

**IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
MARSHALL DIVISION**

SOURCE, INC.)	
)	
)	
Plaintiff,)	
)	
v.)	CIVIL ACTION NO. 2-04-CV-347
)	
REWARDS NETWORK INC.,)	
)	Judge: T. John Ward
)	
Defendant.)	

REWARDS NETWORK INC., and)	
RTR FUNDING LLC)	
)	
Counter-Claim Plaintiffs,)	
)	
v.)	CIVIL ACTION NO. 2-04-CV-347
)	
SOURCE, INC.)	
)	Judge: T. John Ward
)	
Counter-Claim Defendant.)	
)	

AMENDED ANSWER, AFFIRMATIVE DEFENSES AND COUNTERCLAIMS

Defendant Rewards Network Inc. (“Rewards”), by and through its attorneys, respectfully submits this Amended Answer, Affirmative Defenses and Counterclaims to the Complaint filed by Source, Inc. (“Source”).

I. PARTIES

1 Source is a Delaware corporation with its principal place of business in Newhall, California.

Answer: Rewards lacks sufficient knowledge to form a belief as to the truth of the allegations in paragraph 1 and therefore denies the same.

- 2 On information and belief, Defendant Rewards Network Inc. ("Defendant" or "Rewards Network") is a corporation having a principal place of business at 2 North Riverside Plaza, Suite 950, Chicago, Illinois 60606. On information and belief, Rewards Network's agent to receive service of process is the Office of General Counsel, at the aforementioned address.

Answer: Rewards admits the allegations in paragraph 2.

II. BACKGROUND

- 3 This Court has federal question jurisdiction over this case pursuant to 28 U.S.C. §§ 1331, 1332, and 1338(a)

Answer: Rewards states that the allegations in paragraph 3 of subject matter jurisdiction are conclusions of law to which no response is required, and they are, in any event, denied.

- 4 Venue is proper in this judicial district pursuant to 28 U.S.C. § 1391(c) and §1400(b) because acts constituting infringement have occurred in this judicial district.

Answer: Rewards admits that venue is proper in this judicial district and denies the remaining allegations in paragraph 4. Rewards further states that this judicial district is not the most convenient district.

III. JURISDICTION

- 5 On July 10, 1990, United States Patent No. 4,941,090 (the '090 patent) entitled "Centralized Consumer Cash Value Accumulation System For Multiple Merchants" was duly and legally issued to Patrick D. McCarthy and which is now legally owned by Source. Source has the right to bring all actions for infringement of the '090 patent and recover all damages for infringement of this patent.

Answer: Rewards admits that on July 10, 1990, United States Patent No. 4,941,090, entitled "Centralized Consumer Cash Value Accumulation System For Multiple Merchants," was issued to Patrick D. McCarthy. Rewards lacks sufficient knowledge to form a belief as to the truth of the remaining allegations in paragraph 5 and therefore denies the same.

6 On May 26, 1992, United States Patent No. 5,117,355 (the '355 patent) entitled "Centralized Consumer Cash Value Accumulation System for Multiple Merchants" was duly and legally issued to McCarthy and which is now legally owned by Source. Source has the right to bring all actions for infringement of the '355 patent and recover all damages for infringement of this patent.

Answer: Rewards admits that on May 26, 1992, United States Patent No.

5,117,355, entitled "Centralized Consumer Cash Value Accumulation System For Multiple Merchants," was issued to McCarthy. Rewards lacks sufficient knowledge to form a belief as to the truth of the remaining allegations in paragraph 6 and therefore denies the same.

7 On April 13, 1993, United States Patent No. 5,202,826 (the '826 patent) entitled "Centralized Consumer Cash Value Accumulation System For Multiple Merchants" was duly and legally issued to McCarthy and which is now legally owned by Source. Source has the right to bring all actions for infringement of the '826 patent and recover all damages for infringement of this patent.

Answer: Rewards admits that on April 13, 1993, United States Patent No.

5,202,826, entitled "Centralized Consumer Cash Value Accumulation System For Multiple Merchants," was issued to McCarthy. Rewards lacks sufficient knowledge to form a belief as to the truth of the remaining allegations in paragraph 7 and therefore denies the same.

