

IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF TENNESSEE
WESTERN DIVISION

Barry Fiala, Inc.,)	
)	
Plaintiff,)	
)	
v.)	No. 02-2167 M1/A
)	
Card USA, Inc.)	
)	
)	
Defendant.)	

ORDER DENYING DEFENDANT'S MOTIONS FOR SUMMARY JUDGMENT ON ALL
CLAIMS OF PLAINTIFF, FILED ON OCTOBER 31, 2003
ORDER DENYING DEFENDANT'S MOTION FOR SUMMARY JUDGMENT, FILED ON
MARCH 10, 2004
AND
ORDER DENYING PLAINTIFF'S MOTION FOR SUMMARY JUDGMENT

This patent infringement action comes before the Court on the parties' cross-motions for summary judgment. Plaintiff Barry Fiala, Inc. ("Fiala") asserts that Defendant Card USA, Inc.'s ("Card USA") Foldback and Hangtag cards infringe U.S. Patent No. 5,918,909 (hereinafter the "'909 patent") because they both use Fiala's patented method for activating a card-package combination at the point of purchase.

The Court considers Defendant Card USA's two motions Motion for summary judgment, filed on October 31, 2004 and March 11, 2004, respectively, as well as Fiala's own motion for summary

judgment, filed on March 10, 2004.¹ Because all three motions address Fiala's allegations that Card USA's Foldback and Hangtag cards infringe the methods claimed under Fiala's patent, the Court addresses the motions jointly.

I. BACKGROUND

All relevant facts in this action are uncontroverted. The parties agree that in April of 2001, a third-party, TracFone Wireless, Inc. ("TracFone"), sought bids from manufacturers, including Card USA, to produce pre-paid telephone cards. At the time, TracFone had an agreement with Hedge Creative, a licensee of Fiala, to manufacture said telephone cards. (Zimmerman Dep. at 19.) According to Card USA's President, March Rochman, the sample card TracFone provided to potential bidders was marked with Fiala's '909 patent.² (Rochman Dep. June 27, 2002 at 8; Rochman Dep. May 6, 2003 at 62; Technical Briefing Trans. at 48.)

¹ Card USA's October 31, 2003 motion focuses on Fiala's allegations of contributory infringement and inducing a third-party to infringe, while the March 10, 2004 motion solely addresses issues pertaining to direct infringement.

² Paragraph 12 of Mr. Rochman's declaration contradicts his deposition and hearing testimony on this point. Accordingly, the Court strikes this paragraph to the extent that Mr. Rochman asserts that the sample card provided by TracFone was not marked with the '909 patent. *Jones v. Gen. Motors Corp.*, 939 F.2d 380, 385 (6th Cir. 1991) (explaining that a party cannot avoid the entry of summary judgment against it by submitting an affidavit which contradicts the affiant's previously given deposition testimony); *Reid v. Sears, Roebuck & Co.*, 790 F.2d 453, 460 (6th Cir. 1986)(same); *Biechele v. Cedar Point, Inc.*, 747 F.2d 209, 215 (6th Cir. 1984)(same).

Upon learning of the '909 patent, Card USA contacted Fiala to discuss the patent. (Rochman Dep. May 6, 2003 63-64.) The record indicates that Mark Hodes, an employee of Fiala, advised Card USA that Card USA's products were covered by the '909 patent. (*Id.*)

Based on Fiala's representation, Card USA sought independent advice from counsel. Specifically, Card USA retained Melvin Silverman, who issued an opinion that the Foldback card did not infringe the '909 patent. Mr. Silverman, however, did not opine on the features of the Hangtag card. Relying on Mr. Silverman's opinion, Card USA secured the contract with TracFone for both the Hangtag and Foldback cards. However, before entering into a contract, Card USA agreed to indemnify TracFone for any infringement claims. (Zimmerman Dep. at 19.) Card USA also made representations to TracFone that Card USA's product did not infringe the '909 patent. (*Id.* at 20-21.)

