

United States District Court,
D. Minnesota.

PAY CHILD SUPPORT ONLINE INC,
Plaintiff.

v.

ACS STATE & LOCAL SOLUTIONS, INC,
Defendant.

and

ACS STATE & LOCAL SOLUTIONS, INC,
Counter-claimant.

v.

Daniel J. KING, Pay Child Support Online Inc., Programming Solutions, Inc., and William C. Hill, III,
Counter-defendants.

No. Civ.02-1321(DWF/SRN)

April 5, 2004.

Charles R. Shreffler, Jr., Shreffler Law Office, Minneapolis, MN, for Plaintiff and Counter-Defendants Pay Child Support Online Inc., Programming Solutions, Inc., William C. Hill, III, and Daniel J. King.

Julie H. Firestone, Briggs & Morgan, Minneapolis, MN; Patrick S. Williams, Briggs & Morgan, St. Paul, MN; and Christopher P. Isaac, and Lionel M. Lavenue, Finnegan Henderson Farabow Garrett & Dunner, Reston, VA, for Defendant and Counter-Claimant ACS State & Local Solutions, Inc.

MEMORANDUM OPINION AND ORDER

FRANK, J.

Introduction

The above-entitled matter came on for hearing before the undersigned United States District Judge pursuant to Defendant and Counter-Claimant ACS State & Local Solutions, Inc.'s ("ACS") Motion for Summary Judgment on the issues of the validity of the patents-in-suit, literal infringement of the patents-in-suit, and the liability of Programming Solutions, Inc. ("PSI") and William C. Hill, III, PSI's president, for any alleged infringement. In addition, ACS has asked the Court to deny any request for a stay that might be presented by PCSO pending a reexamination of the patents-in-suit. Based on the reasons stated below, the Court grants ACS's Motion for Summary Judgment as to the issues of anticipation and literal infringement, but denies the motion with regard to the issues of obviousness and the liability of PSI and Hill for direct

infringement. The Court finds it need not rule at this time on ACS's request that the Court deny any requested stay pending the reexamination of the patents-in-suit.

Background

ACS provides electronic child-support payment services. ACS holds two United States patents, Patent No. 5,946,669 ("the '669 patent") and Patent No. 6,119,107 ("the '107 patent"), both entitled "Method and Apparatus for Payment Processing Using Debit-Based Electronic Funds Transfer and Disbursement Processing Using Addendum-Based Electronic Data Interchange" (collectively the "Patents").

Plaintiff and Counter-Defendant Pay Child Support Online Inc. ("PCSO") is a Minnesota corporation that also provides electronic child-support payment services. Counter-Defendant Daniel King wears many hats in this litigation. He was an officer of PCSO until June 10, 2002, and he remains a shareholder and board member of the corporation. Mr. King also was an employee of Tier Technologies, another company providing electronic child-support payment services, from June of 1998 until June of 2002. He also served contemporaneously as the Payment Center Manager for the Minnesota Child Support Payment Center, a state office. Finally, as a licensed attorney, he represented PCSO and himself in this litigation until he was disqualified by the Court.

For purposes of clarity, it is useful to provide a general description of the invention described by the Patents. The description provided in this section is not part of the Court's legal analysis, but is provided only to facilitate the reader's ability to understand the interpretation of the claims presented in subsequent portions of the Order.

The '669 and '107 Patents are comprised of both method and apparatus claims. The invention described in both of the Patents relates to a method and apparatus for processing payments and payment information using debit-based electronic funds transfers. Basically, the Patents provide a system whereby an employee with obligations to a third-party can make recurring payments through his or her employer. The system purportedly benefits employees by allowing them to have their payments made without interruption and benefits employers by providing an efficient manner of making such disbursements.

PCSO, represented by Mr. King, initiated this lawsuit alleging that the '669 and '107 Patents are invalid or otherwise unenforceable. ACS countersued alleging that PCSO has infringed the patents-in-suit. In addition, ACS has brought four other claims arising out of two incidents involving Mr. King. At this time, ACS has brought a Motion for Summary Judgment on the issues of validity, infringement, and the liability of PSI and Hill for the alleged infringement. ACS also asks the Court to deny any request made by PCSO for a stay pending the reexamination of the patents-in-suit.