8 On February 23, 1999, United States Patent No. Re 36,116 (the '116 patent) entitled "Centralized Consumer Cash Value Accumulation System For Multiple Merchants" was duly and legally issued to McCarthy and which is now legally owned by Source. Source has the right to bring all actions for infringement of the '116 patent and recover all damages for infringement of this patent.

Answer: Rewards admits that on February 23, 1999, United States Patent No. Re

36,116, entitled "Centralized Consumer Cash Value Accumulation System For Multiple Merchants," was issued to McCarthy. Rewards lacks sufficient knowledge to form a belief as to the truth of the remaining allegations in paragraph 8 and therefore denies the same.

9 On information and belief, Rewards Network, by the conduct of its promotion, solicitation and offering to consumers the ability to become a member of Rewards Network's rewards and rebate and loyalty program, by its sales network including

through their website, <http://www.rewardsnetwork.com>, is utilizing and practicing the claimed inventions in the '090, '355, '826, and '116 patents.

Answer: Rewards denies the allegations in paragraph 9.

IV. DEFENDANT'S INFRINGEMENT

10 Source incorporates by reference, paragraphs 1-10 [sic] herein.

Answer: Rewards incorporates by reference, the answers to paragraphs 1-9

11 On information and belief, Rewards Network is currently infringing, contributorily infringing, and/or actively inducing the infringement of the '090, '355, '826, and '116 patents by making, using or selling, offering for sale and/or selling within this judicial district and elsewhere in the United States, without license or authority from Source, hardware, processes and methods that practice the inventions claimed in the '090, '355, '826, and '116 patents.

Answer: Rewards denies the allegations in paragraph 11.

12 On information and belief, Rewards Network's misappropriation of Plaintiff's inventions through infringement of the '090, '355, '826, and '116 patents has been willful and deliberate. It is also Source's belief that Rewards Network will continue its infringing activities and will continue this unlawful conduct unless restrained by this Court.

Answer: Rewards denies the allegations in paragraph 12.

13 On information and belief, Rewards Network's appropriation of the inventions through infringement of the '090, '355, '826, and '116 patents has allowed Rewards Network First to obtain substantial market share in the customer loyalty, rebate and rewards and member services market and to reap tremendous profits. Rewards Network's infringement has caused and will continue to cause irreparable harm to Source.

Answer: Rewards denies the allegations in paragraph 13.

14 As a result of this unlawful behavior, Source has been damaged and will continue to be damaged by Rewards Network's infringement of the '090, '355, '826, and '116 patents.

Answer: Rewards denies the allegations in paragraph 14.

AFFIRMATIVE DEFENSES

First Affirmative Defense

1. Rewards does not infringe any valid and enforceable claim of the '090, '355, '826, and '116 patents.

Second Affirmative Defense

2. The '090 patent and all the claims therein are invalid under 35 U.S.C. §§ 102, 103 and/or 112.

Third Affirmative Defense

3. The '355 patent and all the claims therein are invalid under 35 U.S.C. §§ 102, 103 and/or 112.

Fourth Affirmative Defense

4. The '826 patent and all the claims therein are invalid under 35 U.S.C. §§ 102, 103 and/or 112.

Fifth Affirmative Defense

5. The '116 patent and all the claims therein are invalid under 35 U.S.C. §§ 102, 103 and/or 112.

Sixth Affirmative Defense

6. The Complaint fails to assert a claim for which relief may be granted.

Seventh Affirmative Defense

7. The '090, '355, 826 and '116 patents are unenforceable due to inequitable conduct before the United States Patent and Trademark Office ("USPTO"). The inventor, Patrick D. McCarthy, failed to disclose material prior art that he was aware of during the prosecution of the '090, '355, 826 and '116 patents, including, but not limited to, the Discover

Card. The Discover Card was acknowledged as a relevant prior art program in the inventor's notes prior to the filing date of any of the asserted patents. The Discover Card is also material prior art because it establishes, by itself or in combination with other information, a *prima facie* case of unpatentability of the claims of the '090, '355, 826 and '116 patents and because it refutes or is inconsistent with arguments relating to patentability asserted by the inventor to the USPTO. On information and belief, the inventor's failure to disclose material prior art was with an intent to deceive the USPTO.

Eighth Affirmative Defense

8. Rewards is not liable for infringement under 35 U.S.C. § 273(b)(1) because Rewards, through its predecessor-in-interest Transmedia Network Inc., actually reduced the subject matter of the methods asserted against it to practice at least one year before the earliest effective filing date of the '090, '355, 826 and '116 patents, and Transmedia Network Inc. and its successor-in-interest Rewards continuously commercially used the subject matter from before the effective filing date of such patent through the present.

