

IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF PENNSYLVANIA

SIGHTSOUND.COM INCORPORATED,
A Pennsylvania corporation

Plaintiffs

vs.

Civil Action No. 98-118

N2K, inc., a Delaware corporation
CDNOW, INC., A Pennsylvania
Corporation, and
CDNOW ONLINE, INC.,
a Pennsylvania corporation

Defendants

PROCEEDINGS (Day 3)

Transcript of Markman Hearing continuing on Friday,
April 20, 2001, United States District Court, Pittsburgh,
Pennsylvania, before Honorable Kenneth J. Benson, U.S.
Magistrate Judge.

APPEARANCES:

For the Plaintiffs: WILLIAM WELLS, Esq.
 BRIAN S. MUDGE, Esq.
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For the Defendants: ERIC KRAEUTLER, Esq.
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1 (Whereupon, court reconvened at 9:30 o'clock a.m.)

2 MATTHEW WITHERAL, Law Clerk: Keep your seats,
3 please.

4 THE COURT: Good morning.

5 Always get a little worried as we approach a kind
6 of artificially set deadline, as we are here, that the
7 plaintiff, who exercising its legitimate rights in putting on
8 its case as it sees fit, starts to squeeze the time allowed
9 for the defendant, who has a right to put its case on, too.

10 How we doing on time, Mr. Mudge, you think?

11 MR. MUDGE: I'm going to certainly finish the
12 Group I this morning. My expectation, my best guesstimate is
13 that I would finish between 11:00 and 11:30.

14 THE COURT: Okay.

15 MR. MUDGE: And I understand at that point in time
16 defendants would make their presentation along those, on the
17 grouping of terms.

18 THE COURT: Okay. And then, you back on for more
19 terms?

20 MR. MUDGE: Yeah. Then later this -- I'm presuming
21 they would not finish this morning, and then, we would come
22 back this afternoon for defendant to finish, and then, we
23 would begin the second group of terms.

24 THE COURT: Okay.

25 MR. MUDGE: We recognize, Your Honor, that given

1 the fact this day has only got so many hours in it, may, we
2 may not finish everything we intended to finish, and we
3 recognize that Your Honor may want to continue a portion of
4 that, dependent upon where we end up today, at a later time.

5 THE COURT: Okay, okay. What are you considering,
6 running over into Monday?

7 MR. MUDGE: Well, my understanding is that --

8 THE COURT: Mr. Barclay just gave me that look that
9 I've given Judges; I have places to be and things to do.

10 MR. MUDGE: I understand Mr. Barclay is not
11 available next week, so we have to, I guess, consult, and
12 with Your Honor's calendar work out a time that's convenient
13 for everybody to come back, if that's necessary.

14 THE COURT: Okay. This is no surprise to the
15 defense.

16 MR. KRAEUTLER: Your Honor, I think our
17 presentation on this first grouping of claims, and you know
18 there's a lot concentrated in this grouping, it could be, you
19 know, also approximately half a day. I mean, could be short
20 of that. It could be a full half day. So, I think it may
21 even be a moving into a likelihood that we may need to ask
22 you for a little more time.

23 THE COURT: Okay, okay. As long as that suits both
24 sides, you know, it suits me. The wrongful death I was set
25 to try next week has settled, but you guys have schedules,

1 too, and I'm -- I'll accommodate them. So, while most of my
2 week is opened up next week, if yours hasn't, I understand
3 that, and we'll plug this in at the next convenient date to
4 wrap it up.

5 I do not want to arbitrarily and tyrannically step
6 on anybody's right to put their case in, and that includes
7 the defendants. I'm not going to shut this down at
8 5:00 o'clock this afternoon.

9 MR. BARCLAY: One comment, Your Honor, is we are
10 saying that we view at least the more important claim terms
11 first. So, we're certainly going to get Group I out of the
12 way for both sides.

13 We'll hopefully get Group II, which is the function
14 claims, out of the way for both sides. That leaves the other
15 terms. So, if we have to come back for the other terms, at
16 least Your Honor has had, in a compact manner, what we view
17 as most important stuff. And more importantly the, the claim
18 terms that relate directly to what you heard testimony about
19 yesterday.

20 THE COURT: And frankly, from my perspective,
21 you've all moved with real expedition, and I don't think
22 anybody has been abusing the other side or me. So, okay.
23 We're all on the same page, then.

24 Mr. Mudge.

25 MR. MUDGE: Good morning, Your Honor.

1 THE COURT: Good morning.

2 MR. MUDGE: We are again picking up with our first
3 group of claim terms. You'll recall, Your Honor, yesterday
4 we ended our discussion with visual audio signal, and our
5 construction of that, which was sound wave converted to
6 binary.

7 We're now turning to the remainder of Group I
8 claims terms. The first one I would like to talk about this
9 morning is "party," and the Sightsound contention that
10 "party" should be construed to be an entity or its agent.

11 I have copies of the handouts for the Court.

12 THE COURT: Thank you.

13 MR. MUDGE: Your Honor, again using as an exemplary
14 claim, Claim 1 in the 573 patents, to provide context, again,
15 in the context of the invention as described by this claim,
16 we see the word "party" shows up in a number of places.

17 There's references to a first party, to a second
18 party, first party having a memory, second party having a
19 memory, and so forth. Our contentions that "party" should be
20 construed to be an entity or its agent are consistent, again,
21 with the canons of claim construction based upon the
22 intrinsic evidence that we have both in specification and the
23 prosecution file histories.

24 The specification, and there's an example of the
25 734 file patent specification, refers to the Hard Disk 10 of

1 the first party or agent authorized to electronically sell
2 and distribute.

3 And importantly, Your Honor, the prosecution
4 history is consistent with this understanding that "party"
5 was not meant to be just a single entity or individual, but
6 could include agents. Statement made in an amendment during
7 the prosecution of the first patent, the 573 patent; the
8 first party or its agent or representative, which is the same
9 thing. It's a statement made by the applicant, the statement
10 to the patent office.

11 Again, the patent examiner received this filing
12 from the applicant. The patent examiner didn't object to
13 this. This is what is contained in the file history. This
14 is what the public has notice of when it reviews the file
15 history.

16 Another example from the file history, this is the
17 same patent, 573 patent. This is from an amendment now,
18 1991; previous slide was from 1990.

19 Again, the applicant is explaining the invention
20 and explaining how this works, and explaining what a party is
21 meant to be in the context of this invention. It should be
22 noted that the first party is defined as a licensee,
23 franchiser, distributor, or whoever stands in for the first
24 party.

25 This is consistent with our construction; it's

1 consistent with the understanding that "party" doesn't have
2 to necessarily be a single, defined entity, but can be a
3 related entity. Again, this language was not objected to by
4 the examiner. This language is what the public sees when
5 they review the file history, Your Honor.

6 And again another example from the file history,
7 this is from a statement contained in the 734 file history.
8 It's a statement by the inventor; submitted a declaration:
9 The first party includes the agent who is authorized to
10 electronically sell and distribute music.

11 Again, the consistent message here, Your Honor, is
12 that when somebody reviews the patents, they review the file
13 histories, they are going to see that a party is not simply a
14 single entity, but a party as an entity, or agent, or
15 representative who can act on behalf of that party.

16 Now, where do we really differ with the defendants
17 on this issue? We really differ in that our contention is
18 that an entity or its agent is how a party should be
19 construed. And the defendant's position is that the term
20 "party" should be restricted to a single entity, cannot
21 include agents, cannot include representatives.

22 Now, I will note that the language you see there
23 for their construction, they also have words like,
24 financially distinct, locations separate. Let me just take a
25 minute to comment about those.

1 I don't think Your Honor really has to rule on
2 those particular, that particular terminology. The idea that
3 a first party and a second party are financially distinct,
4 first of all, was built into Claim 1 of the 573 patent. And
5 further, it's been explained in the file history that the
6 first party and the second party have to be financially
7 distinct; otherwise, you don't have a sale. That's what a
8 sale transaction is; two financially distinct parties.

9 So, I don't think that Your Honor has to worry
10 about whether or not to build financially distinct into the
11 definition; it's there. And not only explicitly in some
12 claim terms, but increases through the notion of electronic
13 sales, which appears in claim sales.

14 Secondly, the idea that location is separate, there
15 is express language in the claims that talk about the
16 memories being expressly located separate and apart from each
17 other. You have them interconnected through
18 telecommunications lines. Telecommunications means things at
19 different locations. So again, I don't think Your Honor has
20 to rule one way or another whether the term "party" has to
21 include this notion of separate locations, separate,
22 financially distinct.

23 The crucial issue is, that we think Your Honor
24 should look at is whether the term "party" is restricted to
25 single entity or whether it can include agents. Sightsound's

1 position, of course, is based upon the specification and file
2 history. The party can include an entity and/or its agent.

3 The defendants base their argument primarily on
4 this idea that if you include agent in the definition of a
5 party, you now have something that varies with state law.

6 Well, a couple responses, Your Honor. First of
7 all, nowhere in intrinsic evidence is there any requirement
8 of a contractual or legal relationship between an entity or
9 its agent. It is anybody who acts in the position of the
10 first party, somebody who stands in the shoes of the first
11 party; does not require a formal legal agency contract.

12 There's nothing in intrinsic evidence that refers
13 to a legal definition. And I note that this argument
14 contrasts with the position with respect to electronic sales.

15 Electronic sales is another term that appears in
16 the claims. Electronic sales could, in theory, be something
17 that relies upon state law, because there are certainly state
18 laws that apply to sales transactions, and those state laws
19 vary from state to state. Nobody is saying, either side,
20 that you can't include electronic sales as part of claim
21 language, just because there should be some state law
22 implication. So, we respectfully submit that defendants'
23 position regarding this idea of legal relationship, or legal
24 required relationship is not something that should prevent
25 the definition of party to include an entity or its agent.

1 And, Your Honor, I'm now going to move to the next
2 set of terms. Control and possession. I have, again,
3 handouts for the Court.

4 THE COURT: Thank you.

5 MR. MUDGE: And, Your Honor, of course, we're
6 providing handouts to defendants' counsel of all these.

7 THE COURT: Very good.

8 MR. MUDGE: Okay. Your Honor, we have two terms at
9 issue here, control and possession, and I'm addressing these
10 together, because as Your Honor knows, the defendants have
11 taken these terms and said that they belong together, and I
12 think it's helpful to -- for the Court to consider them at
13 the same time; to consider, yes, in fact, they are separate
14 and distinct terms and they deserve separate and distinct
15 definitions.

16 Control. Sightsound contends that control should
17 be defined or construed to mean the authority to guide or
18 manage.

19 And possession. Sightsound contends that
20 possession is a separate, distinct term; should have a
21 separate meaning, to have or hold as property.

22 And again, let's take a look at Claim 1, in the
23 context of Claim 1 how these terms appear. Well, the very
24 first instance points out the fact that these terms are
25 different. The very first instance is a reference to the

1 first party controlling use of the first memory.

2 The word "possession" is not used in that express
3 context. The word "possession" appears in other context
4 within the claim. For example, when you move down, there's a
5 second party controlling use and possessing a second memory.
6 That's in connection with the step of transferring money
7 electronically. When we go down to the step of transmitting,
8 a transmitter in control and possession of the first party; a
9 receiver in control and possession of the second party.
10 Again, explicit terms used separately. They are distinct.

11 Our interpretation, again, we're going to focus on
12 the intrinsic evidence, Your Honor. We're going to look at
13 the prosecution histories.

14 We've looked at Claim 1. We've looked at the claim
15 language. We are going to look at the prosecution histories.
16 We'll look at the dictionary definition. We'll see our
17 definitions are consistent with prosecution histories, with
18 the definition in the dictionary.

19 Control and possession are separate and distinct
20 terms. In fact, they were added for the first time at
21 different times, different points in the prosecution history.

22 Looking at the 573 patent, the first of the three
23 patents, in 1988 there was a preliminary amendment filed.
24 This was filed before any prior art was applied by the
25 examiner in a rejection of claims. At this stage the

1 applicant came in and modified claims and added a claim with
2 an element that recited controlling use. Transferring money
3 to a party controlling use of the first memory.

4 At this point in time possession was not added to
5 the claim language at all. Possession was added later to the
6 claim language, and it was added at different parts of the
7 claim. But to the specific reference we have here, you
8 remember back the slide when we showed Claim 1, the very
9 first instance of controlling did not also have possession.
10 That's consistent with our understanding, consistent with the
11 public's understanding through notice that possession and
12 control are separate and distinct terms.

13 Control. This term was expressly defined in the
14 intrinsic evidence. The examiner looked at the term and
15 provided a definition. This is part of the rich history that
16 Mr. Wells talked about the other day. Examiner said,
17 applicant should note that the term "control" is interpreted
18 to mean authority to guide or manage. That's explicitly,
19 exactly the same definition that we contend today should be
20 given to the term "control." This definition was not
21 objected to, and clearly was carried forward in the
22 understanding of the examiner and the applicant as these
23 cases were prosecuted for the patent laws. And this is the
24 definition that the public sees when they review the file
25 history.

1 Possession. Again, we can look at possession and
2 look at the meaning provided in the intrinsic evidence. The
3 prosecution history ties possession with a notion of
4 ownership, but not physical. And I'll come back to this
5 later, in a couple of minutes. but it's not physical
6 possession.

7 We have here a response to an office action, again,
8 in the 573 file history. It refers to another prior art
9 reference, and Your Honor will remember that in the context
10 of prosecution, it's common to refer to a prior art reference
11 by a name. So, in this case Hughes is a reference to a prior
12 art patent that the examiner had brought to the attention of
13 the applicant.

14 In this connection the applicant was responding to
15 the rejection based upon Hughes. Hughes' receiver, although
16 located in the user's home, is taught to be owned by the
17 owner of the transmitter, somewhere located not in the user's
18 home, and thus is in possession of the owner.

19 So, here the applicant is saying, possession is
20 tied to ownership, not who actually holds it physically. So,
21 there's this notion of a property right. That's what
22 possession is in the context of the file history.

23 Again, further, further information of the file
24 history. This is actually part of the same response to
25 office action that we saw on the last slide. On the last

1 slide there was discussion of possession. Here in the same
2 response the applicant talks about control. And consistent
3 with examiner's definition, consistent with the understanding
4 it ties control to authority and management. Again, this is
5 a response to one of the prior art rejections. Further, the
6 owner clearly controls the receiver, since he must collect
7 the coins therefrom.

8 If you're the only one who can collect coins,
9 you've got to have some ability to manage and have authority
10 over that device. You've got to be the one who has the key
11 to get in that coin box.

12 And, Your Honor, we just provide for understanding
13 that, even dictionaries are consistent. Control; exercise of
14 authority or influence over, to direct. This is from
15 Webster's.

16 Now, where do the parties differ, Your Honor?
17 Again, we try to focus on those differences. Our contention
18 is that control, possession are two separate terms; have
19 separate and distinct meanings. Control means the authority
20 to guide or manage. Possession, to have or hold as property.

21 Defendants' require possession and control to be
22 the same term, and they contend that it means in physical
23 control and ownership. So, they require physical, and
24 that's -- you recall, I referred to that earlier, Your Honor,
25 physical, and they do not allow for the fact that these terms

1 have separate and distinct meanings; of the limitations, the
2 construction that defendants would put on these terms are not
3 required.

4 Intrinsic evidence does not suggest that you have
5 to have physical control and physical ownership. Again, if
6 you recall a couple of slides back, we talked about the prior
7 art rejection based upon Hughes, and the argument was made
8 before the patent office that in Hughes, the owner of the
9 receiver was in possession, even though he didn't have
10 physical domain over the receiver.

11 And it wouldn't be consistent with the file history
12 to say that any time you have "control," you also add the
13 word "possession." That's inconsistent with the file
14 history. That would add limitations to those claims. If
15 there's a control element that doesn't recite possession, it
16 would add a limitation. That limitation is not required.

17 Finally, Your Honor, I want to respond to the
18 argument that you've seen in the papers the defendants
19 assert. They argue that if you look at the interpretation
20 that we've provided and if you look at the claims, that you
21 would read the claims that objects, such as memory, control a
22 party.

23 We respectfully contend that that argument is
24 unreasonable. People understand variations in how words are
25 used; the terms active versus passive language.

1 The examiner never construed the claims this way.
2 We don't think anybody, any reasonable person who reads these
3 claims would arrive at a conclusion, particularly given the
4 specification on how the specification talks about electronic
5 sales, that objects are in control of a party.

6 So again, to conclude on this section, is control
7 the authority to guide or manage.

8 Possession, again, the term separately admitted
9 into the file history, was not defined by the examiner when
10 the examiner defined control. Possession, a separate term to
11 have or hold as property.

12 Your Honor, we'll move to our next; transferring
13 money electronically.

14 THE COURT: Thank you.

15 MR. MUDGE: I'll provide handouts. Okay.

16 Your Honor, transferring money electronically.

17 Sightsound contends this means payment provided
18 electronically. Very simple, straightforward definition.

19 Let's look at Claim 1 again, the 573. This term
20 appears in the first sub-element listed under the preamble of
21 the claim. Transferring money electronically via
22 telecommunication line to the first party. In the context of
23 this claim, you see there's a transaction taking place.
24 There's transferring of money, and there's a downloading of
25 digital audio.

1 The intent from this claim, the intent of the
2 specification, when you read the specification, is that this
3 is an electronic sales; this is the transaction-based system.
4 The intent from the claim is that a buyer gains access with
5 the ability to download digital audio signals, but has to pay
6 for it. That access does not come free.

7 And again, Your Honor, we look to the intrinsic
8 evidence to see what the prosecution history says about this
9 claim.

10 In the context of an example from the 734 file
11 history there was a declaration submitted by the inventor,
12 Arthur Hair. The inventor explained the meaning of
13 transferring money electronically. One skilled in the art
14 would know that an electronic sale inherently assumes a
15 transferring of money -- and they provide some examples -- by
16 providing an account number or a credit or debit card number,
17 which then allows for access to transferring of a service or
18 product.

19 We'll come back to this language in a little bit
20 with the next term, but I want to focus Your Honor on what is
21 being said here about the transaction. Transferring of money
22 by providing an account number or credit card or debit card
23 number. These are methods of providing payment. Everybody
24 understands, you walk into a department store, you want to
25 buy something. You give them a credit card number; give them

1 a credit card. That's your payment. It's a common,
2 ordinarily understood mechanism for making a payment.

3 Now, where do we differ from the defendants, Your
4 Honor? Again, we contend providing payment electronically is
5 how the term should be construed.

6 The defendants' definition, providing an
7 authorization, and I'll skip over the telecommunications
8 lines, which allows the first party access to funds. Now,
9 they have construed the term in the context of providing or
10 transferring money electronically through a
11 telecommunications line, and that's why the word
12 "telecommunications lines" appears in their definition.

13 That's not really what we're differing with them
14 about. The difference is the words "authorization" and
15 "access to funds." These words don't appear in the
16 prosecution history. It's not clear what they mean. It adds
17 ambiguity, adds unnecessary limitations.

18 The terms "authorization," "access to funds" are
19 not required by the intrinsic evidence. So, authorization,
20 it's not required by the intrinsic evidence; it's an
21 unnecessary limitation. You can stop there and decide that
22 based upon the intrinsic evidence.

23 Authorization, access to funds; they are not there.
24 They are not required limitations. But even if Your Honor
25 were to consider there was some ambiguity, that ambiguity is

1 resolved by the intrinsic evidence that's been provided;
2 evidence that is unrebutted by defendants.

3 You'll recall in Dr. Tygar's declaration, Dr. Tygar
4 discusses the nature of a credit card transaction as an
5 example. In the context of the credit card transaction there
6 may be -- it's an optional process -- there may be an
7 authorization that takes place as part of the credit card
8 transaction. The authorization may be something that the
9 merchant has set up with a separate, a third party service,
10 so before the merchant turns the goods over to somebody, they
11 may check with some service to see if that credit card
12 number, if that payment can be authorized, but they don't
13 necessarily have to do that. They may not use an
14 authorization service for a transaction. It's optional. So,
15 it's certainly not required, in any stretch of the
16 imagination, to have this authorization.

17 Similarly, access to funds. Which funds? The
18 seller doesn't necessarily get funds right then and there,
19 but if he takes your credit card number, you get your product
20 or service. Whether or not the seller gets access to funds,
21 again, in Dr. Tygar's declaration, is part of a separate
22 transaction between the seller; the merchant on the one hand,
23 and the credit card company on another. It's not required
24 for the purposes of the transaction between the buyer and the
25 seller.

1 And indeed, Dr. Tygar presented evidence that is
2 well understood, is that once a buyer gives you a credit card
3 number, this is the example that the defendants raise, it's
4 well understood that once the buyer gives you a credit card
5 number, that's payment.

6 Now, defendants contended that the definition,
7 providing payment electronically, would exclude a credit card
8 transaction. But yet, again, Dr. Tygar dealt with that issue
9 and provided evidence that you make payment by giving the
10 credit card number.

11 Your Honor, we respectfully believe that our
12 definition is a simple, straightforward, common sense
13 understanding that everybody would understand, and that the
14 limitations that defendants would inject are unnecessary and
15 unreasonable.