Discussion

I. Claim Construction

A. Standard of Review

Patent claim construction, *i.e.*, the interpretation of the patent claims that define the scope of the patent, is a matter of law exclusively for the Court. *See Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 970-71

(Fed.Cir.1995) *aff'd* 517 U.S. 370 (1999). Proper claim construction requires an examination of the intrinsic evidence of record, including the claims of the patent language, the specification, and the prosecution history. *See Vitronics Corp. v. Conceptor, Inc.*, 90 F.3d 1576, 1582 (Fed.Cir.1996). Such types of intrinsic evidence are the most significant source of the legally operative meaning of the disputed claim language and should be considered in that order. *See id.*

The claim interpretation "begins with the language of the claim itself." *National Recovery Technologies, Inc. v. Magnetic Separation Systems, Inc.*, 166 F.3d 1190, 1195 (Fed.Cir.1999) (citing *Bell Communications Research, Inc. v. Vitalink Communications Corp.*, 55 F.3d 615, 619 (Fed.Cir.1995)). The terms of a claim are given their ordinary meaning as understood by one of ordinary skill in the art, unless the inventor intended the terms to be construed otherwise. *See Hockerson-Halberstadt, Inc. v. Avia Group Intern., Inc.*, 222 F.3d 951, 955 (Fed.Cir.2000); *Karlin Tech., Inc. v. Surgical Dynamics, Inc.*, 177 F.3d 968, 971 (Fed.Cir.1999). Claim language must also be construed in the light of the specifications. *See Vitronics*, 90 F.3d at 1582; *Markman*, 52 F.3d at 979.

In most situations, intrinsic evidence will resolve any ambiguity in a disputed claim term, and it is improper to rely upon extrinsic evidence when intrinsic evidence serves to resolve such ambiguity. *See Vitronics*, 90 F.3d at 1582. Extrinsic evidence may be used, however, when the claim language remains genuinely ambiguous after consideration of the intrinsic evidence. *See Pitney Bowes, Inc. v. Hewlett-Packard Co.*, 182 F.3d 1298, 1308 (Fed.Cir.1999). "The court may receive extrinsic evidence to educate itself about the invention and the relevant technology, but the court may not use extrinsic evidence to arrive at a claim construction that is clearly at odds with the construction mandated by the intrinsic evidence." *Karlin Tech.*, 177 F.3d at 1195.

B. "Accumulator Agency"

The term "accumulator agency" is found throughout the claims of the Patents. ACS's Motion for Summary Judgment is based on its contention that the prior art cited by PCSO does not disclose or suggest an accumulator agency. PCSO, on the other hand, asserts that an accumulator agency is either disclosed or suggested in the prior art. PCSO also contends that ACS's motion was brought prematurely because the Court had not yet construed the terms of the Patents. Because the parties have solely focused in their briefs on the interpretation to be given to the term accumulator agency, the Court will construe that term according to the Patents and use that interpretation to decide the Motion for Summary Judgment.

PCSO asserts the term "accumulator" should be defined as "a device or circuit unit performing one or more of the operations of storage, arithmetic, and logic, as in a computer, cash register, etc ." PCSO asserts that "agency" should be defined as "the business of any firm, person, etc., empowered to act for another" or "an administrative division of government with specific functions." Thus, PCSO asserts that, based on the plain and ordinary meaning of the terms, an accumulator agency is merely a computer program or processor that can perform its functions on behalf of any number of entities, including government agencies. In the alternative, PCSO asserts that an accumulator agency can be a state, a state or state agency's bank, or a payroll service or processor.

