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UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

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In Re:	Chapter 11
RCN CORPORATION, <u>et al</u>.,	Case No. 04-13638 (RDD)
Debtors.	(Jointly Administered)

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**RESPONSE TO DEBTORS' OBJECTION TO PROOFS OF CLAIM FILED BY
INTERNATIONAL BUSINESS MACHINES CORPORATION**

International Business Machines Corporation ("IBM") files this response ("Response") to

Debtors' (which includes RCN Corporation and certain of its direct and indirect subsidiaries,

debtors and debtors-in-possession (collectively, the "Debtors")) objection to IBM's proofs of

claim ("Objection"). In support thereof, IBM states and alleges as follows:

<u>INTRODUCTION</u>

In its Objection to IBM's proofs of claim, the Debtors fail to establish grounds for

disallowing IBM's claims, which seek payment for patent infringement. First, contrary to the

Debtors' assertion that IBM failed to submit sufficient documentation with its proofs of claim,

IBM submitted properly filed claims. Each proof of claim was in writing, set forth IBM's claim,

and substantially conformed to the appropriate Official Form. Additional documentation was not

required to put the Debtors on notice of the IBM patent infringement claims. Further, even if the

Court concludes that IBM lacked sufficient documentation, that determination alone is not enough to disallow IBM's claims. Case law holds that the failure to submit appropriate documentation does not provide substantive grounds for disallowance of a claim; rather, it merely determines which party will have the burden of proof moving forward on the objection. In any event, IBM has supplied more than enough information and documentation in this Response to support its claims.

Second, the Debtors' allegation that the proofs of claim are without merit, because either IBM's patents were not infringed and/or are invalid, is completely false. During negotiations between IBM and the Debtors, IBM presented detailed proof of Debtors' infringement of the IBM patents. The infringement proofs and this Response clearly and directly prove that IBM's claims against the Debtors are valid. Third, IBM's claims are not barred by laches, estoppel, or 35 U.S.C. § 286. The equitable defense of laches pertains to the filing of an infringement lawsuit not as a defense to a proof of claim in bankruptcy. The Debtors have failed to establish the requisite estoppel elements of misleading conduct on IBM's part and material prejudice resulting from the Debtors' detrimental reliance upon IBM's conduct. Additionally, negotiations between IBM and the Debtors continued and additional infringement evidence was presented. Consequently, none of these equitable defenses apply here. Fourth, the Debtors argue that IBM's claims are barred by the doctrine of license. This statement is simply incorrect. IBM has established that Debtors' products, not Web browsers, infringe IBM's Patents (as defined below). Therefore, any licenses IBM might have in place with Web browser companies is irrelevant. Fifth, IBM's claims are not barred by 35 U.S.C. § 287 because IBM provided legally sufficient notice of infringement in its April, 1999 letter and its presentation of the infringement proofs. Sixth, IBM's claims are not barred by patent misuse. There is no evidence that IBM

used its "patent portfolio as a weapon to coerce" prospective licensees as the Debtors allege. IBM disputes the unsupported allegation and strongly denies that any such statements were made. And finally, IBM's claims are not intended to be duplicative. The RCN claim is based upon the reported and consolidated revenue for RCN, as IBM was able to discern from public records. The liability of each subsidiary will depend on the extent each participated or profited from the internet service provider business. The publicly available information does not provide this information and can only be determined through discovery. Once IBM obtains information regarding the business activity of the subsidiaries through discovery, the amount of the various claims can be determined.

BACKGROUND

1.   IBM, a Delaware corporation, is engaged in, among other things, the business of designing and manufacturing computer programs and internet systems, as well as services related to those businesses. As part of IBM's business, it issues licenses for the use of its patents.