Reservation For Additional Affirmative Defenses

9. Rewards hereby reserves the right to assert additional affirmative defenses if such affirmative defenses are discovered during the course of this litigation.

COUNTERCLAIMS

1. Rewards Network Inc. is a corporation having a principal place of business at 2 North Riverside Plaza, Suite 950, Chicago, Illinois 60606.

2. RTR Funding LLC is a Delaware corporation and is a wholly owned subsidiary of Rewards Network Inc. (Rewards Network Inc. and RTR Funding LLC are collectively referred to as "Rewards").

3. On information and belief, Source, Inc. ("Source") is a Delaware corporation with its principal place of business in Newhall, California.

4. On or about October 1, 2004, Source filed a complaint against Rewards Network, Inc. in which Source has alleged that Rewards Network, Inc. infringes, contributorily infringes, and/or actively induces the infringement of U.S. Patent Nos. 4,941,090; 5,117,355; 5,202,826 and Re 36,116 by making, using or selling, offering for sale and/or selling hardware, processes and methods that practice the inventions of said patents. Rewards Network, Inc. has denied infringement and has asserted that the claims of the '090, '355, '826 and '116 patents are invalid and unenforceable. Consequently there is now an actual controversy between Source and Rewards Network, Inc..

5. Further, Rewards now seeks injunctive relief and damages based upon Source's trademark infringement pursuant to Section 32 of the Lanham Act, 15 U.S.C. § 1114; Source's false representation, designation of origin, and unfair competition pursuant to Section 43 of the Lanham Act, 15 U.S.C. § 1125(a); Source's common law trademark infringement; Source's unfair competition pursuant to Texas common law; and Source's deceptive trade practices pursuant to the Texas Deceptive Trade Practices and Consumer Protection Act, V.T.C.A., Bus. &

C. § 17.46. Among other things, Rewards seeks permanent injunctive relief prohibiting Source from using the term “Score Rewards Network,” or any other term confusingly similar to Reward’s federally-registered “Rewards Network” mark (“Rewards Network Mark”), in Source’s advertising for loyalty or affinity programs, products and/or services. Rewards also seeks damages for Source’s past and continuing intentional infringement of the Rewards Network Mark.

6. RTR Funding LLC is the owner of Federal Registration No. 2,953,877 for the mark “Rewards Network,” registered on May 17, 2005. This registration is in full force and effect. (A true and correct copy of the Certificate of Registration is attached hereto as Exhibit 1.) RTR Funding LLC licenses the Rewards Network Mark to Rewards for use with its services and products.

7. Pursuant to 15 U.S.C. § 1057(b), the Certificate of Registration is prima facie evidence of the validity of the Rewards Network Mark, of the registration of the Rewards Network Mark, of RTR Funding LLC’s ownership of the Rewards Network Mark, and of RTR Funding LLC’s exclusive right to use the registered mark in commerce on or in connection with the goods or services specified in the Certificates.

8. As a result of Rewards’ extensive advertising of, promotion of and commercial success with the Rewards Network Mark, the Rewards Network Mark has acquired a high degree of recognition; and the Rewards Network Mark is now acknowledged by consumers and the trade as a source-identifier for Rewards Network, Inc.’s products and services. Rewards Network, Inc. is one of the largest providers of loyalty programs and services in the United

States. The Rewards Network Mark embodies tremendous goodwill, and that mark is one of Reward's most valuable assets.

9. Source is using the phrase "Score Rewards Network" to promote its programs and services without permission or a license from Rewards. Indeed, the phrase "Score Rewards Network" is prominently displayed on, at least, Source's websites www.sourceinc.tv, www.srnint.com, and www.scoremall.com.

10. Source's use of the term "Score Rewards Network" is likely to cause consumer confusion with the Rewards Network Mark. Consumer confusion between "Score Rewards Network" and the federally-registered Rewards Network Mark is particularly likely given that the overall impression of the marks is similar, that the "Score Rewards Network" phrase uses the Rewards Network mark verbatim, and that the "Score Rewards Network" phrase is being used in the same channels of trade as the Rewards Network Mark.

