that Paymentech “coordinated” PDBP is yet another reason to single out Paymentech as a direct infringer. BMC46-60. Even Paymentech’s *Amicus* agrees that the coordinator of a joint infringement should be liable for direct infringement. CC8.

**2. *BMC’s Patents Are Infringed When Paymentech Processes A PDBP Transaction.***

All of the steps of ‘456 Patent claim 7 and ‘298 Patent claim 2 are met when Paymentech processes a PDBP transaction for Verizon. BMC51-57. Although Paymentech attempts to create the misimpression that these claims have the same breadth (PT55), ‘456 Patent claim 7 has fewer steps than ‘298 Patent claim 2.

**a. *The ‘456 Claims Are Infringed.***

Paymentech contests only one step of the asserted ‘456 Patent claims. It admits that claim 6 “does not require the caller to be prompted to enter an account number,” but then tries to read that very limitation into the claim through the “adding the entered payment amount to an account associated with the entered account number” step. PT56-57.

The “adding” step is clearly met. BMC54. Claim 6 does not restrict how the account number is entered or by whom. All that is required is for an account number to be entered. The evidence is undisputed that an account number is

entered. See A1281,A1213,A620,A558,A2165-69,A2173-74,A964-65,A1076-7, A1799,A2136-37,A320.

Moreover, Paymentech waived its “adding” step argument by failing to present it to the District Court. *Interactive Gift Express, Inc. v. Compuserve, Inc.*, 256 F.3d 1323, 1344-45 (Fed. Cir. 2001).

**b. The ‘298 Claims 2 Are Infringed.**

All three ‘298 patent claim limitations contested by Paymentech are met.

**Prompting for Entry of an Account Number.** “Account number” is defined by the language in claim 1 as a number “identifying an account of a payor with the payee in connection with the payment transaction.” A78. See *Phillips v. AWH Corp.*, 415 F.3d 1303, 1314 (Fed. Cir. 2005) (*en banc*). The patent specification is in accord. A73-74(2:67-3:2),(5:23-26). Paymentech has never argued for a different construction.

Each merchant prompts for entry of a number that identifies the customer’s account with the merchant in connection with each PDBP transaction. A2165-69,A2173-74,A558,A312,A320,A964-65,A1281,A1076-77,A1213,A1799,A2136-37. [

] A1213,A1281.

Paymentech's employees confirm that the merchant's IVR asks the customer to enter a number that identifies the customer's account with the merchant:

[

]

A620; *see also* A558,A2165-69,A2173-74,A964-65,A1076-77,A1799,A320,A2136-37.

Paymentech admits Verizon customers enter their mobile telephone number (MTN) but asserts it is not an account number. PT55;A418-19,A2166-69. However, Verizon's 30(b)(6) witness confirmed that the MTN is [

] A419,A427.

Nothing in the claim language or patent specification precludes an account number from serving other functions, such as a telephone number or policy number, so long as the number identifies an account of the customer with the merchant bill payee. *Northern Telecom, Inc. v. Datapoint Corp.*, 908 F.2d 931, 945 (Fed. Cir. 1990). Paymentech's argument does not change the fact that the MTN or policy number is an account number because it identifies the customer's account with the merchant. *See Ethyl Molded Prods. Co. v. Betts Packaging Inc.*, 9 U.S.P.Q.2d 1001, 1018 (E.D. Ky. 1988) ("renaming the ribs 'extended sidewalls' does not negate the fact that they are ribs.")

*Determining Whether the Entered Payment Number is Valid.* BMC agrees that “determining whether the entered payment number is valid” must be performed before Paymentech accesses the remote payment network. Both the merchant and Paymentech perform this validation step.

The ATM networks provide Paymentech with BIN files, and Paymentech in turn provides these BIN files to merchants. PT57,BMC55. These BIN tables include at least the first nine digits of eligible ATM debit cards. A679. They are used to determine whether the entered ATM debit card number is valid by checking whether the number has been entered correctly and that it corresponds to a card that is eligible for debit bill payment. A603,A574,A564-65,A2174-75,A609,A623,A2142-43,A2003. Paymentech’s own employees confirm that the merchant and Paymentech determine whether the entered card number is valid using the BIN file:

[

]

A574,A603.