2.   During a period from 1999 through 2001, IBM and Debtors entered into licensing negotiations when IBM put Debtors on notice for six U.S. patents related to Debtors' internet service provider business. In December 1999, as part of the negotiation process, IBM presented to Debtors detailed proof of Debtors' infringement ("Infringement Proofs") of the following patents: 4,805,134; 5,319,542; 5,442,771; 5,758,072; and 5,796,967 ("IBM Patents"). Copies of the IBM Patents are attached as **Exhibits A-E**. These Infringement Proofs provide significant evidence of infringement. Copies of the Infringement Proofs are attached hereto as **Exhibits F-L**. Despite a series of negotiations, IBM and Debtors did not enter into any licensing agreements for IBM patents.

3.   On May 27, 2004, RCN Corporation, TEC Air, Inc., RLH Property Corporation, RCN Finance, LLC, and Hot Spots Productions, Inc. (collectively, the "Initial Debtors"), filed voluntary petitions under chapter 11 of the United States Bankruptcy Code.

4.   On August 5, 2004, RCN Cable TV of Chicago filed a voluntary petition under chapter 11 of the United States Bankruptcy Code. On August 20, 2004, RCN Telecom Services of Virginia, Inc., RCN Entertainment, Inc., 21st Century Telecom Services, Inc., and ON TV, Inc. filed chapter 11 bankruptcy petitions. (All five of these debtors shall be called "Additional Debtors.")

5.   On June 2, 2004, the Court entered an order approving joint administration of the Initial Debtors.

6.   On August 26, 2004, the Court entered an order approving joint administration of the Initial Debtors and the Additional Debtors.

7.   On June 23, 2004, the Bankruptcy Court issued an order setting August 11, 2004, as the claims bar date for the Initial Debtors.

8.   On August 11, 2004, IBM filed a proof of claim in each of the following bankruptcy cases for patent infringement: RCN Corporation, Case No. 04-13638 (Claim No. 1424), TEC Air, Inc., Case No. 04-13641 (Claim No. 1420), RLH Property Corporation, Case No. 04-13639 (Claim No. 1422), RCN Finance, LLC, Case No. 04-13640 (Claim No. 1421), and Hot Spots Productions, Inc., Case No. 04-13637 (Claim No. 1423).

9.   On August 27, 2004, the Bankruptcy Court issued an order setting October 1, 2004 as the claims bar date for the Additional Debtors.

10.   On September 24, 2004, IBM filed a proof of claim in each of the following bankruptcy cases for patent infringement: RCN Cable TV of Chicago, Case No. 04-15120

(Claim No. 2041), RCN Telecom Services of VA, Inc., Case No. 04-15508 (Claim No. 2043), RCN Entertainment, Inc., Case No. 04-15508 (Claim No. 2044), 21st Century Telecom Services, Inc., Case No. 04-15507 (Claim No. 2042), and ON TV, Inc., Case No. 04-15506 (Claim No. 2045).

11.   On October 7, 2004, the Debtors filed an objection to IBM's proofs of claim.

12.   IBM has properly filed proofs of claim for patent infringement against RCN Corporation and its subsidiaries. IBM has met the presumption of *prima facie* validity and the Debtors will be unsuccessful in their attempts to negate this *prima facie* validity at the hearing. Therefore, IBM's proofs of claim should be deemed valid and allowed.

ARGUMENT

I.   THE IBM CLAIMS ARE SUPPORTED BY SUFFICIENT EVIDENCE.

13.   In its Objection, the Debtors argue that IBM did not provide sufficient evidence to support its claims of patent infringement as required by Bankruptcy Rule 3001. The Debtors' argument is not supported by the applicable rules of bankruptcy procedure or case law.

A.   IBM'S CLAIMS ARE *PRIMA FACIE* VALID AS REQUIRED BY BANKRUPTCY RULE 3001.

14.   The general procedure for filing a proof of claim is governed by Bankruptcy Rule 3001. Under Bankruptcy Rule 3001, an unsecured claim must meet the following criteria: it must (1) be in writing, (2) substantially conform to Official Form 10, and (3) be executed by the creditor or the creditor's authorized agent. Fed. R. Bankr. P. 3001; See also In re Cluff, 313 B.R. 323 at 331 (Bankr. D. Utah 2004).