16 We're going to move to selling electronically and
17 similar terms. I have, again, handouts for Your Honor.

18 THE COURT: Thank you.

19 MR. MUDGE: Now, and this connects with this term.
20 I want to note, this is related to the last term we talked
21 about. As you'll see as we go through, transferring money
22 electronically, the notion of providing a payment is part of
23 what's involved in electronic sales.

24 Electronic sales really refers to a transaction,
25 and as we'll see, providing a product or service

1 electronically in exchange for payment provided
2 electronically. And that payment provided electronically,
3 again, it's the same definition we used in our discussion of
4 transferring money electronically.

5 Now, both sides have agreed that when the claims
6 referred to selling electronically, electronically selling,
7 or electronic sales, that there's really no distinction among
8 those terms, other than the fact that there's a slight tense
9 difference. They each are construed to mean the same thing.
10 Again, as we suggest, producing a product or service
11 electronically in exchange for payment provided
12 electronically.

13 Now, where do the words, electronically selling,
14 where do they show up? As an example, Claim 4 of the 734
15 patent discusses electronic sales. Refers to electronic
16 sales, and refers to means for electronically selling.

17 This is a system claim. It's slightly different
18 form than the claim we've been looking at. Claim 1 is method
19 claim. Claim 1 calls out steps; this calls out system set of
20 hardware and software that implements the invention.

21 Now, I'm just going to note for Your Honor that
22 electronically selling in this context has the meaning --
23 electronic sales has the meaning we're going to discuss. I'm
24 not going to discuss the implication of the means for
25 language. That will be part of another presentation we make

1 in the second group of terms.

2 So, I'm focusing on just the words "electronic
3 sales," "electronically selling," "selling electronically."
4 What do they mean?

5 And focusing on the bottom of the claim here, the
6 context in the invention is, as we see, telecommunications
7 lines through which electronic sales through which this
8 transaction takes place. The context is the transaction
9 takes place through telecommunications lines, through
10 electronic means, and the transaction, as we will see,
11 involves getting a product or service, getting the digital
12 audio signals in exchange for the money that's provided, the
13 payment.

14 Our interpretation is consistent with the
15 prosecution history. And again, the intrinsic evidence
16 includes the prosecution history. I just referred to the
17 claim language itself. The claim language itself calls for
18 electronic delivery, electronic payment.

19 We'll go through and look at the prosecution
20 history and see that it's consistent. In the 573 file
21 history there's an amendment. This is one of a number of
22 discussions that are in the file history about electronic
23 sales. And here the applicant is talking about electronic
24 sales and comparing it to a part of the specification, to one
25 of the figures where it refers to telephone lines 30.

1 Electronic sales over telephone lines 30; the device that's
2 called for in the figure, the element called for in the
3 figure, are terms which encompass the well-known process of
4 providing a credit card number over a telephone line.

5 And again, this is in the context of an electronic
6 transaction. The invention is selling music in download
7 fashion, and the invention clearly sets forth that the
8 transaction, the payment as well as the delivery, are done
9 electronically. The means, the inventor, then the meaning of
10 electronic sales.

11 Again, we saw this declaration a few minutes ago.
12 This is a declaration from the 734 file history of the
13 inventor, explaining the meaning of electronic sales.

14 One skilled in the art would know that an
15 electronic sale inherently assumes a transferring of
16 money -- we talked about that in the last topic, transferring
17 money electronically -- which then allows for access to or
18 transferring of a service or product from telecommunications
19 lines. Again, electronic delivery. It's the same thing
20 called for by the claim language. So, you have an electronic
21 transaction. You pay electronically. You receive goods or
22 services electronically.

23 Now, in their papers defendants have pointed to a
24 declaration filed, a similar declaration to this filed in the
25 573 file history. And the language in that declaration was

1 slightly different. The language didn't include the last
2 statement, through telecommunication lines, in this
3 particular paragraph. But that doesn't change anything,
4 because the entire context, both in the claim language and
5 specification, and everything that this invention is about,
6 is about an electronic transaction; payments provided
7 electronically. The music is downloaded electronically.

8 This invention is not about a drop shipment of
9 goods; a mail order. That's not what this invention is
10 about.

11 THE COURT: Whatever this invention might be about,
12 though, electronic sales or electronic selling is a term that
13 can encompass other transactions than this particular one.
14 If the plaintiffs' definition calls for the provision of a
15 product or service electronically in exchange for payment
16 electronically, what about the E-Bay example where the
17 product isn't provided electronically at all? I mean, here
18 digital music maybe. The product that one has bought from
19 E-Bay is the baseball. Now, I may have made payment
20 electronically, but no, no product has been provided
21 electronically. Is, though, that an electronic sale?

22 MR. MUDGE: In the context of this invention and
23 how the terms are used, Your Honor, I would respectfully
24 submit that would be outside what is meant by electronic
25 sales.

1 Again, we look at the context of the invention that
2 the specification provides, that the file history provides,
3 and when you take that context into account, Your Honor, this
4 is about electronic delivery of music.

5 THE COURT: Okay. I do understand that, but
6 you've, on a number of occasions, indicated that the type of
7 transaction we're describing is one commonly understood.

8 Is it commonly understood that both ends of the
9 transaction must occur electronically in order for there to
10 be an electronic sale also?

11 MR. MUDGE: I think if Your Honor -- I'm sorry,
12 Your Honor.

13 THE COURT: No, my fault.

14 MR. MUDGE: I think in the context Your Honor
15 mentioned, in E-Bay, in that context, if somebody thinks that
16 this is somehow an electronic sale, that may very well be the
17 case. But again, when we look at the file history, what I
18 want to focus on and make sure that I'm clear on, Your Honor,
19 is that --

20 THE COURT: You're very clear.

21 MR. MUDGE: We look at the file, we look at the
22 common understanding, but we have to also give the context of
23 the claim in the file history.

24 THE COURT: Right, okay.

25 MR. MUDGE: That has to be taken into account.

1 THE COURT: Quite rightly. I do understand that.
2 Okay. I'm sorry. Move on.

3 MR. MUDGE: Please, Your Honor, I very much
4 appreciate the dialogue. I think Your Honor's question
5 actually goes to the difference in the parties, where we are
6 in this particular term.

7 Again, our definition of providing a service,
8 product or service electronically in exchange for payment
9 provided electronically. The second half of our definition
10 and the second half of their definition both go to what the
11 parties define as transferring money electronically, which
12 I've talked to.

13 The difference is whether providing of a product or
14 service electronically or not produced, and Your Honor
15 focused on that very point.

16 THE COURT: Right.

17 MR. MUDGE: Let's go to the next slide. Again, I
18 think what we really are focusing on, from our position, is
19 that the prosecution history tells you that in the context of
20 this invention, we're talking about a providing a product or
21 service that's electronically, through telephone lines.

22 THE COURT: Right.

23 MR. MUDGE: And again, all the things we see in the
24 prosecution history with respect this invention, that's what
25 the public sees; that's what the public is on notice.

1 Okay. Your Honor, we'll move to the next term,
2 "telephoning." And again, handouts for Your Honor.

3 THE COURT: Thank you.

4 MR. MUDGE: Telephoning, which we contend means
5 initiating a connection over a telephone line. Telephoning
6 is a term that does not show up in every claim, Your Honor.
7 It shows up in some claims. We have an example here.
8 Claim 3 of the 573 patent recites a method as described in
9 Claim 2, wherein the transferring step -- that's the
10 transferring money electronically step -- includes the steps
11 of telephoning the first party and providing a credit card
12 number and so forth.

13 Now, Claim 3 here is known as what's called the
14 dependent claim. So, it depends upon, it has all the
15 limitations of the claim that it refers to. So, in this case
16 this has all the limitations of whatever is in Claim 2. In
17 turn, Claim 2 has all the limitations that are in Claim 1,
18 which we looked at a number of times.

19 And again, a claim, a dependent claim in this form
20 is really, as we, I think, mentioned in our papers, a
21 short-hand notation. Rather than repeating all that stuff,
22 it's a way of saying, by referring to the preceding claim,
23 we're including all of those things in this claim. In the
24 context of transferring money electronically, one of the
25 steps called for is telephoning.

1 And telephoning, we look at the intrinsic evidence
2 for guidance in connection with what is the prosecution
3 history, say, and what do the definitions say. And again,
4 these are in accordance with the claim construction we talked
5 about.

6 In connection with the 573 file history, we just
7 looked at Claim 3 from the 573. There's a 1992 amendment.
8 In here the applicant explained, the telephoning pertains
9 simply to make connection; telephoning to make the
10 connection.

11 Now, the dictionary provides some context for this.
12 Telephoning means to communicate with by telephone, to
13 transmit by telephone. Transmitting it over a telephone
14 line; the word telephone is in there clearly, over a
15 telephone line. And we have a definition of telephone line.
16 And from time to time that modulates carrier waves. That
17 could be a handset; that could be a modem. Your Honor heard
18 about modems yesterday.

19 THE COURT: Your Honor's modem went out in an
20 electrical storm last week.

21 Where do you differ from the defendants in this
22 particular instance?

23 MR. MUDGE: It's the parties' notion of who's at
24 either end of the line, essentially. We say telephoning
25 means to initiate a connection over telephone lines;

1 defendants assert it means to place a telephone call by a
2 person at the second party location to a person at the first
3 party location.

4 Really, the gist of the dispute here, are we
5 talking about person to person telephone call, or are we
6 talking about the ability for two computers to communicate
7 over a modem. That, in fact, is our position.

8 Our position is that their definition of requiring
9 a person to person telephone call is an unnecessary
10 limitation. It's not required or called for in the
11 specification, in the claims, or in the prosecution history.

12 Their definition of what excludes the ability for
13 one computer to dial up via modem and connect to another
14 computer. It would preclude the ability for one person to
15 dial a number to connect to a computer.

16 And indeed, Your Honor has seen Figure 1 of the
17 patents. Figure 1 shows a machine to machine interaction
18 between two computers -- two machines. Figure 1, you'll see
19 the box telephone lines. There's no requirement in this
20 specification for having a person to person placing the call
21 at either end.

22 And as Your Honor heard yesterday in the
23 presentations, computer, in computer context were obviously
24 well-known at this period of time. So again, Your Honor,
25 plaintiff respectfully submits that telephoning should be

1 construed to mean initiating a connection over a telephone
2 line.

3 Your Honor, we have one term left in this group.
4 It's telecommunications line. It's one, I'm sure Your Honor
5 has been waiting to hear about. I'm sure defendants are
6 waiting to hear about. I will note that perhaps not
7 surprisingly, it would be a little bit more lengthy
8 presentation. That's what I've said about some of these
9 other terms.

10 If I may suggest, it might be appropriate to take a
11 short break, so that everybody has a chance to come back and
12 we can go through the whole thing.

13 THE COURT: Okay. There are no two clocks in this
14 building that tell the same time, and none of them match my
15 watch, but I have 10:25. We'll take ten minutes.

16 We're in recess.

17 (Whereupon, court recessed at 10:25 o'clock a.m.)

18 * * * * *

19 (Whereupon, court reconvened at 10:40 o'clock a.m.)

20 THE COURT: Okay. Mr. Mudge, telecommunications
21 lines.

22 MR. MUDGE: Your Honor, we just need a minute, I
23 think.

24 THE COURT: Absolutely.

25 MR. MUDGE: I have handouts again, Your Honor.

1 THE COURT: Thank you.

2 MR. MUDGE: Telecommunications line, Your Honor. A
3 medium for the transmission of information from one location
4 to another. Not specific or tied down to any specific
5 network or medium, but just a medium for the transmission of
6 information between locations.

7 We'll go back to Claim 1 in the 573, Your Honor,
8 and look at the context of where telecommunications lines
9 appears. And as we've seen, this is, again, in the form of
10 electronic transaction where you have money being transferred
11 electronically, you have a connection being made
12 electronically between memories. This is an end to end
13 connection, Your Honor, between the user and the seller.
14 This claim, indeed, this patent doesn't concern itself with
15 the internal workings of that connection. It is looking and
16 focusing on the end to end connection, connectivity between
17 buyer and seller.

18 Now, again, we're looking at the intrinsic
19 evidence. Your looking at the specification. We'll look at
20 the prosecution history. We'll look at dictionaries. These
21 are things, again, that the law tells us we can look at for
22 construing this claim language.

23 Specification. What does the specification show,
24 Your Honor. Figure 1 shows telephone lines in a box as an
25 example of telecommunication lines that connects the parties.

1 As I mentioned, when you look at the claim language, the
2 figure, it tells you the same thing. It tells you it's an
3 end to end connection.

4 And it's important to understand, I'm going to talk
5 a little bit more about the law, but it's important to
6 understand, this is an embodiment. This is an example of the
7 invention, and there's no requirement that you have to give
8 every specific embodiment in order to claim coverage. You
9 can claim coverage broader than a specific embodiment shown.
10 The law allows you to do that. I can disclose a nail and
11 claim the fastener.

12 Again, Figure 1, end to end connectivity. Nothing
13 in here talks about the inner workings of that connection,
14 and as long as the parties can have end to end connectivity,
15 that's what's important. That's what the figure shows, that
16 is what's the claims talk about; that's what the file history
17 shows. There's never any discussion in the file history, and
18 we're going to see some of the file history, but there was
19 never any discussion in the file history about the specific
20 workings of a telephone network versus any other kind of
21 network.

22 End to end connectivity, as long as a connection
23 can be made that's what this patent is about. That's what
24 this figure shows.

25 The claims are consistent with an understanding

1 that telecommunications lines can be broader than the
2 disclosed embodiment of telephone lines. How do we know
3 that, Your Honor?

4 We have a dependent claim. In the 734 patent --
5 excuse me, in the 734 patent, Claim 10, system as described
6 in Claim 4, and Your Honor may recall, we looked at Claim 4 a
7 little bit earlier this morning. A system as described in
8 Claim 4, wherein the telecommunications lines includes
9 telephone lines. This is very important.

10 There's a doctrine called, Doctrine of Claim
11 Differentiation. That says when you have two claims and you
12 see a distinction in language, they are differentiated. In
13 this particular case we see, wherein the telecommunications
14 lines includes telephone lines. If telecommunications lines
15 were meant and only meant to be telephone lines, this claim
16 would be redundant. It would have made no sense to have this
17 claim in the patent.

18 Telecommunications lines in this context has to
19 mean something more than just telephone lines. That's clear
20 from the claim language itself, from the Doctrine of Claim
21 Differentiation.

22 Also, Your Honor, I'm even going to switch back to,
23 this is a slide that was used in Mr. Wells' opening the other
24 day. This is another example from the 734 patent, Claim 11.
25 Mr. Wells went over Claim 11. Claim 11 is comprising all the

1 claims, are comprising via telecommunications lines
2 connecting electronically. Via telecommunications lines,
3 Claim 12, a dependent claim, wherein the telecommunications
4 lines include telephone lines.

5 Again, Your Honor, this is telling the public, this
6 is telling everybody who reads these patents that telephone
7 lines are something different in scope than
8 telecommunications lines. A telecommunications line has to
9 be broader than telephone lines; again, otherwise, this claim
10 wouldn't have made sense. This claim would have been
11 redundant.

12 Now, the prosecution history is consistent with the
13 idea that the applicant intended to cover media use for
14 transmission of information, not simply telephone line, but
15 other media. Telephone line, cable lines, cellular
16 connections. There's an example from the file history. This
17 is the 440 file. The applicant is telling in the point in
18 time the examiner that this is what I mean by
19 telecommunications lines. In case, let there be no dispute,
20 Mr. or Mrs. Examiner, this is what we mean. We mean
21 something produced by telecommunications line. The examiner
22 never came back and rejected this, never rejected the idea
23 that telecommunications lines would be broader than telephone
24 line. In fact, there's no limiting language in the
25 specification or the prosecution history itself.

1 We supplied a dictionary definition from the IEEE.
2 Again, you heard yesterday about the role of the IEEE in the
3 electronics and computer business. In 1988 the standard IEEE
4 dictionary definition for telecommunications, again in the
5 context of data transmission, that's the context we're
6 talking about, the transmission of information from one point
7 to another. Very broad language, not limited just by
8 telephone line; very broad language.

9 Now, where do we differ with defendants, Your
10 Honor? Our definition is a medium for transmission of
11 information from one location to another. Simple, straight
12 forward, direct, consistent with the IEEE definition,
13 consistent with the file history.

14 Defendants' definition, on the other hand, overly
15 narrow, loaded with lots of limitations, unnecessary
16 limitations, limitations that appear nowhere in the
17 specification.

18 Let me also make a note at this point, our
19 definition, telecommunications line is a medium for
20 transmission of information. It's an end to end connection.
21 In this context, we feel that end to end connection doesn't
22 need to be separately defined. It's a connection through
23 whatever network a connection, a connection can be made.

24 Defendants' definition includes the idea that they
25 are limiting the connection, but they are limiting the

1 connection because they limit what a telecommunication line
2 is.

3 You recall yesterday, Your Honor, Professor Larky
4 spoke about what he meant by telecommunications line. He
5 said it means telephone line and nothing else; nothing else.
6 Now, that was his assumption. He didn't explain why it was a
7 telephone line and nothing else, but that was his assumption.

8 His narrow definition of telecommunications line
9 results in their narrow definition of what they think a
10 connection is over a telephone line. Their definition is
11 what Professor Larky calls a telephone connection. And even
12 that definition is overly narrow for a telephone network.
13 These limitations are not necessary, they are not called for
14 in the specification, they are not required. They are not
15 required and not discussed in the prosecution history. And
16 in fact, I think you can see that the reasoning here is
17 circular; they make you an assumption telephone lines mean
18 only telephone and nothing else, and from there they conclude
19 you have to have all these limitations, and therefore,
20 exclude the Internet.

21 That's what this comes down to, Your Honor. Does
22 the term telecommunications line include or exclude the
23 Internet.

24 Now, let me just notice as an aside, Your Honor,
25 the position that defendants take with respect to this term.

1 In contrast, it is with the position they have taken with
2 respect to digital audio signals. For this term defendants
3 say the Internet doesn't appear anywhere in the
4 specifications, it's not there; therefore, it's not included.

5 Compare that with their argument on digital audio
6 signals and MIDI, and you heard that argument made through
7 Dr. Moorer yesterday. Their argument is that because MIDI
8 was not mentioned in the patent, it should be included. It
9 wasn't excluded.

10 Explicitly, it should be included. They are
11 inconsistent in their arguments. Our position is, you look
12 at the understanding, you look at the specification, the
13 claims, the file history. The meaning of the terms here, we
14 think, is supported by the specification, by the claims, by
15 the file history, by dictionary definitions.

16 Now, let's look a little bit more about the
17 limitations their definition would impose. These are
18 unnecessary, unreasonable limitations. They talk about a
19 continuous connection, has to be a continuous conduction
20 path, has to be a telephone service provider, has to be a
21 circuit switched network, has to exclude a packet switched
22 network using TCP/IP.

23 Now, there's no mention in the specification,
24 nothing in the prosecution history that requires any of these
25 limitations.

1 Again, you look back, think back to Figure 1.
2 There's a box there, telecommunications lines. That doesn't
3 require these limitations. And again, I'm going to talk in a
4 minute about the law. The law doesn't require restriction
5 just to that figure.

6 Now, their arguments, Your Honor, they have looked
7 at the law, they cited the law to Your Honor. We think they
8 may have misapplied the precedent. I'm going to talk about
9 that. They focus on unextrinsic evidence. They focus on all
10 the details. They brought in unnecessary details. Extrinsic
11 evidence that's unnecessary, and in fact, was incorrect. And
12 their positions are internally inconsistent. I'm going to go
13 through these now a little bit more.

14 Now, defendants have advanced in their legal
15 arguments that the packet switching is included; the claims
16 would be invalid for lack of written description. That's
17 just their argument. That says, you didn't mention the
18 Internet, you can't cover it. That's their argument. Again,
19 as I mentioned a minute ago, that's inconsistent with other
20 arguments they make.

21 The problem is, the law specifically provides, and
22 we've mentioned in our briefs, we've mentioned, in fact, in
23 the recent correspondence on the Scimed case, the Gentry
24 Gallery recites the generally understood proposition of
25 patent law; a claim maybe be broader than the specific

1 embodiment in the disclosed specification.

2 That is black letter patent law, Your Honor.

3 Otherwise, what would happen, you would require an inventor
4 to set forth every permutation or possibility of detail into
5 a patent specification. Every one of these would become
6 books.

7 It's not what the patent law requires; it's not
8 what policy dictates. The term "telecommunications line" in
9 the claims gives sufficient detail for one skilled in the art
10 to read and understand what that claim is talking about to be
11 able to make that invention.

12 Now again, nothing in intrinsic evidence limits
13 telecommunications lines to merely telephone lines. We have
14 a disclosed embodiment. Black letter patent law says you can
15 claim broader than a specific embodiment that's disclosed.

16 Now, Your Honor will recall that, again, the recent
17 correspondence in the Scimed case, I think that has
18 applicability here for this particular term, defendants
19 argued it, we responded in our correspondence in detail about
20 what's the Scimed case. Thence, here the Scimed case was,
21 Your Honor recalls, a case where medical device technology,
22 there were statements made in the specification of the patent
23 that was issued in that case that talked about two
24 configurations, one configuration in the prior art, another
25 configuration provided advantages over that prior art.