ACS, on the other hand, defines an accumulator agency as a "processing station between the collector and the recipient/intermediary." ('107, c. 5, 17-19; '669, c. 5, 14-16.) ACS cites to language in the '107 Patent's preferred embodiment that defines a "collector" as "preferably an employer" ('107 c. 5, 35-36) and describes a "recipient" at least in one place as a "custodial parent." ('107 c. 8, 7-8.) ACS asserts that an accumulator

agency cannot merely be a computer program or processor, because Figure 2 of the '669 and '107 Patents clearly reference that the accumulator agency has its own bank. ACS also claims that the accumulator agency cannot be a state or state agency because "accumulator agency" and "state" refer to different parties in the Patents' claim language. Specifically, ACS points to the fact that several of the claims reference transfers of information and payments between the accumulator agency and a state.

A review of the Patents shows that an accumulator agency is not merely a computer program or processor. A finding to the contrary would create the untenable situation in which a computer program or processor, apart from any organizational entity, operated with its own bank account. Thus, the Court determines that an accumulator agency must be some type of public or private entity. The Court next considers whether an accumulator agency can be a state or state agency. The Court finds that an accumulator agency cannot be a state or state agency. Both the terms "accumulator agency" and "state" are used throughout the Patents, but the terms are not used interchangeably. In addition, all of the drawings present in the Patents differentiate an "accumulator agency" from a "state."

A more difficult issue to resolve is whether an accumulator agency can be a bank. The Court finds that an accumulator agency can be a bank, but that it cannot be a bank whose sole involvement in the process is to receive funds and payment information on behalf of a state, state agency, or intermediary. The claims clearly differentiate the accumulator agency from the banks of a state, state agency, or an intermediary. For instance, Claim 13 of the '107 Patent describes a method of processing a payment whereby at one stage in the process the accumulator agency transfers a "payment from the ACH to an intermediary's bank for the benefit of an intermediary." ('107, c. 21, 52-67.) Likewise, Claims 19-21 of the '669 Patent adopt verbatim the '107 Patent's language regarding the transfer of funds from an accumulator agency to an intermediary's bank. ('669, c. 22, 18-20.) Thus, the Court finds that an accumulator agency can be a bank, but that an accumulator agency cannot be a bank whose sole purpose in the process is to receive funds and payment information on behalf of a state, state agency, or intermediary.

PCSO's final contention is that an accumulator agency can be a payroll service or processor. A payroll service or processor is a business that provides certain payroll services, including, but not limited to: the basic calculating of employee payroll and tax obligations, the actual production of employees' checks, the preparation of management reports, and the preparation of certain tax forms. A payroll service or processor provides these services to businesses for a fee. The Court finds that a payroll service or processor could be an accumulator agency if it was found to perform certain functions described in the Patents.

Thus, based on the Patents' claim language and usage of the term in the specifications, the Court defines an accumulator agency as a non-state, third-party entity that collects payments and payment information from an individual or entity for a fee and passes along those payments and payment information either directly to a state's bank, a state agency's bank, an individual, or an individual's bank or indirectly to a state, state agency, or an individual.

II. Stay During Reexamination

The granting of a stay based on the possible reexamination of a patent is entirely within the court's discretion. *See Viskase Corp. v. Am. Nat'l Can Co.*, 261 F.3d 1316, 1328 (Fed.Cir.2001). Courts should consider such things as judicial economy and avoidance of inconsistent results in determining whether to grant a stay. *See id.*

In July 2003, PCSO filed a Request for *Ex Parte* Reexamination of the '669 and '107 Patents. The U.S. Patent and Trademark Office ("PTO") has yet to determine whether PCSO's requests present substantial new questions as to these patents. ACS contends that the Court should not stay its ruling on ACS's motion pending the results of the PTO's reexamination, because PCSO chose to file this suit before requesting the reexamination and PCSO has already engaged in extensive discovery in this matter. PCSO asserts that the PTO has not ruled on its reexamination request and, as such, the issue is not ripe for consideration.

The Court finds it need not rule on this issue. PCSO has not requested a stay and the PTO has not decided whether to reexamine the Patents. Even if the PTO were to grant PCSO's request for reexamination, the Court likely would not grant a request for a stay because PCSO filed this suit before requesting the reexamination and the parties have engaged in extensive discovery.