15.   There is an additional requirement if the claim is based upon a writing. Fed. R. Bankr. P. 3001(c). Specifically, under Rule 3001(c), "when a claim, or an interest in property of the debtor securing the claim, is based on a writing, the original or duplicate shall be filed with

the proof of claim." A claim is <u>based</u> upon a writing where a writing is a fundamental part of the claim. <u>In re Cluff</u>, 313 B.R. 323 at 337 (Bankr. D. Utah 2004)(concluding that types of documents based on a writing include promissory notes, contracts, purchase documents, running accounts, credit card agreements, and credit card billing statements). There may well be plenty of documents that provide evidence of various aspects of this complex claim. However, neither Rule 3001 nor, do we believe, the Court's order envision requiring that all items constituting evidence of the claim be attached to the proof of claim in order for it to be valid. Once a claim meets the requirements set forth in Bankruptcy Rule 3001, the claim is deemed *prima facie* evidence of the validity and amount of the claim. Fed. R. Bankr. P. 3001(f). If no objection is filed and the claim is *prima facie* valid, the claim is allowed. <u>Lundell v. Anchor Const. Specialists, Inc. (In re Lundell)</u>, 223 F.3d 1035, 1039 (9th Cir. 2000). If, however, an objection is filed, the court shall determine, after notice and a hearing, whether the claim is allowed. <u>Id</u>.

16.   IBM's proofs of claim satisfy the test for *prima facie* validity of the claims under Bankruptcy Rule 3001. First, the proofs of claim were in writing. Second, the proofs of claim conformed to Official Form 10.   Third, Steven W. Meyer, the creditor's authorized agent, executed the proofs of claim. The fourth requirement, the writing upon which the claim is based, does not apply to IBM's proofs of claim. The patent infringement claims are principally based on the conduct of the Debtors. At best, the patents may represent a "writing upon which the claim is based."   The patents are not the type of writing contemplated by Bankruptcy Rule 3001(c), as explained in <u>In re Cluff</u>, 313 B.R. 323 at 337 (Bankr. D. Utah 2004). However, the patents were specifically cited in the proofs of claim, are fairly voluminous, and are readily available online at www.uspto.gov.

17.   The proofs of claim were properly and timely filed as required by the Bankruptcy Court and adequately set forth the claims. For all of these reasons, IBM's proofs of claim are legally sufficient and *prima facie* valid.

B.   LACK OF DOCUMENTATION IS NOT A SUFFICIENT REASON TO DISALLOW IBM'S PROOFS OF CLAIM.

18.   In the alternative, if the Court determines that either (1) IBM did not meet the test for *prima facie* validity of its proofs of claims or (2) the Debtors negated that *prima facie* validity, such a finding is not enough to disallow the proofs of claim. As the Court held in In re Cluff, Bankruptcy Rule 3001(c) does not create an independent ground to disallow claims. In re Cluff, 313 B.R. 323 at 331 (Bankr. D. Utah 2004). The failure to attach documentation to a proof of claim when it is required is not alone sufficient for the court to disallow the claim; rather, the claim is not entitled to *prima facie* validity. See Ashford v. Consolidated Pioneer Mortgage (In re Consolidated Pioneer Mortgage), 178 B.R. 222 (B.A.P. 9th Cir. 1995)(aff'd by 91 F.3d 151 (9th Cir. 1996)); In re Stoecker, 5 F.3d 1022 at 1028 (7th Cir. 1993); In re Los Angeles International Airport Hotel Assoc., 196 B.R. 134 (B.A.P. 9th Cir. 1996)(aff'd by 106 F.3d 1479 (9th Cir. 1997)). According to the Seventh Circuit, if documentation is required for a proof of claim and the claimant fails to include such documentation, a claimant should be allowed to amend the proof of claim, as long as other creditors are not prejudiced by the amendment. In re Stoecker, 5 F.3d 1022 at 1028 (7th Cir. 1993). Thus, if the Court concludes that there is insufficient evidence to support IBM's proofs of claim, IBM should be allowed to amend its claims to include this Response and the documents attached hereto.