1 In that case, the Scimed case, the Court made clear
2 that where the specification makes clear that the invention
3 does not include a particular feature, that feature is deemed
4 outside the reach of the claims. And again, Scimed at
5 various points made clear that's what it was looking at in
6 that case.

7 As I set forth in the letter, I'm not going to read
8 all these, Your Honor, just note they discussed advantages of
9 the one configuration over the other; the other being a prior
10 art configuration. They distinguished the prior art.

11 Now, in this case what we have, Your Honor, we
12 don't have anything like that. Nothing in the specification,
13 or in the prosecution history, for that matter, talks about
14 the advantages of telephone line over other communications
15 media.

16 This is not a case where the inventor was inventing
17 a new telecommunications media. The inventor was taking
18 known communications media and applying it in a new system.
19 There was never anything in the specification that
20 distinguished telephone line or telecommunications lines over
21 any other prior art having some kind of a different
22 communications media. This is not a case where the inventor
23 meant, in fact, the telephone lines, as opposed to Internet
24 was used. That's not involved in this case.

25 That's very important, Your Honor.

1 There's nothing in this specification, the claims,
2 prosecuting history, nothing that says that this invention of
3 Art Hair would work only with telephone line and not with
4 other communications media.

5 Another distinction with the circumstances in the
6 Scimed case, you'll remember in the Scimed the Court went
7 into the all embodiment language. That was where they put in
8 the specification, all embodiments include this limitation.

9 We have something very different here. Again, in
10 the specification, this is from the 573, as in each of the
11 three patents at issue in this case. Since numerous changes
12 may be made in the above-described process, an apparatus and
13 different embodiments, something other than the telephone
14 line of the invention may be made without departing from.

15 The spirit there of it is intended that all matter
16 contained in the foregoing description or shown in the
17 accompanying drawings, Figure 1, Your Honor, shall be
18 interpreted as illustrative and not limiting. That is very,
19 very different from the kind of language the Court saw in
20 Scimed and relied upon in its ruling.

21 So, as opposed to what was in Scimed, this is
22 exactly the opposite. This is not limiting. The Scimed
23 Court would not apply that logic here and limit the claims
24 just to telephone line.

25 Now, as I mentioned, I'm going to go through this

1 in a little more detail. The defendants introduced
2 unnecessary technical details, information they gather from
3 extrinsic evidence. The claims call for telecommunications
4 line as an element of system claims, also in the method
5 claims, and in each case it's talking about an end to end
6 connection between first and the second party. It's end to
7 end connection that provides for transfer digital audio
8 signals from the first party to the second party; provides
9 for the transfer of electronic payment from the second party
10 to the first party.

11 The claims, the specifications do not become
12 involved in the interworkings of how that communication takes
13 place, the interworkings of whatever communications networks
14 might be used. None of the recitation, none of the
15 prosecution history talks about the interworkings of any
16 particular telecommunication providers network. And in fact,
17 there's no such need to get into the innerworkings in order
18 to make, use or sell the invention.

19 I'll note again, defendants construction derives
20 from extrinsic evidence, from Professor Larky's extremely
21 narrow view of telecommunications, an extremely narrow and we
22 feel unreasonable view of what it is to form a connection.
23 And in fact, Your Honor, Professor Larky even in his high
24 points was incorrect about one thing. Even the Internet
25 provides a connection using the TCP/IP protocol.

1 We had evidence from that. If there's any question
2 in Your Honor's mind, we had evidence of that from
3 Professor Tygar, and we had evidence that was unrebutted by
4 Professor Larky. We placed in front of him the dictionary
5 definition, and I'll remind Your Honor of that.

6 TCP IP, it was from Newton's telecom dictionary.
7 It was a reference that Professor Larky himself had relied
8 upon, how TCP works. TCP is a reliable connection oriented
9 protocol. Connection oriented applies that TCP first
10 establishes a connection between the two systems that intend
11 to exchange data. That's the end to end connection.

12 Now, in Professor Larky's world that may be a
13 different kind of connection. It may be not the exact same
14 connection, exact same technical configuration as a telephone
15 system connection, but that's irrelevant for purposes of this
16 invention.

17 There is a connection. The Internet provides a
18 connection end to end, and that's all the claims call for.
19 That's all this invention is about, end to end connectivity.
20 It's not about the inner-workings, the inner details of a
21 network.

22 Indeed, Professor Larky also acknowledged yesterday
23 in his example of the Internet and his example showing how
24 the notes were being transmitted across from one end of the
25 country to another, that there had to be connections formed

1 along the way, or else how else could the packets get from
2 one router to the next. Again, for purposes of this
3 invention, both the Internet and the telephone networks, as
4 well as other networks that we are not even discussing,
5 afford end to end connections.

6 And defendants' argument to the other, defendants'
7 arguments that the Internet does not provide connectivity is
8 simply wrong. Again, as I just read the definition, TCP
9 provides a connection oriented protocol over the Internet
10 that provides the ability to establish and maintain end to
11 end connections for the transfer of data. And this was
12 known. This was known back in 198 -- it was known before
13 1988.

14 Now, defendants have argued in their papers about
15 an amendment that was made in the course of prosecution, and
16 I want to take a few minutes to talk about that with Your
17 Honor. This was the amendment that changed the word
18 telecommunications link in one claim, or a couple of claims
19 from telecommunications link to telecommunications line. And
20 defendants point to that and say, ah huh, they gave up
21 something.

22 Well, let's talk about what that means. Defendants
23 have argued, and they have argued without support, that link
24 is somehow broader than line, so when a change was made from
25 "telecommunications link" to "telecommunications line,"

1 something was given up. That's not the case here. We're
2 going to show how the prosecution shows, establishes that the
3 words "link" and "line" were used interchangeably.

4 It's important to know, too, that in connection,
5 we're going to go through the prosecution history. That
6 this, change was not made in connection with any prior art.

7 Again, as I said before, there was nothing in the
8 prior art that was brought to, brought to bear in the
9 prosecution history that forced some narrowing of
10 telecommunication line to something else, or forced narrowing
11 of -- force telecommunications link to line. There was never
12 any narrowing. There was never any need to give up some
13 portion of what might be covered by telecommunications line.

14 Now, let's look at where telecommunciations link
15 was introduced. It was 1991. There was an amendment during
16 the course of the 573 file history. This is, again, the
17 first of the three patents. And as we see here, connecting
18 electronically, and the underlining means that's word's being
19 added by amendment, via telecommunciations link the first
20 memory with the second memory. That's the connecting
21 electronically language that we've seen in a number of the
22 claims.

23 There was a rejection by the examiner. Examiner
24 stated that the word "telecommunications link" was not well
25 connected in the system. Examiner didn't -- examiner looked

1 at the figure and didn't see the link. Applicant changed to
2 a more familiar term, telephone -- excuse me,
3 telecommunications line, and of course, the word "lines" had
4 been used in the specification. Accordingly, quoting from
5 the amendment made, Your Honor, accordingly, "link" has been
6 amended to the more familiar term "line," used
7 interchangeably, one term a little bit more familiar than the
8 other. This was accepted by the examiner. Again, the word
9 "line" had already been used in the specification, so the
10 examiner knew that "line" was there.

11 Examiner accepted this reasoning. This is the
12 reasoning that is before the public as part of the
13 prosecution history. There's nothing here, there's nothing
14 in the evidence defendants have provided that says the change
15 from "link" to "line" narrowed the scope of the claim in any
16 way. And in fact, as part of the prosecution history, the
17 words "link" and "line" were used interchangeably by the
18 examiner.

19 For example, in the 734, in the 1993 office action,
20 examiner used Lightner, one of the prior art references, one
21 of the prior art references. In this particular instance
22 examiner referred to Lightner as having telecommunications
23 link. This is talked about in the 573 as well, without the
24 same kind of reference. But here the examiner used
25 telecommunications link to reject claims reciting

1 telecommuniations line.

2 The examiner was using the terms interchangeably.
3 Again, in 1996 the examiner used the words "link" and "line"
4 interchangeably again in the rejection, based upon a Lightner
5 prior art reference. Described Lightner as having
6 telecommunications links, as this rejects your claims
7 involving telecommunications line.

8 All right, Your Honor. Let's go back now to
9 Figure 1. And what is this case about? As I've said, this
10 case is about, with respect to this term, an end to end
11 connectivity between seller system and the buyer system.
12 Nothing in this requires information about the details of how
13 that inner-connection works, as long as it's through
14 telecommunications line; the specific example, again, not
15 limiting of telephone line. The inner-workings is
16 unimportant.

17 Now, defendants have injected, as I mentioned,
18 technical detail about the inner-workings to try to draw
19 distinctions. And of course, Your Honor heard quite a bit of
20 technical material yesterday, and some of the reason for that
21 was to correct what we felt were some inaccuracies in the
22 technical information initially provided in defendants'
23 opening claim construction brief.

24 But that technical detail, it's interesting, it's
25 background, but for purposes of this case and how one looks

1 at telecommunications lines in this context, that technical
2 detail of the inner-workings of networks is irrelevant.

3 As Mr. Wells mentioned the other day in his
4 opening, this case is about constructing a Taj Mahal; it's
5 not about the details of the bricks used to build it. You
6 heard defendants' counsel the other day talk about comparing
7 the box of telephone line here with some of the other figures
8 you've seen in the presentations with clouds. No doubt they
9 are going to tell you about the details of the box and the
10 details of the clouds, and they are going to say they are
11 different. For purposes of this invention, that box and a
12 cloud are the same thing. It's a connection. And the
13 inner-workings, the inner-details are unimportant, as long as
14 you can get a connection end to end. That's what this patent
15 is addressing. Again, I'll --

16 THE COURT: But the applicant said the connection
17 is by telecommunications line. A medium for the transmission
18 of information from one location to another would include two
19 tin cans and a string. And that's not this patent, it's not
20 this invention; it's no part of this invention.

21 The applicant says the connection establish in a
22 particular way, and the way is by telecommunications line.
23 Doesn't that necessarily inject a proper concern about the
24 internal workings, about the nature of the connection?
25 Doesn't it require one learned in the art or the public to

1 say, well, what is the commun -- a telecommunication line?

2 So, is it so, then, that, that issues about the
3 internal organization or the technical detail about the type
4 of connection that* such concerns are irrelevant.

5 MR. MUDGE: Well, Your Honor, if one of skilled in
6 the art would know how to make a connection, whether it's
7 using a telephone network as a specific example provided.

8 THE COURT: Right.

9 MR. MUDGE: Or the Internet, or any other
10 connection, if one skilled in the art knows how to make that
11 connection, that's all you need to know. They don't need to
12 know the inner-workings. This inventor was not -- the
13 inventor was not inventing a new network.

14 The inventor was taking, in this example, a known
15 network, the telephone network, and building a system using
16 the telephone network. One skilled in the art looking at
17 telecommunications line, which could include the Internet,
18 include any communications medium, and, Your Honor, we're not
19 including the string and the can, that's exactly right.

20 THE COURT: No, right. It clearly doesn't include
21 that, but you know, three or four times now you've said that
22 the nature of the precise network, the nature of the
23 connection is irrelevant, and I think when the applicant
24 describes how the connection is made, by telecommunication
25 line.

1 MR. MUDGE: Right.

2 THE COURT: He makes the nature of it relevant, he
3 makes the nature of telecommunication line relevant.

4 What is a telecommunication line? You may be
5 right, that it is sufficiently clear to one, one learned in
6 the art to include telephone line, packet switching networks,
7 such as the Internet, a combination of the -- that's what the
8 patent claims. That's what the specifications describe,
9 that's what one learned in the art, and that's what one in
10 the public would know, or they may be right, and it requires
11 a hardware connection between the two.

12 But it's not right, it seems to me, to say that the
13 nature of the connection is irrelevant, because the
14 application makes it relevant.

15 MR. MUDGE: Well, Your Honor, it's the
16 inner-workings of the connections that are not important, as
17 long as you have a connection, an agreed electronic
18 connection via telecommunications lines. That's what I mean
19 when I say the nature of the connection. I don't mean to
20 imply that it's not via telecommunications line. Permit me
21 to apologize.

22 THE COURT: No, that's all right.

23 MR. MUDGE: Perhaps I'm misspeaking.

24 THE COURT: No, it is inner-workings.

25 MR. MUDGE: Maybe I should focus on that the

1 inner-workings of precisely how information gets from the one
2 end to the other. The inner-works are not important, as long
3 as you're using telecommunications line, as long as you have
4 that cloud or box in there; as long as you have end to end
5 connectivity. That's what this invention is about.

6 It's not about inner-workings; it's not about
7 packet versus segment. There's nothing in the patent,
8 there's nothing in how it works that distinguishes, that
9 requires any distinguishment between packet on the one hand
10 and segment on the other.

11 THE COURT: Okay.

12 MR. MUDGE: Internal works, Your Honor.

13 That concludes my presentation on telecommunication
14 line and Group I of the claim terms.

15 THE COURT: Okay.

16 MR. MUDGE: I may just simply end with an
17 observation, Your Honor.

18 THE COURT: Sure.

19 MR. MUDGE: The other day during opening statements
20 we observed that the defendants have addressed this issue of
21 new matter. And I just want to simply point out that this is
22 not a merit proceeding; this is not, in our view, the point
23 in time where issues such as new matter should arise, and in
24 fact, defendants made -- took the same motion in their
25 opening claim construction brief. Be on Page 6, Footnote 2,

1 they address the issue of new matter, but they said, though
2 outside the scope of the issue raised by their claim
3 construction brief.

4 So, I just want to make that observation, Your
5 Honor, and to look to see what defendants say.

6 Thank you, Your Honor.

7 THE COURT: Okay. Thank you, Mr. Mudge.

8 Will it be Mr. Barclay?

9 MR. BARCLAY: If I may Your Honor, just to give
10 Your Honor a preview of what we intend to do here, we
11 reorganized in our reply brief things a little differently to
12 identify what we felt were the four terms that were most
13 important: Digital audio signal, connecting through
14 telecommunications lines, first party, second party and
15 possession.

16 So, we intend to proceed in, more or less in that
17 order. I'm going to address digital audio signal first.
18 Mr. Kraeutler and I have divided up telecommunications lines.
19 I'm going to give the general presentation, but he is going
20 to discuss the link/line issue.

21 Since the subject matter at that point would make
22 it logical, he will, shall we say, digress from our four main
23 points and talk about telephoning at that point. He'll then
24 pass it back to me to talk about first party, second party
25 and control and possession. And then I will pass it back to

1 him to talk about the remaining terms and what we'll be
2 referring to as the plaintiffs' Group I.

3 THE COURT: Okay.

4 MR. BARCLAY: So, I guess I need to get the video
5 cable hooked up and -- which will just take a second -- and
6 then, I can begin.

7 THE COURT: Okay.

8 MR. BARCLAY: That's where we are. I'm not sure
9 what a logical lunch time break would be. I would be
10 surprised if we got all this done before lunch time.

11 THE COURT: I would be, too. So, we'll probably
12 have to interrupt someone's presentation to take a break.

13 MR. BARCLAY: Okay.

14 Ready?

15 THE COURT: Yes, sir.

16 MR. BARCLAY: Your Honor, to start with, I will
17 discuss the defendants' contentions on the meaning of the
18 term, "digital audio signal."

19 The contentions by the parties, which we already
20 talked about, give the contrast between plaintiffs'
21 contention of sound wave into binary form and our contention;
22 that it is a representation of audio and binary form intended
23 to provide audible sound, and to make sure that we are not
24 limiting it for purposes of clarity, it can be recorded
25 sound, sound effect, or instructions for producing sound, and

1 need not be a complete song.

2 So, the issue for the Court is, does digital audio
3 signal include only sound waves, or representations of audio,
4 which would include sound waves, instructions, software and
5 sound effects?

6 I, I do not believe there is a dispute here as to
7 whether there's requirement that it be a complete song. It
8 appears not to be an issue and is not contended otherwise by
9 the plaintiff. We have put into the record some statements
10 by the inventor on that point.

11 So, to start with, let's talk about the intrinsic
12 evidence for this claim term. Both sides agree we start with
13 digital audio music in the specification, since the digital
14 audio signal will at least include digital audio music, and
15 perhaps more. And both sides agree, look at dictionary
16 definitions.

17 A part of that, of course, part of the reason for
18 the first point, of course, is that digital audio signal as a
19 term did not appear in the original filed 1988 specification.
20 It was added later, as I mentioned in my opening statement.
21 So, we do have the term "digital audio music," which we'll
22 help construe digital audio signal.

23 So, you've seen an awful lot of the specification,
24 and I won't -- let me just summarize what we've been doing
25 for the last day or so. Key parts of the 573 patent, Column

1 Lines 53 through 56, makes it clear that digital audio music
2 is music converted into a computer language known as binary,
3 and refers to a series of commands.

4 Now, both experts in this case, Professor Tygar on
5 my cross, and Dr. Moorer in his presentation, confirmed that
6 computer languages contain instructions, that instructions
7 are in the form of ones and zeros, and that instructions are
8 commands to a computer.

9 The specification goes on to say inasmuch as
10 digital audio music is software, and both experts confirmed
11 that instructions are one form of software as that's normally
12 used.

13 Yesterday in his remarks on the subject, Mr. Mudge
14 raised the issue of what "inasmuch" means as the prelude to
15 this sentence, which we hadn't talked about previously. So,
16 we went back to the office and checked a dictionary, and if I
17 could mark as Defendants' Exhibit 3; extra copy for the
18 Court.

19 THE COURT: Thank you.

20 MR. BARCLAY: This is the American Heritage College
21 Dictionary, Third Edition, and a yellow highlighted on
22 Page 685, the first definition for inasmuch as, I believe
23 Mr. Mudge may have been relying on the second definition, but
24 the first one that people look at is, because of the fact
25 that or since.

1 So, reading that with specification, because of the
2 fact that digital audio music is software, and the invention
3 electronically transfers and stores such music.

4 MR. MUDGE: Your Honor, if I just may impose an
5 objection here. This is supposed to be summarizing evidence,
6 not introducing new evidence.

7 MR. BARCLAY: I didn't object to Mr. Mudge raising
8 the inasmuch point yesterday, so I apologize if I should
9 have, but that was something new. We're both doing things
10 new here, Your Honor; otherwise, we just submit this on the
11 briefs.

12 THE COURT: Yes, I think to some intent that's
13 true, and to the extent that this might in fact represent
14 sort of the admission of new evidence, it's directly
15 responsive. It's a dictionary reference that the Court could
16 frankly resort to on its own, and so, I will overrule the
17 objection.

18 MR. BARCLAY: Thank you, Your Honor.

19 Now, there was comment made by Mr. Mudge that
20 software is only content. However, I believe it was clear
21 from both experts, and certainly from Professor Tygar, that
22 software is really a broad term to those unskilled in art.
23 It can include software programs, which as both experts agree
24 contain commands and instructions, and it can also include
25 the content as is typically used in the record, in the

1 industry, or for that matter, media industry. So, we have a
2 broad term here.

3 Now, so Sightsound says in its opening brief, the
4 definition of digital audio signal dictated by the language
5 of the claims and specifications does not bring software
6 programs into the picture.

7 And that's just not quite right. It is there. It
8 is right in the specification. So, we have a specification
9 here which has definitions in it. It defines digital audio
10 music, and therefore, digital audio signal, as including
11 things, and the things that are being included are computer
12 language, commands, and software. And both experts have told
13 you those things all include instructions as well.

14 The phrase "sound wave," which is what is in the
15 definition suggested by the plaintiff, does not appear in the
16 specification.

17 Now, in terms of dictionary definitions, and these
18 are all ones that are already in the record, the IEEE
19 dictionary that Sound, Sound attached to its opening brief,
20 Exhibit D as a definition, one defines signal as a physical
21 representation of data.

22 The record representation is, corresponds very
23 closely, not exactly, to our suggested language. It will
24 include software instructions, as well as sound waves. We
25 attached in our opening papers to Exhibit 9 to the Garber

1 declaration a definition of computer language which is what
2 is in the -- what's in the specification as an artificial
3 language that specifies instructions to be executed on a
4 computer. Again, not surprisingly, both experts you heard
5 from agreed with this.

6 Now, Sightsound, in its brief did rely on the IEEE
7 dictionary for signal of definition 4, and they relied on
8 4(c). Again, the third definition, third subdivision of the
9 fourth set of definitions for signal.

10 So, that's -- the first one is perfectly adequate.
11 If you go to the fourth definition in that dictionary, the
12 first one listed under Item 4 is visual, audible, or other
13 indication used to convey information. A broad term.

14 So, the conclusion on intrinsic evidence is that
15 the specification and the IEEE and Microsoft dictionaries
16 clearly define digital audio signal as representation,
17 including software and instructions, and the Sightsound
18 contention is simply inconsistent with the explicit
19 definitions in the specifications.

20 I would agree with the comments that Mr. Wells made
21 in his opening statement that resort to extrinsic evidence is
22 un -- is certainly unnecessary for this claim term, at least.

23 So, let's go over a little bit of the extrinsic
24 evidence which the plaintiff presented. So, as I say, I
25 don't think it's needed, I don't think we have to get there.

1 There are three areas that we have before us. Sightsound, in
2 certain deposition, deposition testimony of Hair. Mr. Tygar
3 made his argument about MIDI, and Dr. Moorer has presented
4 rebuttal evidence.