Paymentech, without citing evidence, argues that only ATM networks and financial institutions determine whether the entered card number is valid. PT57-58. Paymentech's construction is inconsistent with the '298 Patent specification. In the preferred embodiment, the Telepay system determines whether the entered debit card number is valid. A161-62(6:30-7:30),A152,A178-79(6:30-7:30),A169. If the ATM Networks and/or financial institutions are the only ones who can determine card validity, then the claim would not cover the preferred embodiment which is "rarely, if ever, correct." *Nelcor Puritan Bennett, Inc. v. Masimo Corp.*, 402 F.3d 1364, 1368 (Fed. Cir. 2005).

Moreover, the law does not require a perfectly efficient or accurate infringement. *Shamrock Technologies, Inc. v. Medical Sterilization, Inc.*, 903 F.2d 789, 792 (Fed. Cir. 1990); *Laitram Corp. v. Cambridge Wire Cloth Co.*, 863 F.2d 855, 859 (Fed. Cir. 1988). Whether the merchant or Paymentech card validation is 100% accurate is immaterial because it is nonetheless a determination of payment number validity.

***Storing the Entered Account Number.*** Paymentech argues that the entered account number is not stored because the account number is not entered. PT59. This argument fails for the same reasons that Paymentech's prompting argument

fails – no matter what Paymentech wants to call it, the entered Verizon MTN is an account number.

Paymentech argues that sometimes Alltel and Verizon transmit a “separate randomly generated order number.” PT60. For each merchant, Paymentech cites to a single, isolated statement in a declaration that is too conclusory to permit a conclusion that this purported “separate” order number is not the entered account number. *Arthur A. Collins, Inc. v. Northern Telecom Ltd.*, 216 F.3d 1042, 1046 (Fed. Cir. 2000); *Phillips Petroleum Co. v. Huntsman Polymers Corp.*, 157 F.3d 866, 876 (Fed. Cir. 1998). For instance, no information is provided that identifies how the order number is generated, its contents, its relationship, if any, to the entered account number, or if this number identifies an account of the bill payor with the payee.

Moreover, Paymentech’s declaration cannot create a fact issue because it contradicts sworn deposition testimony that what Verizon did was unknown. A667. *See Sinskey v. Pharmacia Ophthalmics, Inc.*, 982 F.2d 494, 498 (Fed. Cir. 1992).

**C. It Is Appropriate To Hold Paymentech Liable.**

Paymentech should be held liable under any joint infringement standard. Paymentech coordinated the entire enterprise to involve the same participants

disclosed in BMC's patents, and all of the participants work together to perform every step of the claimed process. BMC60-4.

Paymentech is also liable under its new "have another perform steps for you" standard. As *Amicus* recognizes, an entity, like Paymentech, who is the "coordinator" (mastermind) of a joint activity, should be liable for joint infringement because the others are essentially performing steps for the coordinator. CC8.

Paymentech is the "mastermind"/"ringleader"/"coordinator" of this joint activity. BMC47-51,A102-3. Upstream, Paymentech has its merchant customers perform the prompting and informing steps as in *Metal Film Co. v. Metlon Corp.*, 316 F.Supp. 96 (S.D.N.Y. 1970), and *Idacon, Inc. v. Central Forest Prods., Inc.*, 1986 WL 15837 (E.D. Ok. 1986). Downstream, Paymentech constructs a PDBP message and sends it to a debit network/affiliated financial institution to perform the debiting and crediting steps as in *Mobil Oil Corp. v. W.R. Grace & Co.*, 367 F.Supp. 207 (D. Conn. 1973), *Free Standing Stuffer, Inc. v. Holly Dev. Co.*, 1974 WL 20219 (N.D. Ill. 1974), and *Applied Interact, LLC v. The Vermont Teddy Bear Co., Inc.*, 2005 WL 2133416 (S.D.N.Y. 2005).