19.   Although the Debtors cite several cases to support their Objection, those cases in fact support IBM's contention that either its proofs of claim were proper or any deficiency does not provide the basis for disallowance and is cured by this Response and the attached documents.

20.   First, the Debtors cite the case of In re Jorczack, for the proposition that a proof of claim does not meet the *prima facie* evidentiary effect if it is not executed and filed in accordance with the Bankruptcy Rules. In re Jorczak, 314 B.R. 474 (Bankr. D. Conn. 2004). In Jorczak, the debtor–husband objected to creditors' proofs of claim for lack of supporting documentation. Id. Most of the proofs of claim at issue were for credit card account indebtedness and some of these claimants failed to attach written agreements or copies of monthly statements to the proofs of claims as required under Rule 3001(c). Id. The Court held that although these proofs of claim were not independently *prima facie* valid, when combined with the debtor's admission of liability to these creditors on the bankruptcy schedules, these proofs of claim were *prima facie* valid and therefore, the burden was on the debtor to produce evidence to support his objections. Id. In the present case, any writing forming the basis for the claim is specifically referenced. Any other documentation requirement is satisfied by this response. Consequently, IBM's claims are *prima facie* valid.

21.   Next, the Debtors cite In re Hongisto, for the proposition that a "properly filed proof of claim is not *prima facie* valid, unless claimant has alleged facts sufficient to support a legal liability." In re Hongisto, 293 B.R. 45 at 50 (N.D. Cal. 2003)(aff'd by 86 Fed. Appx. 331 (9ᵗʰ Cir. 2004)). This is exactly what IBM has done. In its proofs of claim, IBM asserts that the Debtors have infringed on at least five of IBM's patents, which were listed in the addenda to the proofs of claim. These are facts that put the Debtors on notice of patent infringement and support "a legal liability." Therefore, according to Hongisto, the presumption of validity does apply to IBM's proofs of claim.

22.   Finally, the Debtors cite the case of In re Hughes, for the premise that a proof of claim will not be considered *prima facie* valid as to the claim or amount when it fails to comply

with the requirements of Rule 3001(c). In re Hughes, 313 B.R. 205 (Bankr. E.D. Mich. 2004).

Again, the Debtors cite a case that requires documentation under Rule 3001(c). In Hughes, the

Court examined proofs of claim filed by agents or assignees of credit card companies. The Court

held that, although the claims originally lacked sufficient documentation, once the claimants

filed additional documentation following the objections, the claims were *prima facie* valid and

allowed. Id. IBM's claims are based upon patent infringement, not claims based upon a writing

other than the patents, which were specifically referenced. Consequently, Hughes does not apply

to the present situation. Even if Hughes applies, the Court found the claims sufficient when

additional documentation was filed following the filing of an objection as has been done here.

23.   The Debtors have offered no supporting authority to bolster their contention that

IBM's proofs of claim lack documentation and should be disallowed. The cases cited by the

Debtors actually support IBM's position that the proofs of claim were properly filed as required

by Rule 3001. Further, if the Court determines that additional documentation should have been

filed, that omission is not is a defect warranting disallowance. Instead, a finding of insufficient

documentation merely shifts the burden of proof to IBM. Accordingly, IBM has properly filed

proofs of claim under Rule 3001 and met the *prima facie* evidence of the validity and amount of

the claims. At the hearing, IBM will prove specifically why it is entitled to the allowance of its

proofs of claim for Debtors' patent infringement.

II.   IBM'S CLAIMS HAVE MERIT AND ARE VALID BECAUSE IBM'S PATENTS WERE INFRINGED.

24.   In its Objection, the Debtors argue that IBM's claims are based on the same

allegations in the April 1999 Letter and are therefore without merit. Additionally, the Debtors

assert that IBM has failed to offer proof of infringement of its patents, an analysis of the patent

infringement claims, or a calculation of the claim amount against RCN. These allegations are

completely false. As set forth below, IBM has presented Debtors with substantial evidence that the Debtors infringed its patent claims.