III. Validity of the Patents

A. Standard of Review

Summary judgment is proper if there are no disputed issues of material fact and the moving party is entitled to judgment as a matter of law. Fed.R.Civ.P. 56(c). The court must view the evidence and the inference that may be reasonably drawn from the evidence in the light most favorable to the nonmoving party. *Enter. Bank v. Magna Bank of Missouri*, 92 F.3d 743, 747 (8th Cir.1996). However, as the Supreme Court has stated, "[s]ummary judgment procedure is properly regarded not as a disfavored procedural shortcut, but rather as an integral part of the Federal Rules as a whole, which are designed 'to secure the just, speedy, and inexpensive determination of every action.'" *Celotex Corp. v. Catrett*, 477 U.S. 317, 327 (1986) (quoting Fed.R.Civ.P. 1).

The moving party bears the burden of showing that there is no genuine issue of material fact and that it is entitled to judgment as a matter of law. *Enter. Bank*, 92 F.3d at 747. The nonmoving party must demonstrate the existence of specific facts in the record that create a genuine issue for trial. *Krenik v. County of Le Sueur*, 47 F.3d 953, 957 (8th Cir.1995). A party opposing a properly supported motion for summary judgment may not rest on mere allegations or denials, but must set forth specific facts showing that there is a genuine issue for trial. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 256 (1986); *Krenik*, 47 F.3d at 957.

B. Validity of the Patents

"A patent shall be presumed valid." 35 U.S.C. s. 282 (2000). To overcome the presumption of validity, a party challenging a patent must prove facts supporting a determination of invalidity by clear and convincing evidence. *See Schumer v. Laboratory Computer Sys., Inc.*, 308 F.3d 1304, 1315 (Fed.Cir.2002) (citing *Apotex USA, Inc. v. Merck & Co., Inc.*, 254 F.3d 1031, 1036 (Fed.Cir.2001)). On a motion for summary judgment, all justifiable inferences are made in favor of the non-movant. *See id.* (citing *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 255 (1986)).

1. Anticipation

Anticipation is a question of fact and is determined by construing the claims and then comparing the claims to the prior art. *See In re Cruciferous Sprout Litig.*, 301 F.3d 1343, 1346 (Fed.Cir.2002). "A determination that a patent is invalid as being anticipated under 35 U.S.C. s. 102 requires a finding that 'each and every limitation is found either expressly or inherently in a single prior art reference.'" *Id.* (quoting *Celeritas Techs., Ltd. v. Rockwell Int'l Corp.*, 150 F.3d 1354, 1360 (Fed.Cir.1998)). "To anticipate, the reference must

also enable one of skill in the art to make and use the claimed invention." *Id.*

PCSO asserts that the Electronic Funds Transfer Project, FINAL REPORT, (*see* Affidavit of Lionel M. Lavenue (hereinafter "Lavenue Aff."), para. 9, Ex. I (hereinafter "the Washington State Report" or "the WSR")), published by the Washington State Department of Social & Health Services, Division of Child Support ("DCS") in October 1994 anticipates the Patents, because it discloses the existence of an accumulator agency. ACS contends that the WSR does not disclose the existence of an accumulator agency because the entity that collects payments from employers in the WSR is merely DCS's bank.

The Court finds that the WSR does not anticipate the Patents because the WSR does not disclose the existence of an accumulator agency. In the system described in the WSR, employers utilized software created by U.S. Bank that allowed the employers to direct payments and payment information to DCS via U.S. Bank. Although PCSO contends that U.S. Bank is acting as an accumulator agency in this scenario, the Court finds that U.S. Bank is not acting as an accumulator agency, but instead only acts as the bank of DCS. Based on the Court's claim construction, an accumulator agency can be a bank, but it cannot be a bank whose sole involvement in the process is to receive or distribute funds and payment information on behalf of a state, state agency, or intermediary. Accordingly, the Court finds that the WSR does not anticipate the Patents.

2. Obviousness

Section 103 (a) states:

A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negated by the manner in which the invention was made.