II. STANDARD FOR SUMMARY JUDGMENT

Under Federal Rule of Civil Procedure 56(c), summary judgment is proper "if . . . there is no genuine issue as to any material fact and . . . the moving party is entitled to judgment as a matter of law." Fed. R. Civ. P. 56(c); *see also Celotex Corp. v. Catrett*, 477 U.S. 317, 322 (1986). So long as the movant has met its initial burden of "demonstrat[ing] the absence of a genuine issue of material fact," *Celotex*, 477 U.S. at 323,

and the nonmoving party is unable to make such a showing, summary judgment is appropriate. *Emmons v. McLaughlin*, 874 F.2d 351, 353 (6th Cir. 1989). In considering a motion for summary judgment, "the evidence as well as all inferences drawn therefrom must be read in a light most favorable to the party opposing the motion." *Kochins v. Linden-Alimak, Inc.*, 799 F.2d 1128, 1133 (6th Cir. 1986); see also *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 587 (1986).

III. ANALYSIS

In this lawsuit, Fiala does not assert that Card USA directly infringed the '909 patent. Rather, Fiala claims that Card USA (1) actively induced others to infringe the patent, and/or (2) contributed to the infringement of others, by selling products designed and intended to use Fiala's patented activation method. A party may be liable for inducement or contributory infringement of a method claim if it sells infringing devices to customers who use them in a way that directly infringes the method claim. *R.F. Del., Inc. v. Pac. Keystone Techs., Inc.*, 326 F.3d 1255, 1267 (Fed. Cir. 2003). Liability for either active inducement of infringement or for contributory infringement, however, is dependent upon the existence of direct infringement. *Joy Techs., Inc. v. Flakt, Inc.*, 6 F.3d 770, 774 (Fed. Cir. 1993). There can be no inducement or contributory infringement without an underlying act of direct infringement. *Id.*

Accordingly, the Court begins its analysis by considering whether the Foldback and Hangtag cards directly infringe on the '909 patent, before it assesses Fiala's allegations of contributory infringement and inducement.

Fiala maintains that Card USA's products infringe on method claims 29 and 30 of the '909 patent.³ Card USA does not dispute

³ Claim 29 provides the following:

A method of using the first card and package combination as recited in Claim 12 to activate a metered account, said method comprising the steps of:

- (a) encoding a first identification number onto said data-encoded strip;
- (b) associating a first representation of said first identification number with said metered account within a processing apparatus;
 - i. then using a data-encoded strip reader to read said encoded first identification number from said exposed data-encoded strip while said first card is secured to said first panel;
 - ii. then transmitting a first characterization of said first identification number from said data-encoded strip reader to said processing apparatus;
 - iii. then using said first characterization of said first identification number to identify said metered account by said processing apparatus;
 - iv. then activating said metered account by said processing apparatus;

and

- (c) crediting said metered account with a certain predetermined balance.

U.S. Patent, Column 24:60-25:16. (Continued . . .)

that its Hangtag and Foldback Card use the activation methods described in Claims 29 and 30; instead, the manufacturer maintains that its products cannot infringe the '909 patent because the cards do not meet all the limitations of Claim 12.

As this Court explained in detail in its Memorandum Opinion and Order on Markman Motion, claims 29 and 30 of the '909 patent incorporate the limitations of Claim 12.⁴ Therefore, in order

(. . .continued)

Claim 30 incorporates the method of Claim 29 and adds additional specifications. More precisely, the text claims as part of the '909 patent:

The method of [C]laim 29 which further comprises the steps of:

- (a) associating a second representation of a second identification number with said metered account within said processing apparatus; then
- (b) using a second characterization of said second identification number to identify said metered account by processing apparatus; and then
- (c) providing access to services and debiting said balance of said metered account for said providing of said services.

U.S. Patent, Column 25: 17-27.