<p style="text-align:center">A.   IBM'S PROOF OF INFRINGEMENT PRESENTED TO THE DEBTORS.</p>

25.   During the negotiations between IBM and the Debtors, IBM presented detailed proof of Debtors' infringement of the IBM Patents. In each of the Infringement Proofs, IBM clearly identified the number of the specific claim in the specific patent that was being asserted by IBM and established that each element of the claim was present in Debtors' products. The Infringement Proofs provide significant evidence of infringement. The Infringement Proofs include color graphics images of Debtors' product features obtained directly from the Debtors' products. Further, each claim element is dissected into its component parts and each of those component parts were correlated with a corresponding infringing feature of Debtors' products illustrated in the color images.

26.   In order to make this correlation clear and detailed, IBM color coded the claim element components, highlighted the corresponding features of Debtors' products in the color images, and provided exploded views and color-coded arrows pointing precisely to the aspects of Debtors' products that infringed a particular claim element. These Infringement Proofs clearly and directly point out where Debtors' products, in Debtors' terms, are recited in IBM's claims.

27.   Debtors allege, "IBM is attempting to try to stake a claim that it invented the world wide web." None of the asserted IBM patents or infringement proofs make mention of the world wide web, nor does IBM suggest that any patent claim has the breadth hyperbolized in the Objection. While the Infringement Proofs map the claim elements to the Debtors' products, IBM further addresses Debtors' comments. Thus, IBM's proofs of claim for patent infringement are valid.

28.   Expert reports are not necessary to support a claim of patent infringement. A detailed letter and/or claim chart is sufficient to provide legal notice of infringement under 35 U.S.C. §287. Expert testimony is required only during patent litigation. Furthermore, IBM experts in the fields covered by the asserted patents verified the accuracy of the infringement proofs before they were presented to the Debtors.

B.   CALCULATION OF CLAIM AMOUNT.

29.   IBM has relied upon publicly available information in order to calculate a reasonable royalty for Debtors' patent infringement. IBM applied several conservative constraints that limit its claim. Based upon SEC Form 10-K for RCN Corporation, filed April 2, 2001 and SEC Form 10-K for RCN Corporation filed March 30, 2004, Debtors' year 2000 revenue was approximately $333.5M and Debtors' total revenues for the years 2000 through 2003 was $1638M. IBM's first constraining factor was that these totals included revenues for controlled subsidiaries as well as the RCN parent corporation, which total revenues might be substantially increased if not for that factor. Second, IBM set the reasonable royalty to 1% per infringed patent, with a maximum of 5%. This is a royalty rate that numerous royalty bearing licensees of IBM patents have agreed to and paid under in the information technology field. The actual calculations for the RCN claim amount are described below.

Step 1 – General Information
Assume throughout that 35% of revenues are covered by IBM patents.
Estimate annual revenues for 1998 and 1999 as follows:

1999 - $300M
1998 - $270M

Step 2 – Calculation for Years 2000 through 2003
$1638M x 35% applicable x 5% royalty = **$28.7M** (~$7M avg)

Step 3 – Calculation for Year 2004
Approximately one-half of 2000-2003 yearly average for period in 2004 prior to bankruptcy filing = **$3.5M**

Step 4 – Calculation for Year 1999
Notice date is at the end of April. Hence, for 2/3 of the year all patents are applied to the calculation. For January to April, two "method" patents are applied. Patent case law provides that notice under 35 USC § 287 is not required to recover for damages associated with infringement of method claims in a patent.

$300M	x	35%	x	5% x 2/3 =	$3.5M
$300M	x	35%	x	2% x 1/3 =	$0.7M
Total					**$4.2M**

Step 5 – Calculation for Year 1998
One method patent applicable for 2/3 year, both method patents applicable for 1/3 year.