"Obviousness is a legal conclusion based on underlying findings of fact." *Beckson Marine, Inc. v. NFM, Inc.*, 292 F.3d 718, 725-26 (Fed.Cir.2002) (quoting *In re Dembiczak*, 175 F.3d 994, 998 (Fed.Cir.1999)). The underlying factual inquiries are: "(1) the scope and content of the prior art; (2) the level of ordinary skill in the prior art; (3) the differences between the claimed invention and the prior art; and (4) objective evidence of nonobviousness." *Id.*

a. Scope and Content of the Prior Art

The scope of the relevant prior art includes those references that are "reasonably pertinent to the particular problem with which the inventor was involved." *In re GPAC Inc.*, 57 F.3d 1573, 1577 (Fed.Cir.1995) (citations omitted). The relevant prior art is not limited to the field of the inventor's endeavor, but necessarily encompasses any analogous arts as well. *See id.* at 1577-78.

PCSO asserts that two prior art references disclose the existence of accumulator agencies, namely the aforementioned WSR and The Employer Direct Deposit Pilot Of The Iowa/Nebraska EFT Project (*see* Second Affidavit of Charles R. Shreffler (hereinafter "Shreffler Aff."), para. 1, Ex. A (the "Iowa Report")). The WSR discussed a method whereby an employer could download payment information from DCS's bank and initiate a next-day debt transaction to its bank account. The employer could retain this information on its computer so that similar transfers could be made in the future. Once the funds were received by DCS's

bank, DCS's bank could transfer those funds to other states or directly to the custodial parents.

The second prior art reference cited by PCSO, the Iowa Report, discussed the involvement of payroll processors in the collection of child support payments and data. The Iowa Report explained that one of the goals of the Iowa/Nebraska EFT Project was to determine the potential for moving child support funds via EFT. (Iowa Report at 8.) The Iowa Report stated that using direct deposit to transfer funds "can involve several organizations." (*See id.*) The system for the transfer of child support payments and information is described in the Iowa Report as follows:

First, an order to withhold child support is sent to an employer. The employer records the amounts withheld for a set of employees. The employer passes that information on to his or her payroll processor or directly to the employer's bank. The bank or payroll processor uses that information to initiate a transfer of funds over an automated clearing house (ACH). An ACH is a telecommunications network used by financial institutions to transfer credits and debits electronically.

During the ACH transmission, the child support receiving entity's bank account is credited with the funds and the employer's bank account is debited for the same funds. In addition to crediting the proper account, the bank passes on to the child support entity certain case information, either electronically or by a paper report, which makes it possible to properly post the received funds.

Id.

The Iowa Report also discussed the role of at least one payroll processor, Automated Data Processing, Inc. ("ADP"), in the Iowa/Nebraska EFT Project. (*See id.* at 11, 26-27.) An ADP representative served on the Child Support Application Work Group ("the Work Group") that was formed to establish standards in the field of child support direct deposit. (*See id.* at 11.) The Iowa Report explained that the Work Group had a series of meetings in which it "established a specially adapted Cash Concentration or Disbursement + (CCD+) format for the file of information used to transmit child support withholding funds electronically." (*See id.* . 26-27.) The Iowa Report concluded by stating that ADP and at least one other payroll processor had announced plans to develop a child support product that included direct deposit as a payment option. (*See id.* at 26.)

b. Level of Ordinary Skill in the Prior Art

A person of ordinary skill in the art is a hypothetical person who is presumed to know the relevant prior art. *See* GPAC, 57 F.3d at 1579 (citing *Custom Accessories, Inc. v. Jeffrey-Allan Indus., Inc.*, 807 F.2d 955, 962 (Fed.Cir.1986)). In determining the skill level, the Court can consider a variety of factors, including: "type of problems encountered in the art; prior art solutions to problems; rapidity with which innovations are made; sophistication of the technology; and educational level of active workers in the field." *Id.*