Jurisdiction and Venue

11. This Court has jurisdiction over these Counterclaims related to the '090, '355, '826 and '116 patents pursuant to 28 U.S.C. §§ 1331, 1338, 2201 and 2202. Further, this Court has jurisdiction over these counterclaims related to Source's improper use of the phrase "Score Rewards Network" pursuant to 15 U.S.C. § 1121 and 28 U.S.C. §§ 1331 and 1338.

12. This Court has supplemental jurisdiction over these Counterclaims arising under the statutory and common law of the State of Texas pursuant to 28 U.S.C. § 1367(a), because these Counterclaims are so related to the federal claims that they form part of the same case or controversy and derive from a common nucleus of operative facts.

13. To the extent that venue is deemed proper with regard to Source's claims against Rewards, venue is similarly proper with regard to these Counterclaims.

Counterclaim Count I – Declaration on Non-Infringement

14. Rewards repeats and reiterates paragraphs 1 through 12 above, as if set forth verbatim herein.

15. Rewards has not made, used, sold, offered for sale, or imported (and is not now making, using, selling, offering for sale, or importing) any device, apparatus, or method that incorporates, either literally or under the doctrine of equivalents, all of the limitations of any of the claims of the '090, '355, 826 and '116 patents and, consequently, does not infringe such claims.

16. Rewards has not engaged in, and is not engaging in, any activity that could be considered an inducement to infringe or contributory infringement of any of the claims of the '090, '355, 826 and '116 patents.

Counterclaim Count II – Declaration of Patent Invalidity

17. Rewards repeats and reiterates paragraphs 1 through 15 above, as if set forth verbatim herein.

18. Each of the claims of the '090, '355, 826 and '116 patents is invalid under 35 U.S.C. § 102 and/or § 103.

19. The '090, '355, 826 and '116 patents fail to adhere to the requirements of 35 U.S.C. § 112, first and second paragraphs. Consequently all claims of the '090, '355, 826 and '116 patents are invalid.

Counterclaim Count III – Declaration of Patent Unenforceability

20. Rewards repeats and reiterates paragraphs 1 through 18 above, as if set forth verbatim herein.

21. The '090, '355, 826 and '116 patents are unenforceable as a result of the inventor's inequitable conduct during the prosecution of the applications that led to the '090, '355, 826 and '116 patents. In particular, the inventor, Patrick D. McCarthy, failed to disclose material prior art that he was aware of during the prosecution of the '090, '355, 826 and '116 patents, including, but not limited to, the Discover Card. The Discover Card was acknowledged as a relevant prior art program in the inventor's notes prior to the filing date of any of the asserted patents. The Discover Card is also material prior art because it establishes, by itself or in combination with other information, a *prima facie* case of unpatentability of the claims of the '090, '355, 826 and '116 patents and because it refutes or is inconsistent with arguments relating to patentability asserted by the inventor to the USPTO. On information and belief, the inventor's failure to disclose material prior art was with an intent to deceive the USPTO.

Counterclaim Count IV – Trademark Infringement Under 15 U.S.C. § 1114

22. Rewards repeats and reiterates paragraphs 1 through 20 above, as if set forth verbatim herein.

23. Source's unauthorized use of the phrase "Score Rewards Network" in connection with Source's goods and services is likely to cause consumer confusion, to cause consumer mistake, and/or to deceive the public into believing that Source's goods and services are authorized by or are affiliated with Rewards.

24. The above-described acts of Source constitute trademark infringement in violation of 15 U.S.C. § 1114(1), entitling Rewards to relief.

25. Source has unfairly profited from the actions alleged herein; and Source will continue to unfairly profit and become unjustly enriched unless and until such conduct is enjoined.

26. By reason of Source's acts alleged herein, Rewards has suffered and will continue to suffer damage to its goodwill and has and will continue to suffer irreparable harm unless and until Source's conduct is enjoined.

27. By reason of Source's willful acts conducted in conscious disregard for Rewards' rights, Rewards is entitled to treble damages under 15 U.S.C. § 1117(a).

28. This is an exceptional case making Rewards eligible for an award of attorney's fees under 15 U.S.C. § 1117(a).

Counterclaim Count V – False Designation of Origin Under 15 U.S.C. § 1125(a)

29. Rewards repeats and reiterates paragraphs 1 through 27 above, as if set forth verbatim herein.

30. Source's unauthorized use of the phrase "Score Rewards Network" in connection with Source's goods and services is likely to cause consumer confusion, to cause consumer mistake, and/or to deceive the public into believing that Source's goods and services are authorized by or are affiliated with Rewards.