$270M	x	35%	x	1% x 2/3 =	$0.6M
$270M	x	35%	x	2% x 1/3 =	$0.6M
Total					**$1.2M**

Step 6 – Calculation for Years 1998-2004 for Grand Total
1998 = $1.2M
1999 = 4.2M
2000-2003 = $28.7M
2004 = $3.5M
Grand Total   **$37.6M**

30.   With regard to Debtors' claim that IBM has not provided details of its unliquidated claims with respect to Debtors' subsidiaries, IBM notes that Debtors have not cooperated with IBM. More specifically, IBM has requested assistance in obtaining reasonable financial data that would help IBM accurately determine the applicable damages with regard to those subsidiaries. Debtors have refused to provide any statements to assist IBM in that regard. In addition, IBM has been willing to withdraw it claims against any of the subsidiary Debtors that are not involved in the internet service provider business, as long as the Debtors represent such information to IBM. Thus far, the Debtors have failed to provide any such representations.

C.   INDIVIDUAL PATENTS.

31.   The patent infringement claims involve highly technical and detailed proof. The attached proofs (see Exhibits F-L) detail the analysis and are incorporated herein by reference. Exhibits M through O are correspondence to and from Debtors and IBM which stated and responded to the other's positions. Below, is a summary of the Debtors' primary agreement asserted in this correspondence. Nothing in the Debtors' Objection appears to be substantially different from their prior arguments. Copies of such correspondence are attached as **Exhibits M-O**.

32.   With reference to IBM's patent 5,319,542, and its corresponding infringement proof, which was presented to Debtors in 1999, Debtors argue that their products did not participate in "developing content" or "processing orders" or provide "purchase inducements or advertisements." These arguments are inapt because IBM's asserted claim 8 makes no mention of them and IBM's infringement proof does not rely on such features. (See Exhibit B pertaining to Patent No. 5,319,542). Claim 8 pertains to "a method for retrieving information relating to said items and electronically ordering items from suppliers compromising the following steps: searching the catalog database for information on a customer-selected item, said catalog database residing on a public computer system; downloading said information on said customer-selected item to a Customer/Requester computer system; creating an electronic requisition using the Customer/Requester computer system; and transmitting the electronic requisition to a supplier computer system." These are all clearly performed by Debtors' products as illustrated in IBM's infringement proof presented to RCN. As Debtors have pointed out, it is the claim language that must be considered not unclaimed elements.

33.   With reference to IBM's patent 4,805,134, and its corresponding infringement proof, which was presented to Debtors in 1999, Debtors argue that the patent "cannot be

stretched to cover the entire World Wide Web." These arguments, again, do not address claim language and are inapt. IBM's asserted claim 1 makes no mention of the world wide web and nowhere in the patent's text or drawings is the world wide web mentioned. (See Exhibit A pertaining to Patent No. 4,805,134). Thus, Debtors' misdirected assertions fail to address the details of the claim language as they pertain to precisely identified product features in IBM's infringement proof. Further, IBM has clearly illustrated in its infringement proof that Debtors' products include each element as claimed in claim 1, namely, (i) a terminal means . . .; (ii) a node containing a database comprising a number of pages . . . and a first application program means for exchanging messages . . .; (iii) a second node with a second database . . .; and (iv) means for enabling the terminal to access, information . . . from the first and second databases. These elements (as recited in the claims) define the extent of the patent's rightful scope and Debtors have failed to address any of them.