ACS's expert, Amorette N. Bryant, stated in her report that a person of ordinary skill in the art "would be a person with a college degree with 15 years of experience in child support collection programs or a person with a post-graduate degree with 10 years experience." (Lavenue Aff., para. 1, Ex. A ("Amorette Bryant's Expert Report") at 33.) PCSO does not dispute Bryant's assessment of the level of knowledge that a person of ordinary skill in the art would possess. Based on the apparent agreement of the parties with regard to this issue, the Court accepts Bryant's expert opinion regarding the level of ordinary skill in the art.

c. Differences Between the Claimed Invention and the Prior Art

PCSO contends that the WSR and the Iowa Report disclose an accumulator agency. In response, ACS appears to acknowledge that a payroll processor could be an accumulator agency. However, ACS contends that the references do not disclose the "*claimed* accumulator agency." (ACS's Response To New Issues Raised in PCSO's Supplemental Brief On Obviousness, at 1) (emphasis added). ACS asserts that it simply chose the accumulator agency as an example of one common element present in all of the disputed claims. In addition to the accumulator agency, ACS contends that other elements disclosed in the claims such as "debit-based processing, financial electronic data interchange, electronic funds transfer, disbursement and judgment processing, CCD+, CTX, etc." are not found in the prior art. (*Id.* at 1 n. 1.) ACS also points out that the PTO had certain ADP documents before it when the Patents were being considered by the PTO.

The Court finds that the prior art cited by PCSO discloses one form of an accumulator agency and at least certain elements of the claimed accumulator agency. As previously discussed, the Court finds that a payroll processor such as the one referenced in the Iowa Report could be an accumulator agency. The Court also finds that certain elements present in the claims such as debit-based processing, electronic funds transfer, and CCD+ were disclosed in the prior art. However, the Court is unable to conclude whether all of the elements of the claims have been disclosed because, to this point, the parties have solely focused their arguments on whether or not the prior art disclosed the existence of any form of an accumulator agency.

d. Objective Evidence of Nonobviousness-Secondary Considerations

When a court is making a section 103 obviousness determination, objective evidence of nonobviousness must be considered. *See* GPAC, 57 F.3d at 1580 (citing *Pentec, Inc. v. Graphic Controls Corp.*, 776 F.2d 309, 315 (Fed.Cir.1985)). Evidence of nonobviousness includes the commercial success of the patented invention, whether the invention addresses "long felt but unresolved needs," and the failure of others to produce alternatives to the patented invention. *Graham v. John Deere Co. of Kansas City*, 383 U.S. 1, 17-18 (1966).

ACS asserts that all of the secondary considerations weigh in its favor. ACS's expert asserts that in 1996, there was a recognized need for methods and systems for employers to make child support payments electronically. ACS's expert also asserts that the commercial success of ACS's product using the claimed invention is recognized throughout the industry. Finally, ACS's expert asserts that although the industry is aware of the Patents, the industry has not attacked the validity of the Patents.

PCSO contends that the need for methods and systems for employers to make child support payments electronically had been addressed well before 1996, as is referenced in the WSR and the Iowa Report. PCSO asserts that the Court should not consider the statements of ACS's expert regarding the success of ACS's product because the statements lack specificity. PCSO also asserts that other viable alternatives to ACS's product currently exist on the market.

The Court finds that several secondary considerations weigh in favor of ACS. ACS's product using the claimed invention is a commercial success and those within the industry appear to know of and acquiesce to the validity of the Patents. However, the Court also finds some merit in the assertions of PCSO regarding the secondary considerations. The WSR and Iowa Report both confirm that the need existed for a system for employers to make child support payments electronically, but the reports also demonstrate that entities in the public and private sector were creating systems to deal with the need as early as 1992.

After having considered the *Graham* factors, the Court finds that genuine issues of material fact exist regarding whether the '669 and '107 Patents are obvious based on the prior art and are therefore invalid. As the Court has discussed, the parties have focused their arguments on the issue of whether an accumulator agency is suggested or disclosed in the prior art. After construing the term accumulator agency, the Court has determined that an accumulator agency is disclosed in the Iowa Report. However, the question remains as to whether the other elements of the claimed accumulator agency were present in the prior art. Accordingly, the Court denies ACS's Motion for Summary Judgment as to the validity of the '669 and '107 Patents.