⁴ This structure includes:

_____In combination:

a first card generally defining a plane and including an exposed data-encoded strip; and

a package including a first panel, said first panel having an outer perimeter; said first card being secured to said first panel so that at least a portion of said

for Card USA's products to infringe claims 29 and 30, the Foldback and Hangtag card must have the structure specified in Claim 12.

Card USA contends that neither the Foldback card nor the Hangtag card include all the limitations of Claim 12. Specifically, Card USA maintains that the Foldback card does not meet all the limitations of Claim 12 because it does not have (1) a magnetic strip "displaced externally remote" from the outer perimeter, nor does it have (2) a feature that holds the first card "secured" to the first panel. Similarly, Card USA argues that its Hangtag card does not (1) include a "package" as required under Claim 12, nor does it (2) have a first card "secured" to a panel. To properly address Card USA's contentions, it is necessary to review this Court's construction of Claim 12.

In the Markman Opinion, the Court found that "the term 'secured' [in the second subparagraph] encompasses more than a mechanism for holding [the card-package combination] together, but actually includes a security element." *Fiala v. Card USA*, Case No. 02-2167, Memorandum Opinion and Order on Markman Motion

data-encoded strip is exposed and displaced externally remote from a portion of said outer perimeter of said first panel in a direction substantially parallel to the plane of said first card.

U.S. Patent, Column 22:40-49.

at 18 (W.D. Tenn Dec. 4, 2003.) Indeed, the Court held that the Fiala patent offered more than a means for attaching the card to the package, but actually provided a means for securing the card such that customers would be prevented from purchasing tampered products. *Id.*

Having reviewed the physical exhibits and materials depicting Card USA's products in light of the Court's construction of the term "secured", this Court is unable to find as a matter of law that Card USA's products incorporate the "secured" limitation of Claim 12. Accordingly, the Court concludes that this determination is better left to a jury and DENIES Defendant's March 10, 2004 motion for summary judgment, as well as Plaintiff's motion for summary judgment.⁵

The Court, however, limits the factual inquiry to be submitted to the jury to the narrow inquiry into the "secured" element. Based on the Court's construction of Claim 12, the Court holds that Card USA's contentions that its products do not meet the other limitations of Claim 12 are untenable. For instance, as to the Foldback card, the Court holds that the record indicates that when the back flap of this package is folded, the magnetic strip on the card is exposed such that the

⁵ For example, the Court does not have access to examples of cards covered under the '909 patent that demonstrate how the rivets offer a security element different to the glue and sticker included in the Card USA products.

strip appears open to view and parallel to the upper edge of the package. See Def.'s March 11 Mot. Exh. 1.; Technical Hearing Exhs. 1 & 3. Therefore, the Court concludes that the Foldback card includes this feature of Claim 12.

Similarly, the Court agrees with Fiala that the Hangtag Card contains a package as contemplated by the '909 patent. Fiala is correct that Card USA did not advance an interpretation of the term "package" during the Markman phase of this case. See *Fiala v. Card USA*, Case No. 02-2167 at 9. Notwithstanding the untimeliness of Card USA's claim construction argument, the Court finds that the text of Claim 12 does not support Card USA's proposed construction requiring a particular material (i.e., cardboard) and a method of manufacturing. The term "package" in Claim 12 acquires its ordinary meaning. Accordingly, the Court finds that the Hangtag card includes a "package" as required by Claim 12.

Having decided that a question of fact exists as to Fiala's allegations of direct infringement, the Court need not reach the allegations of contributory infringement or inducement. In spite of the Court's decision to submit this question to a jury pending resolution of the direct infringement question, the Court notes that the record contains ample evidence suggesting that Card USA was fully aware of the '909 patent before it began distributing its products. Nevertheless, the Court DENIES Defendant's motion

for summary judgment filed on October 31, 2003.

So ORDERED this ____ day of August, 2004.

JON P. McCALLA
UNITED STATES DISTRICT JUDGE