5 We have relied in our opening brief on certain
6 aspects of Mr. Hair's deposition that were relatively
7 uncontroverted points; that a digital signal is binary, and
8 that a digital audio signal need not include a complete song.

9 The Sightsound rebuttal in their reply brief cited
10 after the fact testimony by the inventor that he thinks his
11 definition did include MIDI.

12 I refer to the Bell and Howell case which has been
13 cited in the papers at 132 F3d at 706, refers to this sort of
14 thing as self-serving, after the fact testimony. By the time
15 of his deposition in September of 2000, Mr. Hair was well
16 aware of the MIDI prior art. We had covered it in the
17 testimony.

18 Professor Tygar has introduced evidence that in our
19 view largely ignores or glosses over the intrinsic evidence
20 patent. And what it is, really is a poorly disguised attack
21 on certain aspects of our prior art and certain other PAN; in
22 particular, electronically sold music and sound samples over
23 telephone lines, on the Bulletin Board on a subscription
24 basis, and did so starting in the early 1980's. A summary
25 description of that is contained as on Page 166 of Exhibit L

1 to Dr. Moorer's declaration.

2 You can compare that to the general discussion of
3 supposed invention in this case. But the plaintiff is aware
4 of this prior art here and is obviously concerned about it,
5 and is using Professor Tygar to try to exclude something that
6 doesn't need to be excluded. And if I can digress here for
7 just a minute, I do want to comment that the plaintiffs'
8 definition in this case not only is an attempt to exclude
9 prior art, but will raise serious infringement disputes down
10 the road also, and as for the following reason.

11 The form of digital audio, I know my client, and I
12 believe it's for N2K when it was in existence, is not simply
13 a sound wave converted to binary form. It includes
14 instructions to decode that sound wave. So, a problem with
15 the definition that the plaintiff has put forth that will
16 rear it's head later if the Court would adopt it is, is that
17 sound wave converted to binary form and nothing else, and no
18 instructions?

19 Perhaps plaintiff is saying an application is okay.
20 Well, where do you get that from anywhere in the intrinsic,
21 intrinsic or extrinsic evidence? It's an interesting issue.

22 Had we done what the plaintiff has accused us of
23 doing, really, of trying to just read everything extremely
24 narrowly, we perhaps could have taken the position that
25 digital audio signal is solely CD format pulse code modulated

1 and nothing else. That's what the patent talks about,
2 replacing CD's. We could have taken that position perhaps
3 and had a non-infringement argument, and I suppose we would
4 have been here hearing complaints about how we shouldn't be
5 so overly restrictive.

6 But the point is, adopting plaintiffs' definition
7 not only encourages this attack on our prior art; it will
8 also raise serious infringement difficulties later, shall we
9 say.

10 And I realize these are issues that are not to be
11 dealt with in terms of how to interpret the claim, but
12 nevertheless, as a practical matter, does the Court's voice
13 have to be looking over the shoulder of the next step? The
14 Appeals Court don't do that, but the District Courts have a
15 little more case management to worry about.

16 So, what has Professor Tygar done? He has vastly
17 overstated the state of digital music in 1988. He implies,
18 in fact, in his declaration that two types of digital music
19 existed in 1988; pure digitized sound waves and MIDI
20 instructions. This is not correct.

21 Many formats existed in 1988. Most of those
22 formats were, in fact -- most, if not all of those formats
23 were an application of sound waves and instructions. They
24 included some form of instructions necessary for the computer
25 to play the digitized sound wave. Computer just doesn't play

1 a string of ones and zeros, corresponding to the amplitudes
2 on those bar charts both sides showed the Court. Even the CD
3 format, the pulse code modulation, or PCM included control
4 bytes and other codes needed to play the sound wave.

5 And the CD format, as conceded by Professor Tygar,
6 and as testified to by Dr. Moorner, the CD format includes
7 MIDI instructions. So, if you're going to say that one
8 skilled in the art, reading the patent, would conclude it's
9 just a CD, the problem is, in 1988 CD included the provision
10 for having MIDI instructions as well. So, that really
11 doesn't get you where plaintiff wants to get you.

12 As Dr. Moorner testified to, there were just a
13 number of digital audio formats in 1988. The Court does not
14 need to make finding of fact, I don't think, about in this
15 hearing, about each of them, but there were quite a few.

16 MIDI -- let's talk about MIDI for a second -- in
17 1988 was a well recognized way of compressing digital music.

18 The article by Moog, Exhibit K to Moorner's
19 declaration, talked about a transforming the way music is
20 composed. I'm composing music, I'm obviously doing things
21 with sound converted to binary form. It's enabling musicians
22 to produce high quality music with modestly priced equipment.

23 Now, Professor Tygar and Sightsound say that MIDI
24 files work just the opposite of digital audio, and they refer
25 to Professor Tygar's Tab 6, Page 2. I think it's important

1 to examine the context of that cite. Let me mention
2 something else also. All of the articles that
3 Professor Tygar attached to his report on this subject, I
4 believe it was Tabs 1 through 6, either are undated or they
5 are from the late 1990's.

6 Professor Moorers's articles dealing with MIDI are
7 from -- well, they are prior art, quite frankly. They are
8 from '86 or '87, thereabouts, which I think is far more
9 constructive on the state of the art timing of the
10 application that was filed. And the articles in 1988, that
11 were marked at Dr. Moorers's cross examination yesterday, as I
12 pointed out, describe MIDI as a computer language, the exact
13 terminology used in the specification.

14 Let's look at Tygar Tab 2 -- Tab 6 Page 2. The
15 citation before -- the paragraph before the citation that,
16 that stands for the proposition that MIDI works just the
17 opposite of digital audio may be a little hard to read on the
18 screen, but it's in the exhibit. And to summarize it,
19 basically it says that people use MIDI because there's a
20 bandwidth problem sending files. You need storage space, you
21 need to take a long time to download things. If Your Honor
22 is somewhat conversant to the Internet and tried to download
23 files, you know it can take a long time.

24 So, what's referred to as sound wave formats are a
25 mix of sound wave formats take much longer, but they are

1 relatively large, so the full cite in Professor Tygar's
2 Tab 6, Page 2, which is not in his -- the text of his
3 declaration or the briefs, is that a tune, that is, a MIDI
4 tune or song, which takes just a few seconds to download
5 would play for several minutes.

6 The point is, in 1988 the technology required the
7 use of MIDI or other software instructions to download a
8 whole song. So, Dr. Moorer testified about the technology
9 constraints in 1988. His testimony was consistent with
10 Mr. Hair's deposition that most of this is in the record;
11 maybe not all of it. The size of the song may be 50 to
12 60 megabytes, maybe 40 or something, depending on the length
13 of the song, but a hard disk at the time is only ten-forty
14 megabytes in terms of something commercial that a user would
15 buy.

16 Dr. Moorer's math was based on an 85-megabyte hard
17 disk at the time which costs \$1,000. Most people would not
18 buy a \$1,000 hard disk to go along with a 1- or \$2,000
19 computer, and modems were only 24 hundred bits a second. So,
20 it takes several days to transmit just one song, according to
21 Mr. Hair. And if you compare this to Figure 1 of the patent,
22 you have here a hard disk of ten to forty megabytes, you have
23 here one song of 50 to 60 megabytes, perhaps bigger than the
24 disks, certainly on the right side, and the user side, and
25 several days to transmit the song over the telephone lines

1 from the seller to the buyer.

2 So, for this alleged invention to be useful in
3 1988, one skilled in the art would recognize that a digital
4 audio signal would have to include MIDI or other types of
5 software, or instructions that had actually worked.

6 Tab 2 of Professor Tygar's exhibits, Page 3, said,
7 the bottom line, however, is that MIDI and MP3 are just two
8 ways to deliver music, and the music is what is really
9 important. So, the bottom line is that the point of the
10 alleged invention is to transfer music in electronic form
11 over telephone line, instead of on a CD. If this could be
12 done at all using that disclosure, MIDI and other software
13 was perhaps the only way to do that in 1988.

14 I think at this point we'll turn those speakers on.
15 If Your Honor doesn't want to listen to these again, I will
16 just tab through them quickly, but --

17 THE COURT: This Fur Elise?

18 MR. BARCLAY: This is Fur Elise. We heard this
19 yesterday with Dr. Moorer. I'll turn the speakers off. We
20 heard both the wave version and MIDI version, which lasts, of
21 course, quite a bit longer.

22 Professor Tygar, their expert, preferred to talk
23 about nuances in dealing with MIDI. What we heard for Fur
24 Elise yesterday was in the MIDI format; I felt was rather
25 nice piano, nice nuances, in any event, do not appear in the

1 specifications.

2 So, the conclusion is, let the intrinsic evidence,
3 the digital audio signal plus include representations of
4 audio, including sound waves, software and other
5 instructions.

6 If I may switch lines. I'm sorry, one more thing.
7 An argument that Mr. Mudge asserted yesterday dealt with a
8 prosecution history and a rejection based upon a document. I
9 didn't have it in the slides, because, again, it was with
10 some of the new things we both did.

11 Couple points I would like to make on that. It
12 ignores the first part of our definition. A representation
13 of audio in binary form intended to produce an audible sound.

14 We're not contending that any piece of software
15 will meet the definition of a digital audio signal. The
16 software must include a representation of audio in binary
17 form intended to produce an audible sound. And Ogaki, at
18 best, you can say in that piece of the prosecution history,
19 which by the way was in the 734 child patent, not the parent
20 573, was that you could not tell from that definition, from
21 that rejection whether there was any correlation between it
22 and the definition of digital audio signal.

23 We're dealing with that. It wasn't as if clearly
24 Ogaki contained digital audio in the form we are proposing as
25 the correct definition, and there was a distinction made on

1 that basis. So, it doesn't really prove too much.

2 In fact, if you look at the file history, Ogaki was
3 one of these vending machine patents. There are a number of
4 vending machine patents I'll talk about later on, some of the
5 first party, second party, and possession or control terms,
6 where people sold music, or software, or other things from a
7 central location to a vending machine that was still owned
8 and controlled by the central location entity. And the bulk
9 of the argument about Ogaki had to do with whether there was
10 a separate second party that was not in possession or control
11 of the first party.

12 And I refer the Court to Volume 2 of the joint
13 exhibits. The 734 prosecution history at Tab 12, at
14 Pages 45 to 48, there's three pages of discussion of Ogaki
15 there. This point has nothing to do with digital audio. Has
16 something to do with possession or control of the first
17 party, second party points, but it doesn't have anything to
18 do with that.

19 If you look at the one sentence at the end of that
20 three-page discussion in audio, if anything, it is somewhat
21 ambiguous. It may very well refer to some contention that
22 the software being sold at Ogaki was not in digital format,
23 but perhaps on some sort of tape or something. So, I don't
24 think that this Ogaki argument proves or adds anything at all
25 of importance to the file history.

1 If I may just take a second, I'll skip to
2 telecommunications lines and bring that up.

3 THE COURT: Surely.

4 MR. BARCLAY: One other thing I wanted to pull up
5 here; one second.

6 Okay. Let me switch to connecting electronically
7 through telecommunciations lines.

8 As I said, we're going to divide this up between
9 Mr. Kraeutler and myself. I have a few slides here dealing
10 with "link" and "line," and I'm going to go through those
11 somewhat quickly, because Mr. Kraeutler has developed more
12 expansive discussion about that. So, the contentions are
13 somewhat different, as we have already established.

14 So, the issues before the Court, the breadth of
15 Sightsound's proposed definition, and does an electronic
16 connection through telecommunication lines, since that is
17 what needs to be construed, include any form of electronic
18 communication, on the one hand, or does it include a
19 continuous -- is it limited to a continuous, connected path,
20 using a telephone, cell phone procedure, circuit switched
21 network, but not a packet switched link? It does not appear
22 to be at issue that a number of terms should be construed the
23 same.

24 Appendix A to our opening brief grouped similar
25 claim language together, which we asked to be construed the

1 same, and part of the problem, part of the reason I keep
2 talking about the number of claims involved is that it seemed
3 to be an exercise in claims draftsmanship here. For whatever
4 reason, the attorney kept modifying slightly the language
5 being used for very similar terms, and I believe these terms
6 should all be construed the same that are grouped together in
7 Appendix A to our brief. I don't understand Sightsound
8 briefs to contend otherwise.

9 THE COURT: I think they are, too.

10 MR. BARCLAY: Sightsound's broad contention,
11 Mr. Kraeutler asked in following slides, which have a little
12 bit of cryp art -- I tried at the last minute to bring up
13 that, and I regret I didn't have time to do that, but a
14 medium transmission for information from one location to
15 another I think would likely include the pony express, would
16 include a carrier pigeon, and it will bear with what
17 Microsoft has to offer. One more minute; this character
18 here. It's just too broad. So, let's look at the intrinsic
19 evidence.

20 A point we would like to make is the term
21 "telecommunications lines" does not appear in the original
22 specification filed June 13th, 1977. The demonstrative I
23 handed up earlier, you have a highlighted, all the yellow
24 highlighting shows things that were added after the original
25 filing. And anyplace that there were, "telecommunications

1 lines" appears, in any of their patent was added after the
2 original, and the term "telephone lines" was used, and the
3 terms of what the inventor contemplated. That's all there
4 was. Telecommunications lines was added by amendment in
5 1992.

6 The reason I bring that up at this point, in its
7 reply -- in its opening brief Sightsound just stated that the
8 specification was just "telephone lines." In its reply
9 brief, Sightsound stated that in the context of the
10 specification, the term "telecommunications lines" does not
11 refer to a specific communications network, but just to the
12 end to end communications. The inventor was describing with
13 unambiguous language a medium for transmission of information
14 from one location to another.

15 This is wrong on four points. First, the
16 specification, as I mention, as filed in 1988 did not use
17 "telecommunication lines" in any context. Telecommunications
18 lines was added; is arguably new matter. That's not a
19 decision the Court has to decide today or is going to be
20 deciding, but it's obviously something to be concerned about.

21 Specification as filed only used "telephone lines,"
22 and that's all the inventor disclosed or contemplated.
23 Neither the specification or patent as issued supports any
24 unbounded medium for transmission.

25 The initial application in Tabs -- Volume 1,

1 Tabs 4 to 6 of the joint exhibits; six pages long, two pages
2 of drawings. Telephone lines is mentioned roughly six times
3 in the specification; mentioned in Figure 1. That's all
4 that's shown in the figures, and one's in Claim 1.

5 And Claim 1 indicated about electronic transfer of
6 the music via telephone lines. Nothing any broader than
7 this. There's subsequently an amendment in 1988 which did
8 not amend the specification; cancelled the original claims of
9 the original application.

10 And Claim 11, then said, connecting electronically
11 the first memory with the second memory. There's still no
12 telecommunications lines.

13 In 1991 for the first time the applicant proposed
14 amending the specification to add "telecommunications link."

15 Give me one second, Your Honor. Let me go through
16 this quickly, because Mr. Kraeutler is going to explain this
17 in some more detail. This is another office action rejecting
18 the amendment for failing to provide clear support. And in
19 1992 the applicant formally amended the specification to add
20 "telecommunications line." So, and the "link" was changed to
21 "line," and Mr. Kraeutler will talk more about that next.

22 So, the conclusion from the specification is that
23 somewhere around 1991 or -2 the inventor sort of tried to
24 retroactively decide what he invented; connections over
25 telecommunications lines, instead of just telephone lines.

1 Actually, let me back up just one second. Sorry.
2 This amendment of 1992 which added the terms
3 "telecommunications line" -- let me switch to another power
4 point without disrupting this too much.

5 This was from my opening statement, this Line
6 4. And that same amend -- this is why Your Honor has not
7 decided the amendment matter today. They said, the claims in
8 no manner suggest or imply steps beyond the scope and
9 structure of the methods in the originally filed disclosure.

10 So, the applicant said in 1992, the addition of the
11 change, or the addition of "telecommunication lines" didn't
12 in any manner expand the scope of the original disclosure,
13 which was "telephone lines" only.

14 So, back to the specification. We have basically
15 what we call technology creep here that the inventor decides
16 later, gee, I guess I should have meant to have invented
17 something else. That's not how the patent system works.

18 When you file a patent, claim priority of a filing
19 date, you're supposed to disclose what you know at the time
20 in exchange for what, the government will give you monopoly
21 later for a limited period of time. You're supposed to
22 disclose what you know, so the public can read that and see
23 and get the benefit of your knowledge.

24 There is the procedure, by the way, for adding
25 things to an already filed patent later, if you learn more or

1 have more information. But then, you get a late filing date,
2 and that's important, because it's prior art. I don't think
3 anyone is contending here -- I don't think I heard the
4 plaintiff contend so far in the case they are not entitled to
5 the 1988 filing.

6 Now, the plaintiffs referred to patents to later in
7 1998, to items under the 440 file history, Tab 18, to
8 reference to telephone or cable lines, or power lines. And I
9 might, I might add at this point on the claim differentiation
10 issue raised by the plaintiff today, that we haven't
11 construed for the purposes of, say Claim 10 of the 734
12 patent, to what "telephone lines" means, or what it means
13 when it says, "telecommunications lines" means "telephone
14 lines."

15 And I may also point out that, recognizing that, we
16 have not simply proposed a definition where we say
17 "telecommunications lines" means "telephone lines," period.
18 That's not our definition. We would not contend that the
19 term "telecommunications lines" could not cover cable or
20 fiber optics, for instance, where there is a continuous
21 end-to end connection made when you use those forms.

22 But it's interesting, here we are in 1998 and the
23 inventor is still only referring to telephone or cable lines,
24 or power lines, and still is not even advising the examiner
25 of any contention that the alleged invention in this case

1 includes packet switching, even though I think by 1998 most
2 people had heard of the Internet.

3 In Purdue Pharma (phonetic), in their written
4 description of issues, which we think the Court can consider
5 the Purdue Pharma (phonetic) case; says that the disclosure
6 must convey with reasonable clarity to those skilled in the
7 art that the inventor was in possession of the invention, so
8 that one skilled in the art could immediately discern the
9 limitation at issue. One skilled in the art reading that
10 1988 specification would have seen "telephone lines" and
11 nothing more.

12 Mr. Mudge cited the Gentry Gallery case in his
13 remarks. In Gentry Gallery goes on to say -- this is from
14 134 F.3 14 -- I'm sorry, 134 F.3 case, starts at Page 1473.
15 Page I'm about to read from is Page 1480.

16 Although it is true that claims can be construed to
17 contain more than the preferred embodiment, they cannot be
18 construed more broadly than the supporting disclosure.

19 So, there's sort of a scale here. You have a
20 preferred embodiment, but -- and you have a supporting
21 disclosure. Supporting disclosure may be broader than the
22 preferred embodiment, and you can have a construction in
23 general, but you can't have a construction broader than the
24 supporting disclosure. That would violate the written
25 description of requirement.

1 There just simply is no disclosure to one skilled
2 in the art that in 1988 the applicant was in possession of
3 anything broader than "telephone lines," and you could not
4 immediately discern the limitation at issue in the claims of
5 a cover packet switch. There's a provision which begins "new
6 matter," which I will skip over.

7 Conclusion on intrinsic evidence, there's no
8 support of a specification covering packet switched networks;
9 specification only mentioned "telephone lines." And by the
10 way, in the cloud photograph of plaintiff, which included a
11 telephone network, I don't believe the word "network" appears
12 either. And at least the written description requirement
13 would be violated if a broader definition were to be adopted.

14 So, let me go through to the extrinsic evidence.
15 It's deposition testimony from Mr. Hair. We have a state of
16 telephone lines in 1988, we have a state of packet-switched
17 networks in 1988, and we have discussion of TDM segments and
18 Internet packets. The inventor couldn't state whether he
19 even knew of packet-switched networks in 1988.

20 Then, when he heard of the ARPANET for the first
21 time, the ARPANET was the government, and military, and
22 educational predecessor to the Internet.

23 So, let's compare "telephone lines" to "packet
24 switching." These are opinions that Professor Larky went to.
25 On the left I've listed various aspects of telecommunications

1 lines, or PSTN, which stands for public switch telephone
2 network. First point is, you have an end-to-end connection.

3 In packet switching, it is connectionless. We saw
4 that in the video. We saw that described.

5 Now, Mr. Mudge made a few points on this. He
6 argued that, well, TCP is connection oriented. There is a
7 difference, of course, between "connections" and "connection
8 oriented." TCP tries to make it seem to someone, if you're
9 getting a connection, if you think about -- if I may inquire
10 of the Court, does Your Honor use a browser on the Internet
11 at all?

12 THE COURT: Yes.

13 MR. BARCLAY: So, you know, if you're typical of
14 most people, when you try to hit a link, sometimes it will
15 say, "connection established." But then, you wait and you
16 wait, and you wait longer.

17 Well, TCP is trying to tell you, you have a
18 connection, so you feel good, but if that was a phone call,
19 or a modem to modem over telephone lines, you would have a
20 connection. You're waiting because those packets have to go
21 skipping around the country. They have to try to get there,
22 and they might or might not. TCP tries to make it connection
23 oriented so it looks better for the users, but the underlying
24 IP or Internet Protocol framework is connectionless.