IV. Infringement of the Patents

Literal infringement occurs when every claim limitation is present exactly in the accused product. *See Southwall Tech., Inc. v. Cardinal IG Co.*, 54 F.3d 1570, 1575 (Fed.Cir.1995). In order to establish literal infringement, a patentee must prove that the accused device contains each limitation of the asserted claims. *See Bayer AG v. Elan Pharm. Research Corp.*, 212 F.3d 1241, 1247 (Fed.Cir.2000). In the instant case, the parties focus their infringement analysis on whether PCSO's system "initiates" a payment with disbursement information from a payor to a payee.

PCSO asserts that it does not initiate payments. Instead, PCSO contends that PCSO customers, *i.e.*, employers using the payment system, manually initiate the transfer of payments and payment information. ACS asserts that PCSO's system infringes the Patents because in PCSO's system, the employer uses PCSO's system to initiate the payment process. ACS contends that PCSO has also admitted to infringing the Patents on a number of occasions. Finally, ACS contends that even if the Court were to find that the employer, rather than PCSO, initiates the transfer of payments and payment information, the Court would still have to find PCSO liable for infringing the Patents because case law provides that "a party cannot avoid liability for infringement by having someone else perform one or more steps of a patented process for them." *E.I. DuPont De Nemours & Co. v. Monsanto Co.*, 903 F.Supp. 680, 735 (D.Del.1995).

The Court finds that PCSO has infringed ACS's Patents because PCSO initiates the transfer of payments and payment information as described in the Patents. The claims of the Patents describe a process whereby an employer transfers information to an accumulator agency and the accumulator agency uses that information to make scheduled payments. In order for such a process to work, the employer necessarily must transfer the payment information to the accumulator agency before any such transfer can take place.

Whether or not future transfers of payments and payment information are made in concert with the employer or as part of a scheduled system of payments, the accumulator agency is the entity that is ultimately responsible for transferring the payment and payment information. The Court finds that the system described in the Patents is the same as that employed by both ACS and PCSO. The Court also finds that PCSO has acknowledged in the past that the system it employs infringes the Patents. (Lavenue Aff., para. 16, Ex. P ("PCSO's Complaint") at para. 13, and Ex. Q ("PCSO's Request for Stay") at 6.) Based on the services provided by PCSO as described by its representatives and the claim language of the Patents, the Court finds that PCSO has literally infringed the Patents. Thus, ACS's Motion for Summary Judgment as to the issue of literal infringement is granted.

V. Liability of PSI and Hill

A. Direct Infringement-35 U.S.C. s. 271(a) FN1

FN1. ACS plead in its Answer and Counter Complaint that PCSO was liable for direct infringement, active inducement to infringe, and contributory infringement. *See* 35 U.S.C. s. 271(a-c). For the purposes of this motion, however, the Court will consider only the direct infringement claim as that was the sole claim raised and discussed by ACS in its briefs.

Section 271(a) states that "whoever without authority makes, uses or sells any patented invention ... infringes the patent." For PSI and Hill to be liable for PCSO's infringement, the Court must find evidence that justifies piercing the corporate veil. *See* *Manville Sales Corp. v. Paramount Systems, Inc.*, 917 F.2d 544, 552 (Fed.Cir.1990). Under Minnesota law, piercing of the corporate veil requires an analysis of how the corporation functioned and the relationship of PSI and Hill to that operation and a finding of injustice or fundamental unfairness. *See* *Minnesota Power v. Armco, Inc.*, 937 F.2d 1363, 1367 (8th Cir.1991) (citations omitted). Several factors are significant in this determination including:

[I]nsufficient capitalization for purposes of corporate undertaking, failure to observe corporate formalities, nonpayment of dividends, insolvency of debtor corporation at time of transaction in question, siphoning of funds by dominant shareholder, nonfunctioning of other officers and directors, absence of corporate records, and existence of corporation as merely facade for individual dealings." *Id.* Unless there is at least "specific intent to escape liability for a specific tort ... the cause of justice does not require disregarding the corporate entity.