31. The above-described acts of Source constitute a false designation of origin, sponsorship or approval in violation of 15 U.S.C. § 1125(a), entitling Rewards to relief.

32. Source has unfairly profited from the actions alleged herein; and Source will continue to unfairly profit and become unjustly enriched unless and until such conduct is enjoined.

33. By reason of Source's acts alleged herein, Rewards has suffered and will continue to suffer damage to its goodwill and has and will continue to suffer irreparable harm unless and until Source's conduct is enjoined.

34. By reason of Source's willful acts conducted in conscious disregard for Rewards' rights, Rewards is entitled to treble damages under 15 U.S.C. § 1117(a).

35. This is an exceptional case making Rewards eligible for an award of attorney's fees under 15 U.S.C. § 1117(a).

Counterclaim Count VI – Violation of Texas Common Law Unfair Competition

36. Rewards repeats and reiterates paragraphs 1 through 34 above, as if set forth verbatim herein.

37. The acts and conduct of Source alleged herein constitute intentional and willful unfair competition under Texas common law.

38. As a direct and proximate result of Source's acts described above, Rewards has been injured and has incurred damages to which it is entitled to relief.

**Counterclaim Count VII – Violation of the Texas
Deceptive Trade Practices and Consumer Protection Act**

39. Rewards repeats and reiterates paragraphs 1 through 37 above, as if set forth verbatim herein.

40. The acts alleged above – including Source's infringement of Rewards' trademark with the intent to deceive and to defraud the public into believing that Source is established by, approved by, sponsored by or affiliated with Rewards – constitute unfair and deceptive acts or practices in the conduct of trade or commerce in violation of the Texas Deceptive Trade Practices Act.

41. As a direct and proximate result of Source's unfair trade practices, Rewards has been injured and damaged, and is entitled to recover treble damages, costs, and attorney's fees.

WHEREFORE: Rewards prays for judgment:

- a) Dismissing Source's Complaint with prejudice;
- b) Holding that Rewards has not infringed any valid and enforceable claim of U.S. Patents '090, '355, '826, and '116;
- c) Holding that U.S. Patents '090, '355, '826, and '116 are invalid;
- d) Holding that U.S. Patents '090, '355, '826, and '116 are unenforceable;

e) Holding that Source has: (i) infringed the rights of Rewards in violation of 15 U.S.C. § 1114(1); (ii) infringed the rights of Rewards in violation of 15 U.S.C. § 1125(a); (iii) engaged in unfair competition in violation of Texas common law; and (iv) engaged in deceptive trade practices in violation of the Texas Deceptive Trade Practices and Consumer Protection Act.

f) Ordering Source to (i) pay Rewards monetary damages as a result of the activities complained herein, and that the amount of damages be trebled because of the willful acts described herein in disregard of Rewards' known rights; (ii) to account to Rewards for, and disgorge, all profits Source has derived by reason of the unlawful acts complained of above; (iii) to pay all statutory damages available under federal or state law; and (iv) to deliver for destruction all advertisements, brochures, promotional materials, packaging and other material bearing any mark confusingly similar to the Rewards Network Mark.

g) Awarding to Rewards (i) punitive and exemplary damages against Source by reason of Source's intentional or reckless disregard for Rewards' rights and the rights of those defrauded; (ii) Rewards' reasonable attorney's fees, prejudgment interest, and costs of this action under 15 U.S.C. 1117(a) and incurred in defending against the Complaint or otherwise allowed by law.

h) Ordering Source to file with the Court within thirty (30) days after service on it of an order of injunction, a report in writing under oath setting forth in detail the manner and form in which Source has complied with the order of injunction.

i) Granting Rewards such other relief as the Court deems appropriate.

Dated: November 28, 2005

Respectfully submitted,

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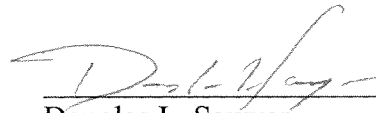
CERTIFICATE OF SERVICE

I hereby certify that on November 28, 2005, a copy of the forgoing was filed and served via facsimile upon the following:

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