

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

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CLS BANK INTERNATIONAL,)	
)	
Plaintiff,)	
)	Case No. 07-CV-00974-RMC
v.)	
)	
ALICE CORPORATION PTY. LTD.,)	
)	
Defendant.)	
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)	
ALICE CORPORATION PTY. LTD.,)	
)	
Counterclaim-Plaintiff,)	
)	
v.)	
)	
CLS BANK INTERNATIONAL,)	
)	
Counterclaim-Defendant,)	
)	
and)	
)	
CLS SERVICES LTD.,)	
)	
Counterclaim-Defendant.)	
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REPLY TO ALICE CORPORATION PTY. LTD.’S AMENDED COUNTERCLAIM(S)

Plaintiff and Counterclaim-Defendant CLS Bank International and Counterclaim-Defendant CLS Services Ltd. (collectively, “CLS”), for their Reply to Defendant and Counterclaim-Plaintiff Alice Corporation Pty. Ltd.’s (“Alice”) Amended Answer and Counterclaims, state as follows:

The Parties

1. Admit, on information and belief, the allegations of paragraph 1 of the Amended Counterclaim(s).

2. Admit the allegations of paragraph 2 of the Amended Counterclaim(s).

3. Admit the allegations of paragraph 3 of the Amended Counterclaim(s).

4. Deny the allegations of paragraph 4 of the Amended Counterclaim(s) except admit that CLS Bank and CLS Services are parties to a Master Services Agreement.

Jurisdiction and Venue

5. Paragraph 5 of the Amended Counterclaim(s) sets forth legal conclusions for which no response is required. To the extent paragraph 5 contains factual allegations to which a response is required, those allegations are denied.

6. Paragraph 6 of the Amended Counterclaim(s) sets forth legal conclusions for which no response is required. To the extent paragraph 6 contains factual allegations to which a response is required, those allegations are denied.

Factual Background

7. Deny the allegations of paragraph 7 of the Amended Counterclaim(s) except admit that on or about October 4, 2002, Alice's counsel wrote to an executive of CLS Group Holdings and CLS Bank regarding U.S. Patent No. 5,970,479, and refer to the letter for the contents thereof.

8. Deny the allegations of paragraph 8 of the Amended Counterclaim(s) except admit that on or about March 6, 2003, Alice's counsel responded to a letter from counsel for CLS Bank, and refer to the aforementioned correspondence for the contents thereof.

9. Deny the allegations of paragraph 9 of the Amended Counterclaim(s) except admit that on or about November 23, 2004, representatives of Alice including Alice's chairman met with representatives of CLS Bank in New York.

10. Deny the allegations of paragraph 10 of the Amended Counterclaim(s) except admit that on or about June 29, 2005, Alice's counsel sent an email to counsel for CLS Bank regarding U.S. Patent No. 6,912,510, and refer to the email for the contents thereof.

11. Deny the allegations of paragraph 11 of the Amended Counterclaim(s) except admit that on or about January 18, 2006, representatives of Alice and Alice's counsel participated in a telephone conference call with the Chief Executive Officer of CLS Bank and CLS Group, CLS Bank's General Counsel and counsel for CLS Bank, respecting a licensing offer of Alice.

12. Deny the allegations of paragraph 12 of the Amended Counterclaim(s) except admit that on or about March 13, 2006, Alice's counsel sent an email to counsel for CLS Bank, attaching what Alice's counsel called a draft license agreement, and refer to the email for the contents thereof.

13. Deny the allegations of paragraph 13 of the Amended Counterclaim(s) except admit that on or about April 18, 2006, representatives of Alice met with the Chief Executive Officer of CLS Bank and CLS Group, CLS Bank's General Counsel and counsel for CLS Bank in New York.

14. Deny the allegations of paragraph 14 of the Amended Counterclaim(s).

15. Deny the allegations of paragraph 15 of the Amended Counterclaim(s) except admit that on or about October 4, 2006 the Chief Executive Officer of CLS Bank and CLS Group met with a representative of Alice in Australia.