25 There are dedicated paths in telephone lines.

1 Those may change from place to place, but they are dedicated.
2 It's a single line set up when you make a phone call.

3 The path variant act of switching is demonstrated
4 in the video we showed and in Professor Larky's
5 packet-hopping example he did when he tried to connect to
6 Kenyon&Kenyon.com.

7 There's a single path for telephone lines. They
8 are individually routed packets. Telephone telecommunication
9 lines are continuous; for packet-switching, they are
10 discontinuous. In telecommunications lines there will also
11 be an order that will apply to TDM as well.

12 I may go to the next slide. I don't want to go
13 into that too much now. We'll get back. They can arrive out
14 of order in packet switch. I don't want to represent they
15 always arrive out of order, but they can arrive out of order;
16 we saw the example.

17 Delivery over telecommunications lines is automatic
18 and it is what we call best effort. We can try with the
19 packet switching. It is highly reliable for a phone line.
20 It is more unreliable for the Internet.

21 It's instantaneous for the telecommunications
22 lines. It's what we call store and forward for the Internet.

23 Mr. Mudge also argued, for instance, that there
24 were connections as those packets were going across the
25 country. As Your Honor may have noted in the video, and the

1 way it works is one router connects to the next one perhaps,
2 in some manner of speaking. Once the packet is sent there,
3 that disappears, the first thing, and it goes from one to
4 two. It gets there, but then, when the packet's going from
5 Point 2 to Point 3, there's no more connection from 1 to 2.
6 And Router 2 stores it and then records it, rather than 3 to
7 4. As we go along, finally packet-switching reassembles the
8 pieces.

9 Professor Tygar relies on this to explain
10 multiplexing in his report, but this is not significantly
11 different than the phone lines it's used on. It's
12 continuous; every segment travels on the same path. The
13 packet's traveling in order, arrive in order, and there's
14 never interleaving or sharing of the phone line.

15 Let me just give some distinctions the Professor
16 talked about. I might add, by the way, Mr. Mudge argued that
17 Professor Larky merely equated telecommunications lines to
18 telephone lines and nothing else.

19 In response to a cross examination question by
20 Mr. Mudge, Professor Larky said that in the context of the
21 patents, he felt a telecommunications line was a telephone
22 line. And he said, Mr. Mudge said Mr. Larky provided no
23 explanation of. Of course, at the time of the cross,
24 Mr. Mudge did not ask, and you can consider Professor Larky's
25 definitions as for more, some explanation of what he means.

1 Turning back to the slide comparing TDM, which is
2 used on the public switch telephone network, comparing these
3 segments with the packets, these segments have no leaders;
4 there's no address.

5 Because there is continuous, end-to-end path at the
6 outset, the phone system knows where to send those TDM
7 segments. It knows where it's going, so no address is
8 included or necessary. The packets go over every which way.
9 They get to router, the router doesn't know where it came
10 from, the router doesn't know where it's going. The router
11 needs an address to give an idea where it goes, and that's
12 mandatory.

13 There's a predetermined, continuous connection for
14 TDM, because you dial up the phone, you get a connection, and
15 then, the TDM goes over the phone line. The calls can go
16 over the phone line in a multi-plex fashion, but every
17 segment on the same connection.

18 For packets, the path is redetermined for every
19 home, and different packets can even take different paths.
20 In relationship between each segment in TDM, the packets are
21 respectively separate.

22 Conclusion I'll make, Sightsound's proposed
23 definition is too broad. The inventor only knew about and
24 disclosed telephone lines. One skilled in the art could not
25 immediately discern from the 1988 disclosure that anything

1 other than telephone lines were invented, let alone
2 packet-switched networks. And that there was an addition of
3 telecommunications lines that had meant anything different
4 than phone lines, it was an afterthought by the inventor,
5 based upon the evolving Internet in 1992. Tried to add
6 something he never knew of or invented at the time he filed
7 his application. Allowing coverage of the Internet this case
8 would defeat the notice purpose.

9 At this point I see it's ten after 12:00. Since
10 Mr. Kraeutler needs to set up his computer -- you want to go
11 now?

12 THE COURT: Yes.

13 MR. KRAEUTLER: Your Honor, the first point is, I
14 do need a little bit of a technology break.

15 The second thing, Your Honor, if I can ask the
16 indulgence of the Court, I would like to present this in a
17 continuous fashion. It's a chronological discussion of the
18 prosecution history, and I think it will lose its impact if I
19 have to break it up. I'm happy to go 'til 1:00 o'clock or
20 so, or I'm happy to take a break now and begin right after
21 lunch; whatever is the pleasure of the Court.

22 THE COURT: If I can, I like to allow lawyers to
23 put their case in the way they want to.

24 If you want to put it in without a break in the
25 middle of it, I certainly understand that.

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It's 12:15, or nearly that. It's a good time to
break for lunch. Let's do that.

MR. KRAEUTLER: Thank you, Your Honor.

THE COURT: We'll reconvene at 1:20.

We're in recess.

(Whereupon, court recessed at 12:15 o'clock p.m.)

* * * * *

1 (Court reconvened at 1:25 o'clock p.m.)

2 MATTHEW WITHERAL, Law Clerk: Keep your seats,
3 please.

4 THE COURT: Good afternoon.

5 Mr. Kraeutler.

6 MR. KRAEUTLER: Thank you, Your Honor.

7 Your Honor, before I begin with the presentation on
8 this aspect of the prosecution history, I'd like to, if I
9 may, identify for the record certain documents that I'd like
10 to hand up and ask be received as exhibits in this matter.

11 THE COURT: Okay.

12 MR. KRAEUTLER: If you would like, Your Honor, I'd
13 identify them briefly so there is a record.

14 The first group of documents is a group of patents
15 that are referred to in the prosecution history and I will
16 mention in my discussion. Most of them were referred to in
17 Mr. Mudge's presentation, and in some cases matter from those
18 patents was discussed. These are considered to be a part of
19 the patent office record, and therefore, in our view are
20 intrinsic evidence, but they have not been put in the binders
21 that are before you.

22 The first is Defendants' Exhibit 4, which is the
23 Hughes patent No. 3990710.

24 The second, Defendants' Exhibit 5, is the Freeny
25 patent, United States patent 4528643.

1 The third is the Elkins patent, Defendants'
2 Exhibit 6, US patent No. 4124773.

3 The next is Defendants' Exhibit 7, the Lockwood
4 patent, US patent No. 4567359.

5 And the last of the patents is Defendants'
6 Exhibit 8, US patent No. 3718906.

7 THE COURT: Identified as the who patent?

8 MR. KRAEUTLER: That is the Lightner patent.

9 THE COURT: Lightner. Thank you.

10 MR. KRAEUTLER: Your Honor, I would also like to
11 hand up Defendants' Exhibit 9, which is an excerpt from the
12 Newton Telecom Dictionary that has been referred to several
13 times in this proceeding, and I'm going to make reference to
14 a definition that's in these particular pages during my
15 presentation.

16 Defendants' Exhibit 10 is the definition of
17 conduction from the American Heritage College Dictionary, and
18 specifically, the 1997 edition.

19 Defendants' Exhibit 11 is the definition of
20 conduction from the Merriam-Webster Ninth New Collegiate
21 Dictionary. And there is the 1986 edition. And
22 interestingly, Your Honor, although that was the dictionary
23 most in the time frame, it was the easiest to find because
24 it's the one sitting on my desk. I don't think it's been
25 opened since about 1986.

1 May I approach, Your Honor, and hand these up?

2 THE COURT: Sure, surely.

3 MR. KRAEUTLER: Your Honor, unrelated to what I'm
4 about to talk about is this issue of conduction path, but
5 it's an issue which has to do with the construction of their
6 tech claim term. If I could address it quickly.

7 THE COURT: Go ahead.

8 MR. KRAEUTLER: There's, Your Honor, then been some
9 writing in the briefs about this, and there was testimony
10 taken about it. It is part of our proposed construction of
11 forming a connection through a telecommunications line.

12 Professor Larky yesterday testified as to his
13 understanding of the meaning of the term, and he said it can
14 either mean a path through which something is conducted, or
15 it means a path through a conductor which someone of skill in
16 the art would understand to be an electrical conductor. And
17 I think that there is perhaps an appearance of a dispute here
18 that really is not a dispute.

19 We included the word "conduction" in a descriptive
20 sense, in the sense that the telephone call is conducted
21 through the medium. There was no intent, or even
22 anticipation that we might -- that someone might think we
23 were creating an issue over this to limit it to electrical
24 conduction; i.e., conduction through a copper wire. So, it
25 was not meant to be limiting in a sense that I think will be

1 material to any issue in dispute.

2 The reason I handed up these dictionaries is, if I
3 may, the American Heritage Dictionary defines conduction as
4 the transmission or conveying of something through a medium
5 or passage, especially the transmission of electrical charge
6 or heat through a conducting medium, without perceptible
7 motion of the medium itself. And certainly the first part of
8 that definition, the transmission or conveyance of something
9 through a medium or passage is, is consistent with our use of
10 the term.

11 The Ninth New Collegiate Dictionary from 1986 has
12 two definitions, three definitions, actually; two that might
13 be relevant.

14 The first is the act of conducting or conveying.
15 Again, it is in that sense that we use the term.

16 The second is, transmission through or by means of
17 a conductor. This is the potential meaning that I think
18 excited the plaintiffs. And so, Your Honor, I would like
19 to -- I presented these to the Court to provide that context,
20 and I think to confirm the definitions that Professor Larky
21 gave yesterday. And this may be an area in which there was
22 some -- which with some discussion between us, the parties
23 can resolve the issue. I think this is a non-issue in the
24 case, and I wanted to sort of set it at one side at this
25 point in the proceedings.

1 THE COURT: Okay.

2 MR. KRAEUTLER: Your Honor, this afternoon I would
3 like to discuss the prosecution history for the
4 patents-in-suit, and particularly with respect to the meaning
5 of the claim term that, that we've been discussing, which is
6 forming a connection through a telecommunication line.

7 The prosecution history contains information which
8 is directly relevant to their contention, a point of
9 contention between the parties. We believe the prosecution
10 history is clear that, at most, Mr. Hair claimed a telephone
11 line, and that he gave up computer networks and other forms
12 of media apart from the telephone system as we've described
13 it in our proposed construction.

14 And so, I would like to go through the prosecution
15 history in chronological order. Mr. Mudge addressed this in
16 his discussion with the Court, but we think that the starting
17 point was wrong and the depth in which it was covered was not
18 sufficient for the Court to understand what occurred in their
19 prosecution history.

20 I would ask the Court to be patient. I'm going to
21 be as efficient as I can, but in my view, certainly this is
22 the most important thing that I will do in this proceeding,
23 and in my view this is an area of significant evidence, and
24 it's an area that we really think needs to be focused on to
25 properly understand these terms.

1 THE COURT: None of you have been abusive with me,
2 and I'm confident you won't be either.

3 MR. KRAEUTLER: First of all, I would like to begin
4 at the beginning, which is the original Hair application from
5 June 9th, 1988. We have already discussed this, but it's six
6 pages long; it has two pages of drawings, telephone lines is
7 mentioned six times in the specification, once in Figure 1,
8 the familiar drawing at this point, I hope, and once in
9 Claim 1 of the patent. There's no reference to networks,
10 links or telecommunication lines.

11 This is Claim 1 from the first patent, which can be
12 found in Tab 4 of the first binder there, the stipulated
13 exhibits. Mr. Hair claims a methodology or system by which
14 the binary structure of digital audio music can be
15 electronically transferred via telephone lines. And the
16 argument as to that matter of that said that, nothing broader
17 than that. This is what we intend to show to the Court. As
18 the prosecution history proceeded forward, Mr. Hair was
19 allowed to claim no more than this. He gave up that which is
20 beyond this description.

21 Your Honor, in my view, what is appearing on the
22 screen at this moment is the proposed construction of forming
23 a connection through telecommunication lines that has been
24 put forth by Sightsound. Mr. Mudge this morning said that
25 "telecommunication line" is not tied to any network or

1 medium. It is, and these are not exact words, but any means
2 that provides end-to-end connectivity. And in my view, that
3 is a description of, or another way of saying something is
4 electronically transferred. That's what Mr. Hair put in this
5 particular application, and we believe that that changed over
6 time.

7 Nothing in -- Mr. Mudge says that nothing in the
8 intrinsic evidence limits "telecommunications lines" to
9 "telephone lines." And again, we think the contrary is true;
10 that the intrinsic evidence shows that that's exactly what
11 happened.

12 The next slide shows a preliminary amendment to the
13 patent. This was dated December 19th, 1988. And this is an
14 amendment that was offered prior to any action by the patent
15 office. That's why it's called preliminary. It was an
16 attempt to broaden the scope of the original invention, and a
17 new claim was added that recites "connecting electronically."

18 At this point I believe that the patent attorney
19 Mr. Schwartz, had taken over the prosecution of the patent.
20 And again, Your Honor, you will see that the words
21 "connecting electronically" are the -- it was the proposed
22 claim at this point in the proceeding. These claims, in an
23 office action dated November 30th 1989, were rejected over
24 the Lightner patent. Also during this same time period other
25 prior art was added to the record. That is relevant to the

1 link/line distinction.

2 The Hughes patent and the Lockwood patent. The
3 Federal Circuit has said that the file history may assist the
4 Court in determining the meaning of patent claims, and the
5 Federal Circuit has recognized that included within analysis
6 of the file history may be an examination of the prior art
7 cited therein. This is in the Betronic case, which is cited
8 in all of our briefs. It's a 1996 case from the Federal
9 Circuit. The cited prior art that is disclosed in this slide
10 is part of the intrinsic evidence, and it's cited prior art
11 that was either relied upon by the patent office for a
12 rejection, or at least considered by the patent office.

13 Mr. Mudge said in his discussion that some of this
14 art should not be considered, because there, there was no --
15 or some of the amendments that were made to these claims
16 should not be considered because they were not in response to
17 a finding of non-patentability by the patent office. It was
18 not in response to some finding of prior art that anticipated
19 or rendered obvious the invention.

20 And here, Your Honor, we would direct the Court to
21 the Festo decision, which is the Federal Circuit decision
22 from the year 2000; 234 F.3d, 558, and the relevant page is
23 588. And the Festo decision stands for the proposition that
24 any change in the patent application that is related to any
25 section of the patent statute is related to patentability,

1 and that the patentee bears the burden of proof of showing
2 that amendment is not related to patentability. In Festo the
3 patentee made an amendment and said, well, that was really
4 just by way of clarification; that wasn't related to
5 patentability. And the Court said that that naked assertion
6 was not enough, that the patentee beared the burden of
7 showing it is not related to patentability, or prosecution
8 history estoppel will apply.

9 This is the office action from November 30th, 1989.
10 And you'll see that certain claims were rejected as being
11 anticipated by the Lightner patent. And also, that examiner
12 noted that Hughes and Ogaki had been made part of the record
13 of this proceeding and had been, and were considered
14 pertinent to the application, although no specific rejection
15 was made based on that art in this particular office action.

16 In response to this office action, an amendment was
17 submitted by Mr. Hair, or on behalf of Mr. Hair, and Claim 15
18 was added. This claim attempts to even be broader than
19 Claim 11, and it simply recites, connecting the first memory
20 with the second memory, such that the digital signal can pass
21 in between.

22 Then, in May, 1990, Claims 11 through 18 were
23 rejected over both Lightner and Hughes.

24 In an amendment that was filed there after in
25 August, 1990, Claims 11 and 15 were amended, but they still

1 recited "connecting electronically" or "connecting." Use the
2 relevant passages from Claim 11 and Claim 15.

3 Claims 11 and 15 were then rejected based on the
4 Hughes patent. And this is the portion of the office action
5 showing the rejection that was based on Hughes.

6 An amendment, then, was filed on December 9th,
7 1991. After being again rejected over Hughes, Claims 11 and
8 15 now were amended to a narrower term. And this time
9 Mr. Hair attempted to claim "connecting electronically via a
10 telecommunications link." So, he was narrowing down from
11 "connecting electronically," but he was still trying to use a
12 broader term than "telephone line," the term that had been
13 used in his original application. So, this "connecting
14 electronically" either narrowed, or particularly defined the
15 claim at this stage in the prosecution history.

16 Now, we would -- we intend to demonstrate that one
17 of skill would have recognized in the time frame of this
18 application, and in 1988 that "link" was a very broad term.
19 And the prior art of the 573 patent shows that "link" is a
20 well-understood term. And we're going to refer specifically
21 to the Hughes, Lightner and Lockwood patents.

22 Your Honor, these are patents that would be
23 relevant to this Court's determination even if they weren't
24 part of the file history, because they show what someone with
25 the skill and in the art knew, or how terms were being

1 construed during the time frame relevant to the alleged
2 invention.

3 But in this case, these patents were specifically
4 before the examiner. He had, at the very least, said that he
5 had read and considered them, and in some cases he had taken
6 actions based on them. So, in this case they are even more
7 directly relevant, because they are part of the prosecution
8 history, and they show what was before the examiner and
9 understood by the examiner. And as Mr. Mudge has pointed out
10 repeatedly, one of the reasons that the prosecution history
11 is particularly relevant is because this is what's available
12 to the public to discern what the invention means.

13 Let's begin with the Hughes patent. The Hughes
14 patent is a patent that covers a coin-operated kiosk system,
15 where information would be sent from a, a transmitting
16 station to a recording station. And that's what's being
17 described in the relevant portion of the patent.

18 Patent says -- patent says that the transmitting
19 and recording stations are linked by telephone lines or other
20 signal transmission means for transmitting electrical
21 signals. The one thing I'm not showing is that the first
22 full sentence, the transmitting and recording stations are
23 linked by telephone lines or other signal transmission means.
24 That's where the word "linked" appeared. So, the word
25 "linked" encompasses the telephone lines. It also

1 encompasses what the -- what is described by the inventor as
2 other signal transmission means for transmitting electrical
3 signals.

4 So, Hughes says that the word "link" includes
5 telephone lines, and it also includes signal transmission.
6 It uses the term "link" in the general fashion.

7 The next patent is the Lightner patent, which is a
8 1973 patent. And Lightner covered a vending system where
9 there was a signal transmission link for connecting to,
10 massive storage medium to a vending machine. And that's
11 what's being described in the relevant language.

12 That patent in Claim 1 refers to a signal
13 transmission link for connecting the storage medium to the
14 vending machine. And in the patent it discloses several
15 things that could be the signal transmission link. One is
16 telephone lines. The second is a microwave transmission
17 link. The third is a cable transmission, a CATV cable
18 facility.

19 So, Lightner says that "link" is a broad term. It
20 may include a telephone line, it may include a microwave
21 transmission, it may include a CATV cable.

22 Now, Sightsound argues that because claims that
23 were submitted by Mr. Hair were rejected by the patent office
24 based on Lightner, that the patent office was equating the
25 term "link" with the term "line." Their argument is "link"

1 and "line" must be the same thing, because the patent office
2 was saying that what you're claiming in your patent, Lightner
3 already does. So, it must mean the same thing.

4 The opposite is true. In Lightner a link was
5 claimed a broader term. If Mr. Hair was claiming a telephone
6 line, that would be anticipated by the broader term, if, in
7 fact, the other elements of the invention were present.

8 As we will show, Mr. Hair, at least in his
9 communications with the patent office, used
10 "telecommunications line" and "telephone line"
11 interchangeably, and we believe that that's -- that the
12 patent office treated those two terms as interchangeable
13 terms.

14 The next patent I would like to discuss that,
15 again, was referenced in the prosecution history is the
16 Lockwood patent. The Lockwood patent discloses a remote
17 processing system, and it describes a central data processing
18 center that's linked to various remote terminals. So, it
19 says the terms that are all linked to the central data
20 processing center by any suitable remote links, such as phone
21 line, data communication links, in the preferred embodiment
22 of the invention, the insurance company's terminals are
23 indirectly linked to the central data processing center via a
24 computerized telecommunication network service, such as
25 Telenet.

1 Lockwood says that the term "link" is a broad term;
2 it includes such direct links as telephone lines, and such
3 indirect links as computer networks. And it identifies
4 specifically the Telenet network. Telenet, as we've showed
5 with the Newton's Telecom Dictionary, which is one of the
6 exhibits that I handed up, is a private -- is or was a
7 privately, commercially available network provider of both
8 packet switched and circuit switched service to subscribers
9 in North America, Europe, and some parts of Asia.

10 So, Your Honor, we believe that given the meaning
11 of the term "link" as that was before the patent office, that
12 when Mr. Hair gave up "link," he gave up "links" such as
13 packet-switched networks.

14 Now, there's other prior art that was in the
15 continued applications from the 573 patent that is also prior
16 art. That was of report when claims in the 734 and 440
17 patents were issued, and also demonstrate that "link" is a
18 term of art that has embodiments that fall in a very broad
19 range.

20 First patent we would like to discuss is the Freeny
21 patent. This is a patent that was issued in 1985, in the
22 packet I've shown you. One is dated as early as 1971, but
23 this one is in the time frame of the invention. All of them
24 are in that general time frame.

25 So, this Freeny patent shows what a person of

1 ordinary skill as of 1985 would have understood the term
2 "link" to mean. Freeny says in the preferred embodiment of
3 that particular invention, the communication link is a
4 transmission type of communication, such as a transmission
5 over the airways, or via telephone lines, or via television
6 cables, for example.