Manville, 917 F.2d at 552 (citation omitted).

ACS asserts that PSI has acted as the alter-ego of PCSO. Thus, ACS contends that PSI shares liability for PCSO's actions. ACS points out that PSI provided the initial capitalization for PCSO, PSI employees created and maintained PCSO's website, and a PSI employee marketed the PCSO product. ACS also asserts that Hill, as a representative of PSI and in his capacity as a officer of PCSO, is liable for PCSO's actions. ACS asserts Hill advertised and marketed the product to potential customers. ACS also asserts that Hill offered PCSO's services for sale at a meeting of the American Payroll Association.

PCSO asserts that PSI is not its alter-ego. PCSO contends that PSI did not develop the PCSO website through its employees. Instead, PCSO contends that some of its employees, who were also employees of PSI, worked to develop the PCSO website on their own time and without compensation. PCSO asserts that PSI did not provide it with its initial capitalization, but that the initial capitalization was recorded as a distribution of retained earnings from PSI to Hill. PCSO also asserts that Hill's presentation at the American Payroll Association's conference did not constitute a sales offer, because the presentation did not contain the terms necessary to effectuate a binding offer to sell. Finally, PCSO contends that ACS has not alleged any "injustice or fundamental unfairness" that would result from a finding that PSI was not the alter-ego of PCSO.

The Court finds that ACS is not entitled to summary judgment on the direct infringement liability issue with regard to PSI and Hill. PSI did provide PCSO with its initial capitalization and PSI's employees did most, if not all, of the work to develop and market PCSO's product. However, a number of the factors to be weighed in determining whether to impose alter-ego liability either are not present in this case or weigh in favor of PCSO. Specifically, the record contains no evidence that PCSO was insufficiently capitalized for the purposes of the corporate undertaking or that funds were transferred indiscriminately from PCSO's coffers to its corporate officers. Finally, PCSO is correct in asserting that ACS has failed to allege any "injustice or

fundamental unfairness" that would result from a finding that PSI was not the alter-ego of PCSO. *Minnesota Power*, 937 F.2d at 1367.

The Court also finds that Hill's actions were within the scope of his employment and thus would be protected by the corporate veil. *See Manville*, 917 F.2d at 553 (citing *W. Fletcher*, 10 *Fletcher Cyclopaedia of the Law of Private Corporations* s. 4877, at 323-24 (rev.perm. ed.1986)). Hill has maintained throughout this suit that the officers of PCSO were not aware of the Patents until June 2002. Shortly thereafter PCSO filed this declaratory judgment action. Accordingly, the Court denies ACS's Motion for Summary Judgment regarding PSI's alter-ego liability for PCSO's actions and PSI's and Hill's liability as parties directly infringing the Patents.

Conclusion

Having resolved some of the issues in dispute in this case, the Court believes it is in the best interests of the parties to negotiate a resolution of this dispute among themselves. As the parties may already be aware, Magistrate Judge Janie S. Mayeron is available to assist in the negotiation of a settlement should the parties find such services helpful. If the Court may be of assistance in this matter, the parties should contact Lowell Lindquist, Calendar Clerk for Judge Donovan W. Frank at 651-848-1296, or Katie Haagenon, Calendar Clerk for Magistrate Judge Janie S. Mayeron at 651-848-1190.

For the reasons stated, IT IS HEREBY ORDERED:

1. Defendant and Counter-Claimant ACS's Motion for Summary Judgment (Doc. No. 64) is GRANTED IN PART and DENIED IN PART, as follows:

- a. ACS's Motion for Summary Judgment as to the issue of anticipation is GRANTED;
- b. ACS's Motion for Summary Judgment as to the issue of literal infringement is GRANTED;
- c. ACS's Motion for Summary Judgment as to the issue of obviousness is DENIED;
- d. ACS's Motion for Summary Judgment as to the issue of the liability of PSI and Hill for direct infringement is DENIED.

D.Minn.,2004.

Pay Child Support Online Inc. v. ACS State & Local Solutions, Inc.

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