Paymentech also has others perform the steps under its theory that "a person completing the patented method is deemed to have paid the people who carried out the earlier claimed steps to have done so on its behalf." PT28. Paymentech

completes the '456 Patent claim steps by "storing" the information. A181-82(12:52-13:10); BMC54-55.

Paymentech attempts to portray itself as a disinterested middle man and to pass off responsibility on its merchants or the debit card networks/financial institutions. PT46. Paymentech's own documents prove otherwise. [

]

A1376. Even the District Court concluded that Paymentech took an active role in "marketing PINless debit bill payment services ("DBP") to its existing and potential customers." A4.

Paymentech had every reason to offer PDBP. PT46. In 2000-01, Paymentech became aware of BMC's patents (A638,A892) and BMC's expanding PDBP transaction processing business. A1344-45,A3057-58,A753-54. In response, [

] A3057-58,A1344-45,A748-

49,A753-54,A902-03,A1693.

**D. Paymentech Now Admits It “Directed” or “Controlled”  
The Debit Networks/Financial Institutions.**

Paymentech does not even attempt to refute BMC’s expert, who testified that Paymentech “directs” the PDBP transaction flow through the selected debit network and card issuing financial institution. A3054,A3065. Paymentech’s own promotional materials confirm that “Paymentech forwards the authorization request to the customer’s bank via the NYCE, STAR®, and Pulse® debit network.” A1376,A13. This evidence suffices. BMC64-66.

Paymentech also directs and controls the selected ATM network and card-issuing financial institution through the PDBP data message. BMC66-69. Paymentech does much more than merely pass along a transaction message from the merchant. PT47. Paymentech deconstructs the message (A863-64), selects the appropriate ATM network (A573-74,A609-10,A705-06), and reconstructs a new message (A830-31,A849,A864-65,A3061). That message directs the selected ATM network and financial institution that the transaction is a PDBP, which debit card account to check for funds and to debit, the debit and credit amount, and what account to credit. A978-81,A623-24,A1798,A2177,A1036-38,A1043,A1046.

Faced with all this evidence, Paymentech admits that the PDBP message directs and controls the selected network and card-issuing institution but argues not enough to impose liability:

Although the data is the stimulus on which the ATM networks and the banks act, it does not constitute 'control or direction' of these parties sufficient to provide a basis for imposing liability on Paymentech." PT47.

This admission contradicts the District Court's basis for summary judgment.

## V. PAYMENTECH INDUCED VERIZON'S INFRINGEMENT.

The District Court did not address BMC's claim that Paymentech is liable for inducement. A3-16. At a minimum, a remand is necessary to address this claim. *TP Laboratories, Inc., v. Professional Positioners, Inc.*, 724 F.2d 965, 966 (Fed. Cir. 1984).

The evidence, however, permits only one reasonable conclusion – Paymentech induced Verizon's direct infringement. Verizon participates and combines in the processing of each infringing PDBP transaction by performing the "prompting" and "informing" steps. A2166-69, A2173-75, A2178. Under *On Demand*, Verizon is thus jointly liable as a direct infringer. Even Paymentech fingers the merchant as the one who "could be considered to be providing a method for its customers to pay its bills." PT46.

This Court recently clarified the inducement standard, holding that:

[t]he plaintiff has the burden of showing that the alleged infringer's actions induced infringing acts and that he knew or should have known his actions would induce actual infringements. The requirement that the alleged infringer knew or should have known his actions would induce actual infringement necessarily includes the requirement that he or she knew of the patent.

*DSU Medical Corp. v. JMS Co. Ltd*, Nos. 04-1620, 05-1048, -1052 (Fed. Cir. December 13, 2006) (*en banc*).