7 Freeny was a patent covering a point to point music
8 sales system, and it involved the transmission of information
9 from an information control machine to an information
10 manufacturing machine. That was the term that was given to
11 some of the components in Freeny. Freeny said that cable TV
12 would be a good method for delivering these files, and also
13 said that the communication link could be a telephone line or
14 an airway transmission type of link.

15 So, Freeny said that a link could be telephone
16 lines, it could be a transmission over the airways, it could
17 be television cables. Again, it used the term "link" in a
18 very, very broad sense.

19 The Elkins patent was cited in the prosecution of
20 the 440 patent. Elkins used the term "communications
21 circuit," and it said that it's being used to describe
22 commonly available two-way communication links, such as
23 direct distance dial telephone lines, private leased lines,
24 digital microwave communications, networks, satellite
25 communications networks, and wide-band coaxial communications

1 systems.

2 So, Elkins also used the term "link" in a very,
3 very broad fashion. It said it could include telephone
4 lines, it could include private leased lines, could include
5 digital microwave communication networks, could include
6 satellite communications networks, it could include wide-band
7 coaxial communication system.

8 And, Your Honor, it might be good to pause here
9 and, and clarify or explain one thing. And that is, as I
10 indicated in my discussion of conduction a minute ago, it is
11 not our position that if a telephone transmission -- if a
12 closed circuit is formed in the telephone system through a
13 microwave transmission, it's not our position that that is
14 not a forming of a connection through a telecommunications
15 line.

16 The telephone system, as it existed in 1988,
17 included those meanings, and therefore, those meanings would
18 be included within the term as we have described it.

19 It would be our position, however, if there was
20 some sort of a private microwave communication network that
21 was different, that that would not fall within -- it would
22 fall within "link," but it wouldn't fall within
23 "telecommunications line" in the context in which it's used
24 in these particular patents.

25 As we've shown, the prior art of record in the file

1 identifies that "link" is a well-established term, and has a
2 specific embodiment of what a link could be.

3 There was an office action on February 24th, 1992
4 which rejected Mr. Hair's specification under Section 112 of
5 the patent statute for failing to provide clear support for
6 the amendments to Pages 3 and 5.

7 Let me explain what that means. At this stage in
8 the prosecution, Mr. Hair, or his patent attorney, was trying
9 to add to the specification that had been originally filed in
10 1988, or some later version of it, and was trying to add new
11 material to it, and which is something he's permitted to do
12 if it's simply -- if it's not actually altering what is being
13 described. If it's clarifying, but not if it's -- not if
14 it's new matter to the application.

15 So, the patent office is saying that the original
16 specification doesn't provide clear support for these
17 additions that Mr. Hair was trying to make in 1992, and at
18 Page 6 of this office action the patent office also rejected
19 what was then proposed as Claim 11 under Section 112 of the
20 patent statute, because, among other things, it said the
21 telecommunications link is not well connected in the system.

22 Well, what does that mean? What that means is
23 that, I think the only reasonable reading of this is that the
24 patent examiner is saying, you're now trying to claim based
25 on telecommunications link. Well, I've looked at Figure 1,

1 I've looked in your specification. I don't find any
2 telecommunications link. It's not there, so it's not
3 connected to the system that you've described. And that's
4 where we were as of February 24th, 1992.

5 This is the office action as to Claim 11. Further,
6 telecommunication link is not well connected in the system.

7 Now, the significant amendment is an amendment
8 that's found at Tab 38 to the 573 prosecution history. It's
9 an amendment to Claim 11.

10 After the examiner questioned the use of "link,"
11 Mr. Hair chose the only embodiment that was supported by his
12 original application, and he limited to the specific
13 application of, of a "line." He formally amended the
14 specification and the, abstracted a "line." And this slide
15 gives the places where "line" now appears in the abstract and
16 the specification. And Claim 11, which was the point of
17 contention, was amended to change the word "link" to "line."

18 So, it is our position that at this point in the
19 prosecution history Mr. Hair gave up all the other versions
20 of link. This is the amendment dated June 23rd, 1992. And
21 you can see that the words "electronically via a
22 telecommunication line" are added above, and then, below, the
23 word "link" is changed to "line."

24 So, in the amendment Mr. Hair -- well, in the
25 amendment Mr. Hair, or his prosecuting attorney, not only

1 included these changes, but there's also a remark section,
2 Your Honor, where the patent applicant can explain the
3 changes that are being made. And in this particular
4 amendment Mr. Hair narrowed the claims by changing "link" to
5 "line."

6 In his remarks he stated the claim was being
7 amended to, "via a telephone line." Now note that in his
8 remarks he didn't say, I'm changing it to "telecommunication
9 line." He said, I'm changing it to "telephone line." And
10 then, in the, in the actual document that showed the amended
11 claim, he changed it to "telecommunication line."

12 So, Mr. Hair is using "telecommunication line" and
13 "telephone line" interchangeably at this point, and I think
14 that it's fair to say from the entire context here, that's
15 because he knew that's what the patent office was going to
16 allow, at the very most. So, this representation confirms
17 Mr. Hair's intent to limit "telecommunication line" to
18 "telephone line."

19 And again, it is our position that
20 "telecommunications line," as it's recited in the patent, has
21 been voluntarily restricted to a telephone line.

22 This is the remarks section of the amendment. And
23 Mr. Mudge showed this to you, but let me read the two
24 sentences. Have highlighted, the examiner has also stated
25 that the telecommunication link is not well connected in the

1 system. Accordingly, "link" has been amended to the more
2 favorable term "line," and, quote, "via a telephone line" has
3 been added to the connecting step in Claims 11 and 15.

4 Now, that bottom portion was not included in the
5 excerpt that Mr. Mudge showed you, but I think this is
6 somewhat significant to the fact that the remark section
7 refers to this as a telephone line.

8 Now, in the same amendment Mr. Hair is discussing
9 a, a rejection over the Hughes patent, and he includes the
10 statement that the transmitting station and the recording
11 stations are linked by telephone lines or other signal
12 transmission means. So, again confirming that the term
13 "link" is broader than "line."

14 So, to summarize, what Mr. Hair claimed in his
15 original application, he claimed that something was being
16 electronically transferred via telephone lines. And Your
17 Honor, it's been bothering me for about ten minutes now, but
18 I think I spoke imprecisely at the beginning of my argument
19 and I said, this is what Sightsound now claims the term
20 means.

21 What I meant was, if you take the words
22 "electronically transferred," and you pull them out, without
23 any restriction, "via telephone lines," without the word
24 "connection," essentially Mr. Mudge's description was
25 synonymous with "electronically transferred," without any

1 limitation. But there are other words that are around there,
2 and Mr. Mudge, I think, or Sightsound is now trying to read
3 out "telephone lines," read out "connection," read out "other
4 link," which is significant to the understanding of this
5 term.

6 What Mr. Hair gave up was "connecting" or
7 "connecting electronically." These are terms that he sought
8 to use early on in attempting to, to amend, to get broader
9 and broader claims. What Mr. Hair claimed ultimately was
10 "connecting electronically via a telecommunications line,"
11 and again, going back to the testimony from yesterday, what
12 was being described was connecting the memories of two
13 computers via a telecommunications line. A closed circuit
14 connecting the memories of two computers through a
15 telecommunications line. What Mr. Hair gave up was
16 "connecting electronically via telecommunications link."

17 Now, it's actually better if you kind of read this
18 chronologically, which is sort of in a circle. Beginning in
19 the top left, he begins with, "electronically transferred via
20 telephone lines." He then tries to get the broad
21 "connecting," or "connecting electronically." When that
22 doesn't work, puts in the limitation of "telephone
23 telecommunications link," again, still trying to get a very
24 broad construction. And the patent office says, no.

25 And at that point he amended to "connecting

1 electronically via a telecommunications line," which is
2 essentially the language that we are construing here today.

3 To summarize, Hughes gave two examples of link.
4 Mr. Hair amended "link" to "line," and he argued the
5 telephone lines. He gave up signal transmission.

6 Lightner says a link could be a telephone link, a
7 microwave transmission or a cable. And when Mr. Hair changed
8 "link" to "line," he gave up those other embodiments of a
9 link.

10 Freeny says that a link could be a telephone line,
11 transmission over airways, or a television cable. And when
12 Mr. Hair amended "link" to "line," he gave up those other
13 potential examples of a link.

14 Elkins says that a link can be a telephone line, a
15 private leased line, a digital microwave communication
16 network, a satellite communications network, or a wide-band
17 coaxial communication system. Mr. Hair amended "link" to
18 "line."

19 And finally, Lockwood. Lockwood talked about
20 direct links and indirect links. It used as an example of a
21 direct link the telephone line; as an indirect link that the
22 Telenet network, which was a packet-switched network when
23 Mr. Hair amended "link" to "line."

24 It's our contention he gave up packet-switched
25 networks and other things that might have been encompassed

1 within the broad meaning of the term "link," but would not be
2 encompassed within forming a connection via a
3 telecommunications line.

4 Your Honor, that concludes my discussion of this
5 portion of the prosecution history.

6 The next topic that we would like to address is the
7 term "telephoning." And if I can just have a minute to make
8 my adjustments here, I can begin that.

9 THE COURT: Certainly.

10 MR. KRAEUTLER: Thank you.

11 Your Honor, we have suggested to the Court that the
12 appropriate term to construe is telephoning the first party
13 by the second party. The plaintiffs, Sightsound, has
14 suggested that the proper term to be construed is
15 "telephoning," and in this situation and other situations in
16 this case, we believe that, that the more inclusive term
17 should be construed, because the context is relevant. These
18 are the parties' contentions.

19 Sightsound says that "telephoning" means initiating
20 a connection over a telephone line. The Defendants'
21 contention is that telephoning the first party, controlling
22 use of the first memory by the second memory, which is the
23 language in the patent, should be, placing a telephone call
24 by a person at the second party location to a person at the
25 first party location. And Mr. Mudge correctly focused the

1 issue this morning when he said essentially what the
2 defendants were contending is, it's a person to person, a
3 person to person connection or telephone connection.

4 And that is exactly what we contend the issues are;
5 whether the term initiating a connection over a telephone
6 line, which is the construction proposed by Sightsound, is
7 meaningful. Is there any basis in the specification or the
8 prosecution for Sightsound's proposed construction? And what
9 would a person of ordinary skill have understood in 1988?

10 Your Honor, I'm going to go through this argument,
11 but let me try to distill this argument. And that is that
12 the specification discloses two devices that have control
13 panels, and it does not disclose anywhere an automated
14 system. In our view, those are the essential facts that are
15 relevant to the construction of this term. The patent shows
16 a system in which there would be a person at either end of
17 the, of the connection.

18 The language to be construed is part of a
19 transferring step that appears in multiple claims. The
20 claims are listed on the power point. I mention this
21 transferring step, and I'll explain that more in just a
22 minute, because one of the potential problems of Sightsound's
23 construction is the construction is initiating a connection
24 which in connection is a term that is central to a disputed
25 term in this case, and in our view, injecting that concept

1 into this construction only can make things confusing.

2 Furthermore, the language here relates to a
3 transferring step which has to do with the transferring of
4 payment, and therefore, it's confusing because the patent
5 talks about forming a connection between the two memories of
6 the computers for the transmission of the digital audio
7 signals.

8 So, the transferring step is one person telephoning
9 another to transfer money. The telephoning further limits
10 the transferring step. The transferring step, as I
11 mentioned, is different than the connecting step, where the
12 two memories are connected for the purpose of transmitting
13 the digital audio signals. Let's look first to the intrinsic
14 evidence in dictionaries.

15 First of all, to focus on one group of claims that
16 uses this language, Claim 1 of the 573 patent is a method
17 claimed. It includes a number of steps. One of the steps is
18 transferring money electronically. Another step is
19 connecting electronically via a telecommunications line the
20 first memory with the second memory. So, they are separate
21 steps.

22 And then, Claim 2 says, a method as described in
23 Claim 1, including after the transferring step. And it has a
24 claim limitation.

25 And then, Claim 3 provides a further limitation to

1 Claim 2, and it says it's a method as described in Claim 2,
2 where the transferring step includes the step of telephoning
3 the first party controlling the use of the first memory by
4 the second party.

5 So, telephoning relates to and limits the
6 transferring step. The telephoning is, is telephoning to
7 provide a credit card number.

8 In the 734 patent Claim 1, it recites a method, and
9 one of the steps is telephoning the first party by the second
10 party. The next step is providing a credit card number of
11 the second party to the first party.

12 And then, the 440 patent, Claim 4, telephoning
13 further limits the step of charging the account of the second
14 party. Claim 4 describes the method described in Claim 3,
15 wherein the step of charging the account of the second party
16 includes the steps of telephoning the first party controlling
17 use of the first memory by the second party. So, it relates
18 to the payment step in each of these.

19 This is Figure 1 of the patent. It shows the first
20 party location, which would be the selling or transferring
21 party, and the second party location, which would be the
22 purchasing or receiving party. Each side, you'll note, Your
23 Honor, has a control panel. It's component 20A in the first
24 party location, and component 50A in the second party
25 location. And this is the way the telephoning step would

1 occur.

2 Mr. Hair submitted two declarations; one in
3 connection with the 573 patent, and another in connection
4 with the 734 patent. And parts of these declarations are
5 almost verbatim the same, but there are some changes, one to
6 the other, but this 1992 declaration which related to the
7 first patent described -- I think we may be highlighting not
8 all of the language we need to, but it's the use of
9 transferring money across telecommunication connections, such
10 as by telephoning the agent who has the hard disk over
11 telephone lines.

12 So, it is describing a person to person
13 communication to transfer money.

14 The 734 file history has a second declaration, and
15 this one discusses the transferring of money across
16 telecommunication connections; again, such as by telephoning
17 over phone lines the agent who has the first party's hard
18 disk. It's describing a person to person communication.

19 Now, next looking at dictionary definitions. This
20 is precisely the dictionary that Sightsound relies upon, but
21 when you saw the slide this morning, definition 2 was
22 omitted. The definitions in the 1995 Webster's, the New
23 College Dictionary, for telephoning include to communicate
24 with by telephone, to call someone on the telephone. This is
25 the definition that was omitted by Sightsound, and to

1 transmit by telephone.

2 Even more pertinent, might be the dictionary that
3 was on my desk, which is the 1986 version of the same
4 Webster's New Collegiate Dictionary, it defines telephoning
5 to include, to send by telephone or to speak by telephone.

6 Neither dictionary definition supports Sightsound's
7 proposed construction, which is to initiate a connection
8 using a telephone.

9 In terms of extrinsic evidence, there was the
10 testimony of the inventor, Arthur Hair. He testified about
11 electronic sales, and I'm going to refer to this later in
12 talking about electronic sales, but he testified that as of
13 1988, electronic sale could be, for example calling up and
14 ordering a pair of shoes from L.L. Bean. So, placing a
15 telephone call to L.L. Bean would involve a person at one
16 location placing a telephone call to a person at another
17 location.

18 A person of ordinary skill in 1988 would understand
19 telephoning, as the term is used in the patent, to refer to a
20 person to person communication.

21 In our view, Dr. Tygar also supports our position
22 in his declaration at Paragraph 37. He said that this word
23 "telephoning," it seemed to him, related to the common
24 occurrence of placing or initiating a call between a computer
25 using a modem connected to a telephone line. Well, if two

1 computers, it is possible to place a telephone call dialing,
2 using the keyboard of a computer, and for the communication
3 about to come through the, within -- put through the keyboard
4 of the other party's computer. And so, this common
5 occurrence of, of connecting computers over a telephone line
6 through a modem is, in fact, consistent with the definition
7 that we've -- that we've advocated.

8 So, in summary, placing a telephone call by a
9 person at the second party location to a person at the first
10 party location is supported by the specification, and in
11 particular, the drawings, the Hair declarations, the
12 dictionaries, and the testimony of the inventor. And I would
13 add, the testimony through declaration of Tygar.

14 Your Honor, the next topic that I will address is
15 electronic sales. And I at least need a break to get
16 something to drink, and also to change something. I don't
17 know if it makes sense to take five minutes at this point.

18 THE COURT: The temperature in the room alternates
19 between arctic and tropical, and it's in its tropical mode
20 right now. So, maybe everybody needs a little drink.

21 Let's recess until 2:30.

22 (Whereupon, court recessed at 2:19 o'clock p.m.)

23 * * * * *

24 (Whereupon, court reconvened at 2:33 o'clock p.m.)

25 MATTHEW WITHERAL, Law Clerk: Keep your seats,

1 please.

2 THE COURT: Okay, Mr. Kraeutler.

3 MR. KRAEUTLER: Thank you, Your Honor.

4 Your Honor, at this time I would like to hand up
5 two additional exhibits. The first is certain pages from the
6 deposition of Arthur Hair, the inventor. Some of these may
7 have been attached to our initial brief, but this is a more
8 comprehensive grouping of pages in which he gave testimony
9 relating to electronic sales.

10 And the second is the Webster's, Merriam-Webster
11 Ninth New Collegiate Dictionary. This is the, the definition
12 that I used regarding telephoning in my last presentation.

13 May I approach, Your Honor?

14 THE COURT: You may.

15 MR. KRAEUTLER: The deposition testimony is marked
16 Defendants' Exhibit 12. The dictionary is marked Defendants'
17 Exhibit 13.

18 THE COURT: Thank you.

19 MR. MUDGE: Your Honor, if I may interpose an
20 objection, not to the dictionary, as I understand Your
21 Honor's position, but if we are introducing additional
22 deposition pages at this time, supplementing the record, we
23 obviously haven't had a chance to review or even prepare or
24 see if there's anything that needs to be supplemented to make
25 it complete.

1 So, I make an objection to adding to the record at
2 this point in time.

3 THE COURT: Okay. Mr. Kraeutler.

4 MR. KRAEUTLER: Your Honor, we certainly
5 wouldn't -- if it, Sightsound wished to add pages for the
6 sake of completeness, or otherwise respond, especially since
7 this hearing probably will be open after today, we have no
8 objection to that.

9 I, my understanding was, from the way that we were
10 proceeding, and especially with three days being set aside,
11 but that the evidence wouldn't be closed, so to speak when
12 the briefs were in, and that it wouldn't be closed when the
13 experts had finished, since many of these things you would
14 introduce through the expert. We would ask that the Court
15 accept it. I think that it will be useful to the Court's
16 deliberations. But we certainly are not trying to create a
17 situation where the other side has not been able to respond
18 appropriately.

19 THE COURT: I frankly think that's proper response,
20 both equitably and under the rules, and that is, a party may
21 offer the deposition testimony, or deposition testimony of an
22 adverse party, or one so closely aligned with an adverse
23 party to be able to speak for him. In this case it's the
24 inventor. So long as the party against whom the deposition
25 evidence has been offered has the right to supplement with

1 other references to the same deposition.

2 So, I'll accept the, the exhibit, admit it into
3 evidence, subject to the right of the plaintiff to offer any
4 other parts of that same deposition transcript as might be
5 helpful to supplement or explain the parts that have been
6 accepted now.

7 MR. KRAEUTLER: Thank Your, Honor.

8 Your Honor, the next term we would like to address
9 is electronic sales, and we have actually put in a single
10 presentation, very closely related claim terms that are in
11 two separate presentations by Sightsound.

12 Party contentions on the term "transferring money
13 electronically." Sightsound contends that it means providing
14 payment electronically. And the defendants contend that it
15 means providing an authorization over telecommunications
16 lines, which allows the first party access to funds.

17 Like to make two preliminary comments at this time.
18 The first is, I'd like to direct the Court's attention to
19 Dr. Tygar's testimony from yesterday. And I wrote this down
20 as nearly verbatim as I could. But I believe that he
21 actually testified that, providing payment electronically
22 meant a form of payment that results in payment taking place.

23 And, Your Honor, that really focuses on our
24 concerns about Sightsound's proposed construction. We think
25 it clearly is no less ambiguous than the term being

1 construed, and in fact, we think it adds ambiguity, that it's
2 a vague term, in that it is close to being a meaningless
3 term.

4 Also relevant to the issues that we'll be
5 discussing over the next few minutes, Professor Tygar
6 testified that this could be several things. It could be a
7 credit card transaction, or it could be other advanced
8 payment methods, and I'm not sure what that is. But the
9 prosecution history will show that the inventor focused on a
10 credit card authorization being given over a telephone line.

11 We have, we have really broadened that, so that
12 it's not limited to credit card. It could be a debit card,
13 but it's an authorization which allows the first party access
14 to funds.

15 Another sort of a red herring in this case, but I
16 don't mean to -- I don't mean to be critical of Sightsound's
17 position, because I guess it's the nature of this kind of
18 litigation that everybody is suspicious of the other side.

19 Sightsound is really focused on, are the defendants
20 going to flip around and say it's immediate access to funds.
21 That's what this definition means. And there are a lot of
22 transactions inn which the funds aren't accessed immediately,
23 and is this some end-run in order to create a
24 non-infringement position. That is not the intent.

25 There's no qualification to the word "access." If

1 the word, if the words "current" or "future" were inserted
2 before the word "access," we would have no objection to that.
3 The point is, the way this is done, the way it was described
4 by the inventor in parts of the prosecution history where the
5 patent office had objected to this term and the inventor was
6 required to supplied meaning, he talked about a transaction
7 in which authorization would be provided over a telephone
8 line. And that was our intent in this particular
9 construction.