16. Deny the allegations of paragraph 16 of the Amended Counterclaim(s).

17. Deny the allegations of paragraph 17 of the Amended Counterclaim(s) except admit that on or about February 7, 2007, the Chief Executive Officer of CLS Bank and CLS Group advised a representative of Alice that Alice's proposed license was rejected.

18. Deny the allegations of paragraph 18 of the Amended Counterclaim(s) except admit that on May 24, 2007, CLS Bank filed suit in this Court alleging *inter alia* that U.S. Patent No. 5,970,479, U.S. Patent No. 6,912,510, U.S. Patent No. 7,149,720 are not infringed, are invalid, and are unenforceable, and seeking *inter alia* a declaration of non-infringement, invalidity, and unenforceability of those patents, and admit that this suit is ongoing.

19. Deny the allegations of paragraph 19 of the Amended Counterclaim(s) except admit that on May 25, 2010, the United States Patent & Trademark Office issued U.S. Patent No. 7,725,375 to Ian K. Shepherd as inventor, and Alice as assignee.

20. Deny the allegations of paragraph 20 of the Amended Counterclaim(s) except admit that CLS Bank and CLS Services are parties to a Master Services Agreement.

21. Deny the allegations of paragraph 21 of the Amended Counterclaim(s).

Count I

22. Restate and reallege their responses to paragraphs 1-21 of the Amended Counterclaim(s) and incorporate them herein by reference.

23. Deny that the '479 patent was "duly and legally" issued to Ian K. Shepherd, and otherwise admit the allegations in paragraph 23 of the Amended Counterclaim(s).

24. Deny knowledge or information sufficient to form a belief as to the truth of the allegations in paragraph 24 of the Amended Counterclaim(s), and on that basis deny those allegations.

25. Deny the allegations of paragraph 25 of the Amended Counterclaim(s).
26. Deny the allegations of paragraph 26 of the Amended Counterclaim(s).
27. Deny the allegations of paragraph 27 of the Amended Counterclaim(s).
28. Deny the allegations of paragraph 28 of the Amended Counterclaim(s).

Count II

29. Restate and reallege their responses to paragraphs 1-28 of the Amended Counterclaim(s) and incorporate them herein by reference.

30. Deny that the '510 patent was "duly and legally" issued to Ian K. Shepherd, and otherwise admit the allegations in paragraph 30 of the Amended Counterclaim(s).

31. Deny knowledge or information sufficient to form a belief as to the truth of the allegations in 31 of the Amended Counterclaim(s), and on that basis deny those allegations.

32. Deny the allegations of paragraph 32 of the Amended Counterclaim(s).
33. Deny the allegations of paragraph 33 of the Amended Counterclaim(s).
34. Deny the allegations of paragraph 34 of the Amended Counterclaim(s).
35. Deny the allegations of paragraph 35 of the Amended Counterclaim(s).

Count III

36. Restate and reallege their responses to paragraphs 1-35 of the Amended Counterclaim(s) and incorporate them herein by reference.

37. Deny that the '720 patent was "duly and legally" issued to Ian K. Shepherd, and otherwise admit the allegations in paragraph 37 of the Amended Counterclaim(s).

38. Deny knowledge or information sufficient to form a belief as to the truth of the allegations in paragraph 38 of the Amended Counterclaim(s), and on that basis deny those allegations.

39. Deny the allegations of paragraph 39 of the Amended Counterclaim(s).

40. Deny the allegations of paragraph 40 of the Amended Counterclaim(s).

41. Deny the allegations of paragraph 41 of the Amended Counterclaim(s).

42. Deny the allegations of paragraph 42 of the Amended Counterclaim(s).

Count IV

43. Restate and reallege their responses to paragraphs 1-42 of the Amended Counterclaim(s) and incorporate them herein by reference.

44. Deny that the '375 patent was "duly and legally" issued to Ian K. Shepherd, and otherwise admit the allegations in paragraph 44 of the Amended Counterclaim(s).

