

**IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLORADO**

Case No. 07-CV-00239 WTD-PAC

RAINBOW REWARDS USA, INC., a Delaware Corporation,

Plaintiff,

v.

SOURCE, INC., a Delaware Corporation

Defendant.

**SOURCE'S ORIGINAL ANSWER AND COUNTERCLAIMS TO RAINBOW
REWARDS' SECOND AMENDED COMPLAINT FOR DECLARATORY RELIEF**

Defendant Source, Inc. ("Source") by and through its attorneys hereby responds to Plaintiff Rainbow Rewards USA, Inc.'s ("Rainbow Rewards") Complaint for Declaratory Relief and hereby files its Counterclaims as follows:

PARTIES, JURISDICTION, AND VENUE

1. Source admits that Rainbow Rewards has filed an action which purports to be for declaratory relief, but Source denies that said action has any merit, and Source further denies all other allegations contained in paragraph 1.

2. Source is without knowledge of the allegations contained in paragraph 2 and therefore denies the same.

3. Source admits that it is a Delaware corporation with its principal place of business in Newhall, California. Source admits that it is the exclusive licensee of U.S. Patent

No. RE 36,116 (“the ‘116 Patent”) and has full rights to enforce the patent claims. Source denies all other allegations in paragraph 3.

4. Source admits that there is Federal jurisdiction of the subject matter of this action under 28 U.S.C. §§ 1331 and 1338, but otherwise denies that there is jurisdiction in this district.

5. Source denies the allegations contained in paragraph 5, and Source denies that its websites can be used to create jurisdiction in this district. Source admits that it now accuses Rainbow Rewards of unlawful patent infringement pursuant to this pleading, but Source denies that there was sufficient controversy to create jurisdiction at the time that Rainbow Rewards filed its original Complaint for Declaratory Relief.

6. Source denies the allegations contained in paragraph 6.

7. Source admits that on or about December 12, 2006, Source sent a letter regarding the ‘116 Patent to Steve Katich, President of Rainbow Rewards. Source denies that there was an actual controversy at the time Rainbow Rewards filed this action. Source denies all other allegations contained in paragraph 7.

GENERAL ALLEGATIONS

8. Source admits the allegations contained in paragraph 8.

9. Source admits the allegations contained in paragraph 9.

10. Source admits the allegations contained in paragraph 10.

FIRST CLAIM FOR RELIEF (Declaration of Non-Infringement)

11. Source hereby incorporates by reference its responses to paragraphs 1 through 10 of Rainbow Rewards’ Second Amended Complaint for Declaratory Judgment, as stated above.

12. Source denies the allegations contained in paragraph 12.

13. Source denies that an actual controversy existed between Rainbow Rewards and Source at the time Rainbow Rewards filed its original Complaint for Declaratory Relief.

14. Source denies the allegations contained in paragraph 14.

15. Source denies the allegations contained in paragraph 15.

**SECOND CLAIM FOR RELIEF
(Declaration of Invalidity)**

16. Source hereby incorporates by reference its responses to paragraphs 1 through 10 of Rainbow Rewards' Second Amended Complaint for Declaratory Judgment, as stated above.

17. Source denies the allegations contained in paragraph 17.

18. Source denies that an actual controversy existed between Rainbow Rewards and Source at the time Rainbow Rewards filed its original Complaint for Declaratory Relief.

19. Source denies the allegations contained in paragraph 19.

**THIRD CLAIM FOR RELIEF
(Declaration of Unenforceability)**

20. Source hereby incorporates by reference its responses to paragraphs 1 through 10 of Rainbow Rewards' Second Amended Complaint for Declaratory Judgment, as stated above.

21. Source denies the allegations contained in paragraph 21.

22. Source denies that an actual controversy existed between Rainbow Rewards and Source at the time Rainbow Rewards filed its original Complaint for Declaratory Relief.

23. Source denies the allegations contained in paragraph 23.

24. Source admits that U.S. Patent No. RE 36,116 ("the '116 Patent") is a "reissue" of U.S. Patent No. 5,287,268 ("the '268 Patent"), and that the application for the '268 Patent was filed on November 16, 1992. Source admits that the application for the '268 Patent purported to

be a “continuation” as that term is used broadly to describe any continuing application. Source denies all other allegations contained in paragraph 24.

25. Source admits that the patent application which became U.S. Patent No. 5,202,826 (“the ‘826 Patent”) was filed on November 26, 1991. Source admits that the application for the ‘826 Patent purported to be a “continuation” as that term is used broadly to describe any continuing application. Source denies all other allegations contained in paragraph 25.

26. Source admits that the patent application which became U.S. Patent No. 5,117,355 (“the ‘355 Patent”) was filed on April 18, 1990. Source admits that the application for the ‘355 Patent purported to be a “continuation” as that term is used broadly to describe any continuing application. Source denies all other allegations contained in paragraph 26.

27. Source admits that Patrick D. McCarthy is the inventor of the ‘116 Patent, the ‘826 Patent, the ‘355 Patent, and U.S. Patent No. 4,941,090 (“the ‘090 Patent”).

28. Source denies that the quoted text in paragraph 28 is accurate. Source denies all other allegations contained in paragraph 28.

29. Source admits that the ‘090 Patent is a “parent” of the ‘116 Patent. Source is without knowledge of any alleged “material changes” and therefore denies the same. Source denies all other allegations contained in paragraph 29.

30. Source denies the allegations contained in paragraph 30.

31. Source admits that the application which became the ‘355 Patent purported to be a “continuation” as that term is used broadly to describe any continuing application. Source denies all other allegations contained in paragraph 31.

32. Source admits that the application which became the '826 Patent purported to be a "continuation" as that term is used broadly to describe any continuing application. Source denies all other allegations contained in paragraph 32.