10 The related terms are "selling electronically,"
11 "electronically selling" and "electronic sales." Sightsound
12 says these terms mean providing a product or service
13 electronically in exchange for a payment provided
14 electronically.

15 And CDnow, N2K's, contend a transaction and
16 authorization over telecommunications lines which allow the
17 first party access to funds and the providing of a service or
18 product. I've highlighted these two areas, because the
19 non-highlighted portions are exactly the same as the prior
20 term.

21 The new thing here, because when we talk about
22 selling electronically, as opposed to transferring money
23 electronically, we now have a two-way transaction. So, the
24 new part is what is the product that's being provided.

25 The dispute here is very simple. Sightsound says

1 that it needs to be an electronically provided product or
2 service. And the defendant contends it's any product or
3 service.

4 How is this relevant? Well, it -- as Mr. Mudge
5 pointed out, there are other parts of the claims that talk in
6 terms of transmitting digital audio signals via
7 telecommunications line. And so -- and the accused
8 infringement concerns that subject matter. But this may be
9 relevant to things that may be called relevant prior art for
10 the purpose of the validity issues in this case, and, for
11 example, talking about whether it would be obvious to combine
12 various things that are described in this patent.

13 We think it's very clear that the inventor used
14 "selling electronically" or "electronic sales" to describe
15 any product or service that is sold electronically, as I will
16 describe.

17 The issues as we would frame them is, should the
18 Court ignore the intrinsic evidence in favor of a construction
19 that is inconsistent with the intrinsic evidence. Is
20 providing payment a meaningful construction? And contrary to
21 the inventor's testimony, do all electronic sales include a
22 product or service that is provided electronically?

23 First of all, the intrinsic evidence, the terms
24 "transferring money" and "electronic sales" do not appear in
25 the specifications.

1 THE COURT: You're slide says they do.

2 MR. KRAEUTLER: I'm sorry, Your Honor. They do
3 appear. But the specification defines neither term. The
4 term "transferring money" does not appear in the original
5 1988 specification. There is no intrinsic evidence
6 supporting Sightsound's proposed construction. The word
7 "payment" appears nowhere in the patent claims or the
8 specifications. Both parties agree to look at the Hair
9 declarations. Again, one from May, 1992 pertinent to the
10 573 application; one from December, 1993 pertinent to the
11 734 application.

12 The 1992 declaration responded to the examiner's
13 finding that the term "transferring money" was unsupported by
14 Hair's application. In a February, 1992 office action, the
15 patent office, the examiner said the step of transferring
16 money and the step of telephoning and providing credit card
17 do not have a basis in the original specification.

18 Hair's amendment said, well, the original
19 application stated about electronic sales, and he said the
20 term "electronically transferring money," although it's not
21 literally cited in the original application, is equivalent in
22 scope and function to the description of the invention as
23 originally filed with respect to electronic sales. And then
24 he provided a declaration that was in support of that
25 particular amendment.

1 That declaration said, one skilled in the art would
2 know that an electronic sale inherently assumes a
3 transferring of money by providing a credit or debit card
4 number. Paren, since that is the only way for electronic
5 sales to occur) of, coupled with a transferring of a service
6 or a product.

7 Your Honor, it's hard to imagine a statement from a
8 prosecution history that could be more significant for the
9 construction of a term than a statement that, to the effect
10 that since this is the only way for electronic sales to
11 occur. Now, there also was a declaration and amendment dated
12 December 30th, 1993, and, and a corresponding declaration.

13 In the amendment Mr. Hair said that his declaration
14 supports the introduction of, for instance, charging a fee or
15 using an account or a credit card in an above-identified
16 patent application. Again, this was the second patent, and
17 is inherent in the definition of electronic sales.

18 And he provided a declaration dated December 30th,
19 1993 in support of this particular amendment. That
20 declaration said that one skilled in the art would know
21 electronic sale inherently assumes a transferring of money by
22 providing an account number or a credit or debit card number.
23 The thing that has changed here is, he's added "providing an
24 account number." He has deleted the language to the effect,
25 since that is the only way for an electronic sale to occur.

1 But again, the definition that he provides is
2 completely consistent with our construction, which is
3 providing an authorization which allows access to the funds.
4 Especially with my highlighting that our term "access to
5 funds" is not limited in, in time.

6 Our position is that providing payment is not a
7 meaningful construction. Sightsound agrees that providing an
8 authorization over telecommunications lines is a payment,
9 which is the result that they are seeking. They say in the
10 reply brief, once the customer provides his credit card
11 number to the merchant, the payment is considered complete.

12 So, there is no apparent difference in our
13 definitions, except their sort of defensive position that
14 they are afraid we are going to play games with "access to
15 funds." And again, I've tried to highlight, I don't think
16 that's an issue here.

17 They go on to say that based on the persuasive
18 understanding in the electronic commerce community, that this
19 is, this conclusion is based on the persuasive understanding
20 in the electronic commerce community that payment is
21 considered complete when the customer provides their credit
22 card account information. Again, this is the way in which
23 they characterize transferring funds electronically or
24 electronic sales.

25 According to Sightsound's own argument, providing

1 payment is a broad, subjective term that includes providing
2 an authorization over telecommunications lines.

3 Sightsound says that providing an authorization
4 over telecommunications lines is a form of providing payment.
5 They say that you've got to introduce extrinsic evidence in
6 order to, in order to determine that.

7 They don't say what else could be included within
8 "providing payment." Every example that's given is in the
9 form of providing an authorization through a credit card or a
10 debit card, or, or some sort of an account number.

11 Mr. Mudge said in his argument that if their term
12 is ambiguous, well, there's extrinsic evidence available that
13 would allow you to define it more precisely. That's exactly
14 what we are supposed to be doing here today. When we leave
15 the room, or when Your Honor completes his work, we're
16 supposed to have terms that don't require extrinsic evidence
17 anymore. We're not going to ask the jury to construe the
18 claim terms in the patent.

19 So, that really proves our point, which is that the
20 Court needs to adopt a construction which is clear and
21 unambiguous, and that the jury can use. And we believe that
22 our proposed construction has those attributes. It's our
23 contention that the term "providing payment" is no less
24 ambiguous than "transferring money electronically."

25 Again, Dr. Tygar's declaration supports our

1 position. In his Paragraphs 38 to 45 of his declaration he
2 says that when we talk about electronic sales and electronic
3 payment, we're talking about a transaction in which, instead
4 of handing a clerk a credit card, he says, because he's
5 drawing an analogy between an in-person sale and an
6 electronic sale, he says the customer electronically provides
7 the credit card information to the seller. And then he says,
8 the seller subsequently receives the proceeds from the
9 electronic sale at some later time.

10 In other words, the seller get access to the funds
11 corresponding to the account, to the customer's credit
12 account at a later date. So, he is saying that it involves
13 the providing of an authorization and access to funds;
14 although, again, without any restriction as to time.

15 Our proposed construction is a closed-end ended
16 invention. The jury will know what "transferring money
17 electronically" means and what "electronic sales" means.

18 Sightsound's construction, using "providing
19 payment" is, from our point of view, open-ended. We don't
20 know what else they think is included in "providing
21 payments," and -- but it is, in order to explain their own
22 term they have had to bring in extrinsic evidence to explain
23 the way this is normally done, and that can't be the result.
24 It has to mean something.

25 The second issue that's involved here, when we go

1 from "transferring money electronically" to "electronic
2 sales," we add the issue of the product or service. It's our
3 position that "electronic sale" need not infer a product or
4 service provided electronically.

5 First of all, Mr. Hair's 1992 declaration does not
6 limit "electronic sales" to products or services provided
7 electronically.

8 He says, oh, well, I once had a professor in law
9 school who said that instead of highlighting what "t" was
10 crossed out in pencil, everything that was important, then he
11 knew he would have to erase it, and then he would never
12 forget it after that. So, I guess that's what we have just
13 done, Your Honor. The important words are coupled with a
14 transferring of a service or a product, not limited at all in
15 terms of electronic or non-electronic.

16 Now, Sightsound focused the Court exclusively on
17 the 1993 declaration, which talks about providing a service
18 or product through a telecommunication line. And, and they
19 ignored the 1992 declaration, at least in terms of their
20 presentation.

21 Mr. Mudge did make reference to it, but, Your
22 Honor, we think the proper reading here is, if in 1992 it
23 meant providing a product or a service, and it wasn't
24 limited, and if the 573 packet was issued on that basis, then
25 by changing the words in a declaration in 1993, and getting

1 later patents issued upon that declaration, we don't believe
2 that there can be any changing of the meaning, or restricting
3 of the meaning. In order for both things to be true, it must
4 mean that both electronic and non-electronic products and
5 services can be provided under the rubric of electronic
6 sales.

7 Mr. Mudge this morning said, you know, the meaning
8 is clear, because look in other parts of the patent. Other
9 parts of the claim it's talking about transmitting digital
10 audio signals via telecommunications line. Well, if that's
11 true, then there are other limitations in other parts of the
12 claim also that, that will, that will be relevant in a prior
13 art or an infringement analysis. We're only construing the
14 words "electronic sales."

15 And there's, to say that there are words that are
16 outside of that, that when you read the entire patent might
17 provide additional information is really not relevant. We
18 have to give electronic sales whatever the meaning is that
19 electronic sales requires.

20 Extrinsic evidence is definitive, and that is
21 Arthur Hair's testimony. It is directly contrary to
22 Sightsound's proposed construction. In his declarations in
23 the patent prosecution, he represented himself to be a person
24 who was expert in the field. In his deposition he
25 represented himself to be a person in 1988 of ordinary skill

1 in the art of electronic sales. And he gave his
2 understanding and his statement of what he meant when he used
3 "electronic sales."

4 Sightsound's current argument is that the invention
5 is clearly directed towards the offering of a product or
6 service in an electronic manner. Mr. Hair's testimony, the
7 electronic sale is when the customer requests a product and
8 it is done electronically and the transaction occurred
9 electronically; not necessarily delivery of the goods.

10 The question: And were you aware that electronic
11 sales were taking place in June, 1988? The answer, yes.

12 Question: For what types of transactions? Answer:
13 An electronic sale could be, for example, calling up and
14 ordering a pair of shoes from L.L. Bean. I mean, that's a
15 pretty good example. That's electronic sales.

16 And there are, Your Honor, you'll note that I, I
17 provided the Court with many more pages from the deposition
18 than these cited pages. Mr. Hair was very, very clear on
19 this point, and clear in many examples given during his
20 deposition.

21 So, our proposed construction transaction, a
22 transaction including an authorization over telecommunication
23 line which allows the first party access to funds and the
24 providing of a service or product, as supported by the Hair
25 declarations. It's supported by Arthur Hair's testimony.

1 Your Honor, that's all that I have at this time,
2 unless there are questions from the Court.

3 And Mr. Barclay is going to complete this first
4 grouping of claim terms.

5 THE COURT: Fine.. Thank you.

6 MR. BARCLAY: It will take me just a minute to
7 switch the computers, Your Honor.

8 THE COURT: Surely.

9 MR. BARCLAY: I'm ready, Your Honor.

10 THE COURT: Go ahead, Mr. Barclay.

11 MR. BARCLAY: I'll be addressing the last two, the
12 terms that are in plaintiffs' first grouping, somewhat
13 related; first party, second party, and control and
14 possession. What these terms are directed to and what they
15 have in common are as follows.

16 They are directed to the concept that in Figure 1
17 of the patent, or in the claim of the patent, I guess we can
18 talk about that, that there have to be distinct entities on
19 the seller and buyer sides, and the seller ultimately got
20 renamed "first party" during the prosecution; the buyer
21 ultimately got renamed the "second party."

22 And there's a concept that they have to be distinct
23 from each other. And there's also a somewhat ambiguous
24 concept, perhaps, that the first party and second party, or
25 seller and buyer, have to have certain degrees of control and

1 possession over respective components in their hardware. And
2 that's what's going on.

3 These amendments -- these, these terms were limited
4 because of prior art prosecution rejections. That is, there
5 was prior art, and it was just submitted. There, there was
6 no such distinction between the buyer and seller. Claims
7 that did not include these distinctions were rejected.

8 The applicant had -- the amendment was forced to
9 amend the claims to insert these limitations. They, they are
10 now part of the claims, and what Sightsound is doing here in
11 its constructions is to try to walk away from what it told
12 the patent office in order to get allowance of the patent,
13 and then assert broader coverage than it's entitled to
14 against the accused infringer. And to be quite candid, at
15 least in the case of my client, does not contain the type of
16 distinction, does not claim that it contains the type of
17 distinction that, that we believe the claims are now limited
18 to.

19 So, let me start with that introduction to the
20 first party and second party.

21 The two parties' contentions I put up on Slide 2
22 here. Sightsound's contention is the entity or its agent.

23 Our contention is each party is a single,
24 financially distinct entity at locations separate and
25 distinct from each other.

1 So, the agreement, we're talking about entities,
2 and the question is, are the limits only who the entities can
3 be. Is the entity one that includes agents of the entity, or
4 is a single entity that's distinct as to separate locations.

5 So, we'll start with the intrinsic evidence.
6 There's a dispute between the parts about the context of the
7 use of the word "agent" in the specification and the inventor
8 declarations filed during prosecution. And here is the, here
9 is the dispute we have. Is the first party an agent of a
10 third party that is a copyright owner, or can the first party
11 include as within the definition of first party its own
12 agents or some other parties.

13 Try to make that a little clearer.

14 Looking at Figure 1 of the patent here, the first
15 party is shown on the left. That is various components and
16 the left. The second party is who is the buyer on the right
17 with those components.

18 Now, we have to back up, I guess. Let me back up.
19 Typically, the way -- and this is not limited to, quite
20 frankly, electronic sales, or sales of coal mines, or
21 anything. If someone is in the business these days of
22 selling music, they could be out in California with something
23 called telerecord, but any large record sharer or company.
24 They sell goods that -- under that they do not own, which
25 they do not own the copyright. That is, they buy the goods

1 from the lawful copyright owner, and then send them to the
2 end user, the person who wants to listen to the music.
3 Nothing surprising about that. And that's what's going on in
4 this patent.

5 The specification only uses "agent" in the context
6 of the first party being the authorized agent of the owner of
7 the copyrighted music. You can envision this. It's been a
8 long time since I dealt with the record industry, but you can
9 envision the copyright owners, the record companies would
10 give the records on their CD's, on consignment, that is, to
11 the record stores, and the record stores effectively would be
12 the agent of the record companies in that respect.

13 So, the first party in this patent, just to conform
14 to the rest of reality, the sales of music is the agent of a
15 third party; that is, the copyright owner. It's not the
16 other way around. The specification of these patents do not
17 otherwise use the word "agent." So, if you look at these
18 specifications, at Column 3, for instance, the Hard Disk 10
19 of the agent authorized to electronically sell and distribute
20 the copyrighted digital audio music. That's referring -- and
21 that refers to the control unit of the authorized agent. So,
22 it's the agent's hard disk 10.

23 And if we go back up a few slides, that's the first
24 party. The first party is the agent of the copyright owner.
25 I apologize if I'm a little dopey, Your Honor, being Friday,

1 and the weather control. I forgot the next slide I had.

2 Figure 1 explains this: The Hard Disk 10 of the
3 agent authorized to sell is right there. The control unit 20
4 of the authorized agent is the control IC 20B of the
5 authorized agent. That's what this is talking about, not
6 some nebulous agent off in the wilderness.

7 In it's reply brief the plaintiff claims that we,
8 the defendants, could not point to a single portion of the
9 specification that suggests that the word "agent" was meant
10 to be the seller, refer to the seller being the agent of the
11 copyright holder. Well, that's right in the specification.
12 And this is just not correct. It's just not correct.

13 And you can also compare it to the Hair declaration
14 that we've been discussing a lot. That's Tab 37; certainly
15 something worth reading in the course of a lot of these
16 terms. And again in this declaration the inventor says, the
17 first party includes the agent who is authorized to
18 electronically sell and distribute the music. There are
19 similar references, similar occurrences of the agent's, the
20 agent's hard disk, the agent's control panel, all refer to
21 the first party as the agent of the copyright owner, third
22 party, and not vice versa.

23 So, the specification discloses basically a
24 copyright owner who has an agent who he's reselling the goods
25 to, and that's the first party to a second party, who's the

1 buyer of the audio. There is no disclosure of agents of the
2 party in this specification.

3 Prosecution history is particularly important for
4 these terms. Meantime, it introduced that the agents are
5 financially distinct first and second parties at separate
6 locations remote from each other. And this was added to the
7 claims to avoid prior art.

8 If you allow broad generic agents to be included as
9 parties, this would eviscerate this distinction and would
10 also, as we have argued, risk non-uniform treatment,
11 depending on various state law definitions of "agent." In
12 his comments Mr. Mudge said that financially distinct and
13 remote locations don't need to be included in the definition
14 of parties. He said they exist in the claims any way.

15 Well, we're getting back to the issue of number of
16 claims here. Mr. Mudge is correct in some cases, but not
17 correct in others. And we had a chance to, as we did this
18 sort of on the fly, Your Honor, during Mr. Mudge's comments.
19 I hope I get it right, but we've identified the following
20 claims that are in the pool of 40 that are missing the phrase
21 "financially distinct." That doesn't mean it's not there.
22 The prosecution history makes it clear, that's a requirement
23 of the term, but they just didn't repeat the term in the
24 claims.

25 And this is for the 734 patent. I'm just using

1 independent claims now, Your Honor, because the dependent
2 claims -- the 734 independent claims 1, 4, 11 and 26. And
3 the 440 patent, Claims 1, 11, 12 and 36 are missing
4 "financially distinct;" missing "remote location" as well.
5 Those missing both "financially distinct" and "remote
6 location" are 440 patent Claims 1 and 11, the new one.

7 So, we still have to deal with this. And the
8 question that is, I think, clear from the prosecution history
9 is that these concepts of "financially distinct" and "remote
10 locations" were added and said to be a crucial part of the
11 invention during the parent 573 patent, and as the cases
12 we've cited indicate, that applies to his children, some
13 which start with the 573 patent.

14 Claim 1 in the initial application just talked
15 about a seller, a hard disk of a seller electronically
16 transferred via telephone lines. We've seen this before.
17 From the hard disk of the seller to the hard disk of the
18 user, no limits on the seller or user. You could have an
19 agent of either one of these. Under their definition, it
20 would not be excluded. These claims were cancelled and
21 replaced with, transferring money to a party controlling use
22 of the first memory to a party controlling use of the second
23 memory. You're still broadly claiming parties. These claims
24 were clearly rejected.

25 Subsequently, in November, 1989, office action

1 Tab 11, as clearly anticipated by the Lightner patent, which
2 has now been added to the record. So, the amendment in
3 response, which is Tab 12, February of 1990, amended the
4 Claim 11 to specify that this refers to second parties and to
5 specific, a second party financially distinct from the first
6 party.

7 In an amendment of August, 1990, Tab 16, the
8 applicant stated that his invention is a method for
9 transmitting a desired digital video or audio signal, and the
10 method comprises the steps of charging a fee by a first party
11 controlling use of a first memory to a second party
12 financially distinct from the first party. That is the
13 inventor.

14 So, the application found -- well, that wasn't good
15 enough. All these claims were rejected as unpatentable under
16 the Hughes patent, which is also now of record, as obvious.
17 So, the applicant got something. The applicant managed to
18 get rid of the anticipated rejection, but we're still left
19 with the concern that the applicant hadn't done enough to get
20 a patent. It was still obvious over Hughes, and that's in
21 the office action of September, 1991, Tab 30. And the
22 amendment of December, 1991, Tab 34, Claim 1 was amended.
23 This "underlying" was in the original, and under usual patent
24 office practice, "underlying" means we're adding stuff. So,
25 transferring money to a first party at a location remote from

1 the second memory; the second memory being, of course, the
2 certain part.

3 . The financially distinct language was still left in
4 there. Just to emphasize it, this slide shows it in red.
5 That amount, to distinguish the applicant first, there's no
6 teaching or suggestion of Hughes, of transferring money to a
7 first party at a location remote from the second party to a
8 second party financially distinct from the first party.

9 And the applicant also said, Page 9, transferring
10 money or fee to a first party at a location remote from the
11 second memory from the third party financially distinct from
12 the first party is critical to the operation of the
13 applicant's invention; critical.

14 Now, Sightsound relies in its brief on some
15 language at the end of the paragraph which explains what I
16 just showed on my brief, Slide 25 there. That is, we have a
17 paragraph that starts with this critical language. At the
18 end of that topic sentence, if you will, they threw in some
19 language about the first party being defined as licensee,
20 franchiser, director, whoever stands in for the first party;
21 then concluding that the first party can include any agent
22 thereof.

23 That ignores the context of the beginning of the
24 paragraph that says, critical to the invention is that the
25 parties are financially distinct and remote from each other.

1 And even this does not support unlimited agency to
2 Sightsound. Contend, can any licensee be an agent? It's not
3 too uncommon these days when you buy software or other things
4 that you actually buy a license to it, instead of a formal
5 purchase.