Knowing of BMC's patents (A638,A892), Paymentech induced Verizon's infringement by promoting its PDBP service (A724,A1799,A1162-65,A1848-51,A1376), assisting Verizon in all phases of PDBP processing and set-up (A311, A2732, A519-20, A524-30, A1136, A1140-65,A1173-77,A1184-93, A1800,A1805-09), instructing Verizon how to process PDBP transactions (A724,A1277-1309,A1213-14,A1413-1550), and indemnifying Verizon against infringement of BMC's patents (A1271-72,A436-37,A592). Most telling, Paymentech provided Verizon with specific instructions which, when followed, resulted in Verizon performing the very "prompting" and "informing" steps required by BMC's patents. A724,A1281,A1213-14,A1467,A1425,A856-57,A1427,A858. *See, e.g., Minnesota Mining and Manufacturing Co. v. Chemque, Inc.*, 303 F.3d 1294, 1305 (Fed. Cir. 2002).

Paymentech clearly knew or should have known that its actions would induce infringement. [

] Paymentech did not follow the advice. Paymentech

knew or should have known that its actions were inducing Verizon to prompt customers to enter the very information required by BMC's claims at least from its review of the IVR scripts.

Paymentech also induced Verizon's infringement by providing an indemnification for this lawsuit. This indemnification overcame the deterrent effect of the patent laws. *Hewlett-Packard Co.*, 909 F.2d at 1470. Verizon refused to proceed with PDBP because Paymentech had not provided Verizon with an indemnification against infringement of BMC's patents. A436-37,A592. Days after Paymentech indemnified Verizon (A1271-72), Paymentech began processing Verizon PDBP transactions. A592-94.

The opinion obtained by Verizon does not lessen the deterrent effect of Paymentech's indemnification clause. A legal opinion is not a defense to infringement and has no bearing on liability for such infringement.

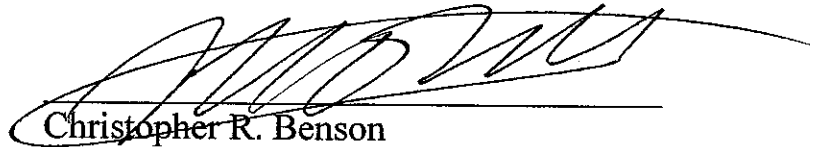
## **VI. CONCLUSION**

Neither Paymentech nor BMC support the District Court's "direct" or "control" standard for joint infringement. Moreover, the District Court's conclusion that the evidence is insufficient to establish infringement by Paymentech is erroneous.

Under *On Demand*, summary judgment of infringement should be entered with respect to Paymentech's PDBP processing for Verizon. The action should be

remanded to address infringement with respect to Paymentech's PDBP processing for Allstate, Alltel and CenturyTel.

Respectfully submitted,



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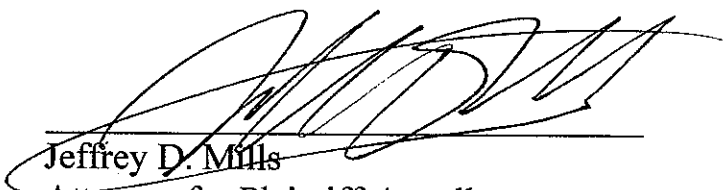
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**CERTIFICATE OF SERVICE**

I certify that two true and correct copies of the **NON-CONFIDENTIAL  
REPLY BRIEF OF PLAINTIFF-APPELLANT BMC RESOURCES, INC.**  
have been served on the following counsel of record on December 28, 2006, via  
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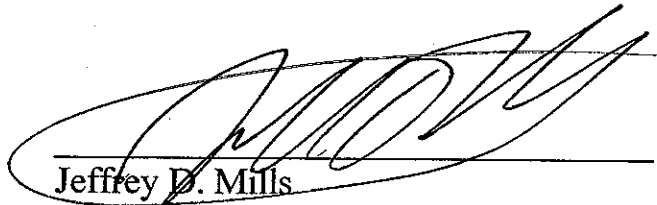


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December 28, 2006

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December 28, 2006