33. Source admits that the application which became the '268 Patent purported to be a "continuation" as that term is used broadly to describe any continuing application. Source denies all other allegations contained in paragraph 33.

34. Source denies the allegations contained in paragraph 34.

35. Source denies the allegations contained in paragraph 35.

36. Source denies the allegations contained in paragraph 36.

37. Source denies the allegations contained in paragraph 37.

38. Source denies the allegations contained in paragraph 38.

39. Source denies the allegations contained in paragraph 39.

40. Source denies the allegations contained in paragraph 40.

41. Source denies the allegations contained in paragraph 41.

42. Source denies the allegations contained in paragraph 42.

43. Source denies the allegations contained in paragraph 43.

RESPONSE TO PRAYER FOR RELIEF

44. Source denies that Rainbow Rewards is entitled to any of the relief it seeks.

RESPONSE TO JURY DEMAND

45. Source admits that Rainbow Rewards has requested a trial by jury.

SOURCE'S COUNTERCLAIMS AGAINST RAINBOW REWARDS

Source hereby asserts the following counterclaims against Rainbow Rewards:

NATURE OF CLAIMS, JURISDICTION AND PARTIES

1. Source herein presents its counterclaims for patent infringement pursuant to Title 35 of the United States Code.

2. This Court has subject matter jurisdiction over Source's counterclaims for patent infringement pursuant to 28 U.S.C. §§ 1331 and 1338. Source has denied that venue is appropriate in this district, but pleads in the alternative that should proper venue be found for Rainbow Rewards' claims against Source brought in this district, then venue should also be appropriate for Source's counterclaims against Rainbow Rewards.

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

4. On information and belief, Rainbow Rewards is a Delaware corporation with its principal place of business in Denver, Colorado.

5. On February 23, 1999, United States Patent No. Re: 36,116 (the '116 Patent, attached hereto as Exhibit 1) entitled "Centralized Consumer Cash Value Accumulation System for Multiple Merchants" was duly and legally issued to Patrick McCarthy.

6. Source owns the rights in the '116 Patent.

7. On information and belief, Rainbow Rewards owns, operates and is otherwise responsible for its Rainbow Rewards' cash back loyalty programs in cooperation with "local merchants" and "online retailers." On information and belief, Rainbow Rewards' cash back loyalty programs utilize and practice the claimed invention of the '116 Patent.

COUNT I: RAINBOW REWARDS' INFRINGEMENT

8. Source hereby incorporates by reference, paragraphs 1 through 7 of its counterclaims, stated above.

9. The following allegations are likely to have evidentiary support after a reasonable opportunity for further investigation or discovery: Rainbow Rewards, through its cash back loyalty programs, has and/or is currently infringing, contributing to infringement, and/or inducing the infringement of the '116 Patent by making, using, 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 '116 Patent.

10. The following allegations are likely to have evidentiary support after a reasonable opportunity for further investigation or discovery: Rainbow Rewards' misappropriation of Plaintiff's inventions through infringement of the '116 Patent has been willful and deliberate. Rainbow Rewards will continue its infringing activities and will continue this unlawful conduct unless restrained by this Court.

11. The following allegations are likely to have evidentiary support after a reasonable opportunity for further investigation or discovery: Rainbow Rewards' appropriation of the inventions through infringement of the '116 Patent has allowed Rainbow Rewards' to gain substantial market share in the customer loyalty, rebate and rewards and member services market and to reap unjustified profits. Rainbow Rewards' infringement has caused and will continue to cause irreparable harm to Source.

12. As a result of this unlawful behavior, Source has been damaged and will continue to be damaged by Rainbow Rewards' infringement of the '116 Patent.

DEMAND FOR JURY TRIAL

13. Source respectfully demands a trial by jury for all claims alleged herein.

PRAYER FOR RELIEF

14. Source respectfully prays for and asks the Court to find and enter judgment as to the following:

A) that this Court adjudge that United States Patent No. Re 36,116 is valid and that Rainbow Rewards has infringed the patents by direct infringement under 35 U.S.C. § 271(a), contributory infringement under 35 U.S.C. §271(c) and/or by inducing infringement under 35 U.S.C. §271(b);

B) that Source be awarded under 35 U.S.C. §284, in an amount to be proven at trial, damages adequate to compensate Source for Rainbow Rewards' acts of infringement, contributory infringement, and/or inducing infringement;

C) that Source be awarded its costs and prejudgment interest on its damages, as provided for by 35 U.S.C. §284;

D) that this Court enter a permanent injunction against Rainbow Rewards and all of its officers, agents, affiliates, servants, employees, and attorneys, and all other persons in active concert or participation with them, against further infringement, inducing infringement, and/or contributing to the infringement of the '116 Patent;

E) an accounting be had for the damages to Source arising out of Rainbow Rewards' infringing activities, together with interest and costs and that such damages be awarded to Source;

- F) that Rainbow Rewards be adjudged a willful infringer and that the damages to Source be increased under 35 U.S.C. §284 to three (3) times the amount found or measured;
- G) an award of attorney fees to Source under 35 U.S.C. §285;
- H) that Rainbow Rewards be ordered to make a written report within a reasonable period, to be filed with the Court, detailing the manner of their compliance with the requested injunction; and
- I) that Source be entitled to such other and further relief as the Court may deem appropriate.

PATTERSON & SHERIDAN, L.L.P.

Dated January 3, 2008

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COUNSEL FOR DEFENDANT SOURCE, INC.

CERTIFICATE OF SERVICE

I hereby certify that on this 3rd day of January, 2008, I electronically filed the foregoing with the Clerk of the Court using the CM/ECF system which will send notification of such filing to the following:

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/s/ Erik A. Knockaert _____