6 The copyright owner would deal with the first party
7 seller who's the agent of the copyright owner. The second
8 party would actually take a license to software
9 electronically. It would be the same as a purchase for that
10 licensee, would be an act of the first party. Under
11 Sightsound's definition, there would be no distinct
12 difference between the parties. And given the rejections
13 under the prior art, we don't believe that's appropriate.

14 Agency concepts would also mean you would have
15 different claims. The claims would mean different things,
16 depending on different state laws as to what's an agent, and
17 the Markman decision put an end to the concept that you got a
18 claim meaning different things in different parts of the
19 country.

20 This may be a little hard to read, but it's from
21 417 US, Page 390, the Supreme Court reference to the
22 importance of uniformity in the treatment of a given patent.
23 Let me explain the background of this.

24 Before the Markman case, there was a split in the
25 Federal Circuit itself as to whether claims were interpreted

1 as a matter of law by the Courts, or something we submit to
2 the jury. If they were submitted to the jury as to the
3 factual matter, that means the jury here in Pittsburgh could
4 reach a different conclusion about the meaning of claim as a
5 jury say back in California.

6 The Supreme -- but both the Federal Circuit in it's
7 Markman ruling en banc, and the Supreme Court, which
8 unanimously affirmed the Federal Circuit, said, we don't want
9 that to happen any more. We want there to be one conclusion
10 as a matter of law. If you have juries making factual
11 findings, those reviewed under the substantial evidence
12 standard, and the Federal Circuit might have to affirm
13 different jury findings on claim language on the same patent.

14 And the Markman case says, we're doing away with
15 that as matter of law. It will be de novo review by
16 Appellate Courts. That way we ensure we get the same meaning
17 of the claims throughout the country.

18 That won't work if you have a vague term like
19 "agency" stuck into first party or second party. The
20 conclusion is, there's no disclosure in a specification of
21 the party, including any broad generic agent, and the
22 prosecution limited first party and second party to
23 financially distinct, and they are remote, and the broad
24 generic agent will be needed.

25 Just one second, Your Honor.

1 THE COURT: Surely.

2 MR. BARCLAY: Okay. Let me turn to control and
3 possession; a very related one. The distinction here is
4 actually a fairly interesting one from a legal standpoint.

5 Sightsound's contention is control is defined as
6 the authority to guide or manage. And possession is defined,
7 to have or hold as property.

8 Our contention is all the similar terms mean, and
9 I'll have a list in a minute, physical control or ownership.
10 What we have in common are concepts of ownership. That is,
11 possession includes property. We contend all the terms
12 include some sort of ownership contention. Whether you call
13 it "property" or "ownership" isn't a major concern, as long
14 as some sort of ownership or property relationship is
15 present.

16 And our dispute is whether certain terms should be
17 lumped together and all mean the same thing. And let me say
18 this, since it might make the Court's task easier, we note on
19 our term key we use the word "control" as part of the
20 definition. We didn't feel it necessary to define it
21 separately. We have no real objection, you know, in candor,
22 to the way Sightsound shows, defined the word "control"
23 standing alone. We do, obviously, very much disagree that it
24 can explain alone, and it has no elements of possession or
25 ownership in it. And that's our dispute here.

1 The issues for the Court are basically a major one
2 and a slightly less major one. And it's a legal standard
3 issue, because we can read the claim terms.

4 Should we use plain English in view of the
5 specification of the prosecution history and avoid a
6 nonsensical interpretation, which is imposed for a reason
7 I'll get to in a minute, or strictly construe unambiguous
8 claim language?

9 The second issue, does the possession aspect -- I
10 agree, there's some sort of possession or owner aspects.
11 Does that include elements of physical ownership, as opposed
12 to just ownership generically? The first issue is the
13 following.

14 Should all the following terms be construed the
15 same. And again, what we have here, 30 or 40 claims being
16 asserted, many different variants of what I think ought to be
17 the same language, controlling use and in possession and
18 control, and possession, and in possession and control,
19 controlling and controlling use.

20 I suspect there is no dispute among the parties
21 that the first four of these on these slides should all be
22 construed the same, and the dispute is, should the last two
23 also be construed the same as the first four. That is,
24 should all six be construed to be the same.

25 And our question, or our suggestion to the Court

1 here is, we are happy if the Court picks a legal standard to
2 apply and apply it consistently. Either way, we're happy.
3 Just pick one and apply it in both cases.

4 We don't really care which one. And it's fairly
5 obvious why that is.

6 So, we could use plain English as indicated in
7 Sightsound's reply brief at Page 11. Changes are written in
8 English and variations of verb usage should not result in the
9 nonsensical interpretation tendered by defendants.

10 Or, strictly construe the unambiguous claim
11 language per the Process Control versus Hydro Claim case,
12 which is at 190 F.3rd, 1350. And on this issue, Your Honor,
13 there's one case to read. This is the one case to read on
14 this issue. Very interesting case. And I have here on the
15 slide 6 a couple of quotes from the Hydro Claim case, and
16 without going into the facts of the case in great, gory
17 detail, which we don't need to do, the claim, as written, if
18 you unambiguously applied the language, just wouldn't work;
19 didn't make any sense.

20 And the District Court said, oh, that can't be
21 right. I agree with the patent's owner. We are not going to
22 do that. We're going to use some sort of plain English rules
23 and figure out what's really meant here, so the claim makes
24 sense. Basically we are rewriting the claim, to a certain
25 extent, and that was reversed on, appeal and the Federal

1 Circuit said, look, the claims here are unambiguous. And if
2 the claims are susceptible to only one reasonable
3 interpretation and that results in a nonsensical
4 construction, that is the same word used side -- used by
5 Mr. Fibro. The claim must be invalidated. Now, in this
6 case, ironically, I don't know you need to invalidate the
7 claim; although, what will happen to it will be readily
8 apparent, I suppose, and this prevents unduly burdening
9 competitors who must determine the scope of the
10 interpretation based on the patent.

11 In my opening I pointed out certain slides and
12 said, we are talking about a notice function here, patent,
13 and this is where it goes to. So, the first issue for the
14 Court is should all five variants of the control and
15 possession claim terms be construed the same? So we can just
16 look at the claim language as worded and examine the
17 specification and prosecution history.

18 So, let's take Claim 1 of 573 patent as an example.
19 And what we see is a continual pattern throughout the
20 prosecution and they construe all the claim language of
21 massive, what you might call interchangeability of all of
22 these terms. They were all used, and we list -- I listed six
23 on that initial slide. They were all used in various forms
24 or another. They can't possibly mean anything different, we
25 would think, but sometimes one phrase was used, sometimes

1 another was used.

2 So, in the Claim 1 of the 573 patent we start out
3 with "controlling use." We have "controlling use," and "in
4 possession." We got "in control and possession," and we have
5 "in possession and control." Four different examples in just
6 the very first claim we have to deal with.

7 So, looking at what is controlling and in
8 possession of what, we have, again, the very same claim; a
9 first party, the second party, a transmitter and receiver.
10 And each of those things are in some sort of control or
11 possession of a first memory, a second memory, a first party
12 or a second party.

13 We have in our Appendix B to our opening brief a
14 compendium of all of the various permutations in 39 of these
15 claims. We didn't do Claim 11 of the 440 patent, of course,
16 because we didn't know it was going to be an issue when we
17 filed that. But you could go through this exercise and add
18 that one in here. I don't think it affects these terms.

19 But you have all of these various things before the
20 phrase that the thing that is in control and possession of
21 something else. The first party, the second party, a first
22 memory, first control unit, second memory, second control
23 unit, and my personal favorite, a video display and speakers.

24 I don't know why the claims were drafted this way,
25 Your Honor, since we have 40 of them. That's seemed to be

1 the exercise. The thing after the phrase, the thing that is
2 being controlled and is possessed by somebody else can be
3 first memory by the first party, second memory by the second
4 party. But you can also have the first party in control of
5 the first party, first control unit in control and possession
6 of the first party. The second memory in control and
7 possession of the second party. The second control unit in
8 control and possession of the second party, and in video
9 display and speakers, in control and possession of the second
10 party.

11 It's our contention that these terms are used
12 inconsistently and randomly to mean the exact same thing;
13 physical control and ownership. The inventor used these
14 interchangeably throughout the prosecution history of these
15 three patents and this claim, in the claim definitions. And
16 it doesn't matter if it's some variance of the term, only use
17 "controlling" or "controlling use," without the use of the
18 additional word "possession," which is the real issue here.
19 Control and possession, as it's phrased, that does not appear
20 in the original specification filed in June of 1988, like
21 control unit, control panel and control integrated circuit
22 were there.

23 They were added by the amendment of June 25th,
24 1992. Tab 38, and they now appear in the patent and the
25 abstract. And those are the places that are yellow

1 highlighted in that demonstrative.

2 During the prosecution the claims were added to
3 show physical control and ownership by adding the phrase "in
4 control and possession." And the example, the 573 file
5 history, Tab 16, an August, 1990 amendment.

6 In an office action in February of 1992, Tab 35,
7 the examiner rejected the claims because she felt that the
8 phrase said receiver in possession; did not have a basis in
9 the original specification. Back to the fact that certain of
10 these terms had no basis without more than the original
11 specification. So, Mr. Hair's responsive declaration,
12 Tab 37, is that the second party must have a receiver in his
13 possession.

14 So, we only had in the original specification the
15 word "control" and not "controlling." Now, not someone
16 controlling a party controlling something it had. Possession
17 was added later. You could infer control and possession from
18 the original specification only because there's a phrase, and
19 distinct seller or first party or buyer and second party.
20 And because of the random and inconsistent use of these
21 terms, and the lack of support in the original speck, means
22 that the terms are interchangeable, and that can mean the
23 same thing.

24 Now, Sightsound makes two different arguments on
25 this, and this is where we have the legal problem. They say

1 on the reply brief, don't read "possession" into terms that
2 don't include it, like "controlling" or "controlling use."
3 That's -- the words aren't there, and I don't even contend
4 they are in, in the appropriate examples we put in our
5 Appendix B.

6 On the other hand, don't read equally unambiguous
7 claim language to mean what it says, even if it says a thing
8 is in possession of a party, because that would be, quote,
9 nonsensical. Encode the word used by the Hydro Claim case.
10 I've given two examples from our Appendix B. Again, my
11 personal favorite's the Claim 14 of the 734 patent. A video
12 display and speakers in possession and control of the second
13 party. The specks are in possession and control of an entity
14 that is unambiguous. Once 1, 4, 11 of the 734 patent, Claims
15 12 and 36 say the second memory is in possession and control
16 of the second party.

17 All we ask is the Court to do one of the following,
18 either one. Construe all of the variants the same, even if
19 the word possession doesn't appear in all of them. It's
20 common sense. It's what they must have meant.

21 Or, if you're going to strictly construe the claim
22 language, which is unambiguous and susceptible to only one
23 meaning, fine, do it. Sightsound asserts and continues to
24 include possession where it doesn't appear, but also
25 construes the claims exactly as written, even if it means a

1 thing such as memories, or speakers control and possess a
2 party, such as a person or entity. This does not necessarily
3 render the claim invalid, as was the case in Hydro Claim.
4 They had two inconsistent steps, and this couldn't work at
5 all. You could imagine where something like this maybe
6 happened. But needless to say, I'll be candid, we would not
7 infringe a claim written this way.

8 The second issue of somewhat lesser importance is
9 whether possession requires physical possession.

10 And as I said, we're in agreement, possession
11 includes some form of ownership, indicia of property. We
12 contend, Sightsound disagrees that possession includes
13 physical ownership.

14 The overview of the prosecution history. The
15 claims repeatedly rejected over prior art dioch (phonetic) as
16 it's called, or vending machine by dioch (phonetic). I mean,
17 you can envision, say in a record store, I think some of
18 them, you go to a store, there's a machine there. You put
19 your money in, or credit card in and it will record onto a
20 tape for you, or cut you a CD, or something of a particular
21 song that you want. It maybe comes from a central data base.
22 You're transferring in that case audio signals from a central
23 data base over phone lines to the store, for money.

24 So, digital music was sold through the vending
25 machine. It was remote from the copyright owner, and it was

1 operated by the buyer or user to purchase a tape. The
2 applicant distinguished his invention, because the buyer or
3 second party physically possessed his computer, unlike the
4 dioch (phonetic) in the store. There is basis for rejection
5 of all three of the patents.

6 An example. 734 file history, Tab 12, amendment of
7 December, '93, Page 39. Lightner discloses a vending system
8 where the first memory is of the first party and the second
9 memory is of the first party, while the transferring of the
10 desired audio signals from the first memory to the second
11 memory occurs.

12 In plainer English, the first party owns both its
13 memory and the dioch's (phonetic) vending machine memory.
14 That also occurred in the 440 patent file history.

15 In an amendment in December of '93, the applicant
16 indicated his invention, his invention did not provide
17 teaching of the second part of having possession or control
18 of a second memory at any time before the transfer of the
19 desired audio, because the vending machines were placed in
20 retail stores selected by the first party.

21 The applicant argued that the second memory is
22 always accessible to the second party. The applicant argued,
23 since the second party possesses and controls the receiver,
24 the second party can place it where he or she wants. So, you
25 can't place it where he or she wants if you don't have

1 visible possession or ownership of it. Simple as that.

2 In Sightsound's opening brief, Page 17, they cite
3 to Tab 34 of the 573 prosecution history that deals with
4 Hughes, not Lightner. It does not contain the above language
5 to distinguish Lightner, and at best, it's ambiguous.

6 In conclusion, the applicant clearly used the term
7 control and possession to underscore the manner in which
8 physical control and ownership differed from that of the
9 prior art. And the second party, as I mentioned, can't place
10 an object anywhere he or she wants if he or she does not have
11 physical possession of the item.

12 And that concludes my presentation on this term.
13 Thank you.

14 THE COURT: Thank you, sir.

15 THE COURT: Mr. Mudge.

16 MR. MUDGE: Your Honor, do you want to hear
17 rebuttal now, at this time, or was it your anticipation that
18 we wait 'til the end of all the presentation.

19 I'm prepared to offer my rebuttal on the Group I
20 claims now, if that's your preference.

21 THE COURT: How long are you going to be with that,
22 do you reckon?

23 MR. MUDGE: My guess is ten minutes or so.

24 THE COURT: All right. Let's take it now.

25 Everybody can take notes when all the points are fresh in our

1 minds.

2 MR. MUDGE: Thank you. I'm just going to try to
3 hit some highlights; I'm not going to hit, obviously, all the
4 points we might take issue with.

5 THE COURT: I mean, it's no surprise to me that you
6 take issue. It's no surprise to me that the experts varied
7 about things. You know, that's what Dr. Tygar wanted to do.
8 I mean, he wanted to be the last guy to answer about things
9 that, quite naturally, there are disputes abouts, and you
10 know, so I understand that.

11 MR. MUDGE: Okay. Electronic sales. They talked
12 about authorization being supported. We still don't see
13 where the word "authorization" is. I'm not sure where it
14 came from. So, that's the point I want to make.

15 Telephoning. I think their statement of our
16 position was that we says it has to be machine to machine.
17 That's, that is not what we're saying. What we're saying, it
18 can be machine to machine; can be machine to person; can be
19 person to person. Their contention is it can only be person
20 to person, and that's what we are saying is not supported.

21 Let's get to digital audio signals. I want to
22 point out, they have an issue with sound wave, but even
23 Dr. Moorer says it's an appropriate way to refer to an audio
24 signal that's converted. He says he preferred sound pressure
25 wave, but that sound wave was also an appropriate way to

1 refer.

2 So, the audio signal. They refer to the digital
3 audio formats, the things that Dr. Moorer talked about
4 yesterday, and say that the formats include data which are
5 instructions. Like Dr. Moorer said yesterday, instructions
6 to decode the signals. As we pointed out on cross of
7 Dr. Moorer, he calls them instructions, but his references
8 did not.

9 With respect to the Ogaki reference, they invite
10 Your Honor to speculate about the examiner's rejection. I
11 think the language of the Ogaki reference is pretty clear in
12 the patent history.

13 As a general matter, in several instances Your
14 Honor has heard them refer to infringement, as we briefed
15 Your Honor, really considering infringement and questions of
16 infringement as premature, it's not appropriate at this time.
17 There will be a time when Your Honor will have an opportunity
18 to, either in summary judgment, or perhaps in a trial where
19 these issues will be addressed, and they are appropriately
20 referred to be addressed at those times.

21 Now, with respect to telecommunications lines, a
22 couple of comments. Defendants contend that the dictionary
23 and the other references which provide that TCP, ICP and an
24 end connection, they tell you it's only a feel-good
25 connection; that's only telling you that so you'll feel

1 better. Your Honor, those definitions are in the
2 dictionaries that are addressed not to consumers, but to
3 professionals in the field, and they don't say, it's a
4 feel-good connection. They say, it's a connection. If you
5 don't have a connection, you don't get your data. You have
6 to have a connection established to get the data. The fact
7 one may have to wait when they are using the Internet doesn't
8 mean you don't ultimately get a connection to get the data
9 transferred.

10 I'm sure Your Honor understands that when you're
11 using the telephone, you don't always get a connection right
12 away either. Sometimes you get a busy signal; sometimes you
13 don't get an answer. Sometimes the network is busy. And if
14 you're like me, you can't transfer a call. When you're using
15 a conference phone, sometimes your connection gets
16 interrupted and disconnected.

17 They referred to the Purdue Pharma case. That was
18 an invalidity case, Your Honor, in a chemical matter. As
19 we've said before, questions of invalidity really are not
20 pertinent for this particular hearing and what Your Honor is
21 being asked to look at. Those issues can be addressed at a
22 later time.

23 They refer to the Festo's decision, and they said,
24 if you have an amendment, that can create prosecution history
25 estoppel. If it's amended in connection with anything coming

1 to patentability, the question here is not whether it's just
2 an amendment, but whether it's a narrowing amendment. That's
3 the key. That's what they didn't tell you about Festo. It
4 has to be a narrowing amendment.

5 Now, let's look at the argument they made about
6 "link" versus a "line" in the prosecution history. The
7 argument is internally inconsistent. They refer to several
8 instances where links were referred to in the prosecution --
9 excuse me, in some of the prior art references. Links such
10 as telephone lines, microwaves, satellite. These are things
11 that Your Honor heard yesterday in terms of the background
12 testimony. These are things that are included in the
13 telephone networks which were in 1988.

14 When you talk about telecommunications lines, these
15 are things that are clearly contained within the meaning of
16 telecommunications lines, or contained within the meaning of
17 telephone lines. That's what Your Honor heard yesterday.

18 Their argument would, is internally inconsistent,
19 because on the one hand they said when the amendment was made
20 from "link" to "line," you gave up everything that was a
21 "link," but on the other hand, as the prior art shows, and
22 even as they discussed, one of the links is telephone lines.
23 If you follow their reasoning, you would have to take out
24 telephone lines from the claims, and that just doesn't make
25 sense.

1 One second, Your Honor.

2 THE COURT: Sure.

3 MR. MUDGE: Finally, a lot of what they have told
4 you over the last several days, they tell you that if you use
5 the Internet, you spend a lot of time waiting for download,
6 waiting for connections. And they tell Your Honor that, you
7 heard this from Dr. Moorer in their argument, that is, the
8 memories were different size in 1988 than today.

9 Your Honor, they would have you believe that the
10 Wright brothers didn't invent flying because the original
11 plane only flew a few hundred feet.

12 That's not what this case is about. We
13 respectfully submit that our contentions are the ones that
14 are consistent with the specification, consistent with the
15 clear claim language, consistent with prosecution history,
16 consistent with all the intrinsic evidence.

17 Thank you, Your Honor.

18 THE COURT: Okay. Thank you, Mr. Mudge.

19 Let's close the record for a minute.

20 (Court recessed at 3:45 o'clock p.m.)

21 * * * * *

22 (Court reconvened at 3:53 o'clock p.m.)

23 THE COURT: Good afternoon.

24 In light of the fact that all counsel agreed, and
25 it seemed clear to me it was going to be necessary for us to

1 reconvene at some point at a later date to complete this
2 matter, and in light of the time of day, I asked counsel if
3 they thought we could complete the presentation on the second
4 grown of plaintiffs' claims now. I'd rather not, frankly.
5 It's unfair to the plaintiff; have you make your
6 presentation, and then we recess for ten days, or two weeks,
7 or whatever the period is you guys are thinking about, and
8 then they come up and respond. They have the ten days or two
9 weeks there.

10 What I thought we ought to do is plaintiff and
11 defense in one time; quit for the day.

12 MR. MUDGE: Well, that's my view, Your Honor. I
13 cannot complete my presentation by the close of business
14 today. And I would certainly concur with your suggestion
15 that we continue another day that's convenient with the
16 parties.

17 THE COURT: Okay.

18 Mr. Kraeutler.

19 MR. KRAEUTLER: I think we are in agreement, Your
20 Honor.

21 THE COURT: Okay.

22 (Whereupon, discussion was held off the record.)

23 THE COURT: Mr. Wells, you guys want to confer
24 among yourselves and come up with a suggestion as to when we
25 ought to meet again?

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MR. KRAEUTLER: That might be most efficient.

THE COURT: I'm here all the time.

(Whereupon, court adjourned.)

* * * * *

I certify that the foregoing is a correct transcript
from the record of proceedings in the above-entitled matter.


Virginia S. Pease
Official Reporter