45. Deny knowledge or information sufficient to form a belief as to the truth of the allegations in paragraph 45 of the Amended Counterclaim(s), and on that basis deny those allegations.

46. Deny the allegations of paragraph 46 of the Amended Counterclaim(s).

47. Deny the allegations of paragraph 47 of the Amended Counterclaim(s).

48. Deny the allegations of paragraph 48 of the Amended Counterclaim(s).

49. Deny the allegations of paragraph 49 of the Amended Counterclaim(s).

Count V

50. Restate and reallege their responses to paragraphs 1-49 of the Amended Counterclaim(s) and incorporate them herein by reference.

51. Deny that the '479 patent was "duly and legally" issued to Ian K. Shepherd, and otherwise admit the allegations in paragraph 51 of the Amended Counterclaim(s).

52. Deny knowledge or information sufficient to form a belief as to the truth of the allegations in paragraph 52 of the Amended Counterclaim(s), and on that basis deny those allegations.

53. Deny the allegations of paragraph 53 of the Amended Counterclaim(s).

54. Deny the allegations of paragraph 54 of the Amended Counterclaim(s).

55. Deny the allegations of paragraph 55 of the Amended Counterclaim(s).

56. Deny the allegations of paragraph 56 of the Amended Counterclaim(s).

Count VI

57. Restate and reallege their responses to paragraphs 1-56 of the Amended Counterclaim(s) and incorporate them herein by reference.

58. Deny that the '510 patent was "duly and legally" issued to Ian K. Shepherd, and otherwise admit the allegations in paragraph 58 of the Amended Counterclaim(s).

59. Deny knowledge or information sufficient to form a belief as to the truth of the allegations in paragraph 59 of the Amended Counterclaim(s), and on that basis deny those allegations.

60. Deny the allegations of paragraph 60 of the Amended Counterclaim(s).

61. Deny the allegations of paragraph 61 of the Amended Counterclaim(s).

62. Deny the allegations of paragraph 62 of the Amended Counterclaim(s).

63. Deny the allegations of paragraph 63 of the Amended Counterclaim(s).

Count VII

64. Restate and reallege their responses to paragraphs 1-63 of the Amended Counterclaim(s) and incorporate them herein by reference.

65. Deny that the '720 patent was "duly and legally" issued to Ian K. Shepherd, and otherwise admit the allegations in paragraph 65 of the Amended Counterclaim(s).

66. Deny knowledge or information sufficient to form a belief as to the truth of the allegations in paragraph 66 of the Amended Counterclaim(s), and on that basis deny those allegations.

67. Deny the allegations of paragraph 67 of the Amended Counterclaim(s).

68. Deny the allegations of paragraph 68 of the Amended Counterclaim(s).

69. Deny the allegations of paragraph 69 of the Amended Counterclaim(s).

70. Deny the allegations of paragraph 70 of the Amended Counterclaim(s).

Count VIII

71. Restate and reallege their responses to paragraphs 1-70 of the Amended Counterclaim(s) and incorporate them herein by reference.

72. Deny that the '375 patent was "duly and legally" issued to Ian K. Shepherd, and otherwise admit the allegations in paragraph 72 of the Amended Counterclaim(s).

73. Deny knowledge or information sufficient to form a belief as to the truth of the allegations in paragraph 73 of the Amended Counterclaim(s), and on that basis deny those allegations.

74. Deny the allegations of paragraph 74 of the Amended Counterclaim(s).

75. Deny the allegations of paragraph 75 of the Amended Counterclaim(s).

76. Deny the allegations of paragraph 76 of the Amended Counterclaim(s).

77. Deny the allegations of paragraph 77 of the Amended Counterclaim(s).

Prayer for Relief

Deny that Alice is entitled to the relief requested in its prayer, and to the extent that such prayer contains factual allegations, such allegations are denied.

AFFIRMATIVE DEFENSES

First Affirmative Defense

1. Each of the claims of U.S. Patent No. 5,970,479 (“479 patent”); U.S. Patent No. 6,912,510 (“510 patent”), U.S. Patent No. 7,149,720 (“720 patent”), and U.S. Patent No. 7,725,375 (“375 patent”) are invalid for failure to comply with the requirements of the patent laws of the United States, including 35 U.S.C. §§ 101, 102, 103 and/or 112.

Second Affirmative Defense

2. The claims of the ‘479, ‘510, ‘720 and ‘375 patents are unenforceable due to inequitable conduct of Alice and/or the inventor of the ‘479, ‘510, ‘720, and ‘375 patents.

3. In particular, Alice and/or the inventor failed to disclose material prior art to the U.S. Patent & Trademark Office (“PTO”) during prosecution of the patent applications leading up to issuance of the ‘479, ‘510, and ‘720 patents, including but not limited to material information known to them respecting the Swiss Interbank Clearing (SIC) system.

4. The SIC system is a system for settling payment transactions, closely related to the subject of Alice’s patents. During their prosecution of the ‘479 patent, Alice and/or the inventor failed to disclose to the patent examiner any information relating to the SIC system. During their prosecution of the ‘510 and ‘720 patents, Alice and/or the inventor disclosed to the patent examiner a specific chapter of a book on payment systems (“Payment Systems in Eleven Developing Countries”, Bank for International Settlements, May 1989, Chapter 11), while

omitting from their disclosure another chapter of the very same book (Chapter 9) which specifically described the SIC system.

5. During prosecution of the '375 patent, the patent examiner initially rejected all of the claims as anticipated or rendered obvious by the very same prior art describing the SIC system that Alice and/or the inventor failed to disclose during prosecution of the '479, '510 and '720 patents.

6. Subsequently during the continued prosecution of the '375 patent, Alice and/or the inventor sought to distinguish their invention from the SIC prior art by arguments concerning the alleged independent nature of accounts recited in its patent claims which they knew to be false.

7. During prosecution of the '375 patent, Alice and/or the inventor also sought to distinguish their invention from the SIC prior art without bringing to the attention of the examiner in the context of their arguments, other material prior art, including a publication of Ernst Deeg ("A Proposal for a Multi-Currency Netting System", Spring 1990). Such other prior art, in combination with the SIC prior art, would have rendered their purported invention obvious and invalid (even assuming, *arguendo*, that their arguments made to distinguish the SIC prior art had been sound).

8. Alice and/or the inventor also sought to amend their patent claims or add new claims during prosecution of the '510, '720 and '375 patents, based on information they obtained concerning the CLS System and CLS Service, without disclosing to the PTO that the subject matter sought in the proposed amendments or added claims was not invented by Alice or the named inventor of the Alice patents.

9. The actions of Alice and/or the inventor and/or their failures to disclose and efforts to conceal material prior art, as described in paragraphs 3-8 of this Second Affirmative Defense, constituted breaches of their duty of candor and good faith. Such breaches were carried out by Alice and/or the inventor with intent to deceive or mislead the PTO.

Third Affirmative Defense

10. Alice's Amended Counterclaim(s) are barred under the doctrine of prosecution laches.

Fourth Affirmative Defense

11. Alice's Amended Counterclaim(s) are barred under the doctrine of laches.

Fifth Affirmative Defense

12. Alice's Amended Counterclaim(s) are barred under the doctrine of unclean hands.

Sixth Affirmative Defense

13. Alice's Amended Counterclaim(s) fail to state a claim for which relief may be granted.

WHEREFORE, CLS respectfully prays for judgment in its favor and against

Alice:

- (a) Dismissing all counts of Alice's Amended Counterclaim(s) against CLS with prejudice;
- (b) Denying in its entirety the relief requested by Alice;
- (c) Declaring that CLS has not infringed, directly, contributorily, or through inducement, any valid and/or enforceable claim of the '479, '510, '720 and '375 patents;
- (d) Declaring that the claims of the '479, '510, '720 and '375 patents are invalid;