34.   With reference to IBM's patent 5,758,072, IBM refuted Debtors' 1999 arguments when in 2000 with detailed explanations for which IBM has yet to receive a response from Debtors. (See Exhibits M-O). At that time IBM explained:

> RCN's arguments are incorrect, its characterization regarding the accessing of data and graphics on the Internet is not complete, and much of RCN's position does not relate to the language of the claim. Specifically, the claimed network elements include: a host computer, a reception system computer in communication with the host and a distribution means for providing data required for an application from the network to the reception system if it is not already present at the reception system.
>
> When RCN "extends the Internet to a customer's computer " the customer's computer is assigned a Debtors IP address and it becomes a node in RCN's network on the Internet. Only then is it capable of receiving applications from the Internet so as to constitute the claimed "reception system". The reception system is an RCN node, and accordingly, RCN controls the reception system. Moreover, in the presentation to RCN, the RCN Web server (www.erols.com) hosting the Erols Web pages was the exemplary host computer. Thus, RCN controls the host computer. The distribution of data between the host and reception system takes

place within RCN's network using RCN data and thus RCN controls the distribution means.

The claim does not recite nor does the specification or file history require an intermediate node such as the RCN home page node. Nonetheless, RCN's Web caching system described by RCN in response to the '771 patent is such an intermediate node. Moreover, RCN's position that the collection of Web data is handled completely by the browser and that no host computer controls distributed processing, is unrelated to the language of the claim. Host control of distributed processing is precisely what the invention sought to avoid (for example see '072 patent specification, Col. 10, lines 5-24). Collection of data at the reception system is enabled by the claimed distribution means which makes use of data stored at the reception system and in the remainder of the network including the Web server. This distribution means was clearly demonstrated in our presentation to RCN.

Finally, the claim does not require that Web data and graphics reside on separate nodes throughout the network. Instead, and as demonstrated in the presentation to RCN, the claim recites that the distribution means enables an application to be presented at the reception system by providing application data from the remainder of the network to the reception system if the data isn't already stored at the reception system. This distribution means supports the selective retention of some files (such as the "classifieds" graphics file labeled Mvetdgjm.gif) at the reception system so that they may be reused on different web pages. This is supported by the specification ('072 patent specification, Col. 10, lines 31-36) and is how the Web works (as demonstrated in the presentation to RCN). In fact, RCN's response to the '771 patent and its response to this patent both acknowledge that a request for Web data will be provided locally if the data is stored in the cache and if not, then from the network, as is claimed by IBM.

35.   With reference to IBM's patent 5,442,771, and its corresponding infringement proof, which was presented to Debtors in 1999, Debtors state that "their software does not provide the storage control parameters . . . that are fundamental" to the patent. IBM's infringement proof clearly demonstrates that Debtors' products provide this feature because Debtors stated the following:

At Erols, five new 'file server' computers will run the Quick Web software to cache Web sites. Once a user has requested a Web page for the first time, a copy of that page will remain on the cache. Then, when another user requests the same page, Erols will deliver the cached copy instead of querying the actual Web site.

The cached copy will remain at the Internet provider until newer material pushes it out of the server or the site's author indicates that it should be pulled . . .

36.   With reference to IBM's patent 5,796,967, and its corresponding infringement proof, which was presented to Debtors in 1999, Debtors make the following assertions concerning the operation of its products: ". . . all of the actions called for in claim 1 are performed by the customer's browser based on the data content from the web pages provided by the vendor. Thus, the Debtors do not, directly or indirectly, infringe claim 1 . . ." Here, Debtors are repeating arguments presented to IBM in 1999. At that time, IBM refuted Debtors' arguments with detailed explanations for which IBM has yet to receive a response from Debtors. At that time, IBM explained:

> Debtors' arguments ignore the fact that the "vendor data" provided to the reception system is Debtors' Web site data from Debtors' host servers. As has been previously noted, Debtors are a content provider hosting hundreds of thousands of Web pages on Debtors' servers.

Thus, Debtors are not merely a "passive" ISP that handles only "vendor data."

37.   Through the Response and supporting exhibits, IBM has described both how its patent claims were infringed and the calculations in the RCN claim for the patent infringement damages asserted. IBM's proofs of claim are valid.

III.   IBM'S CLAIMS ARE NOT BARRED BY LACHES, ESTOPPEL, OR 35 U.S.C. § 286.

38.   The equitable defense of laches pertains to the filing of an infringement lawsuit and so is inapplicable in this situation. Moreover, the presumption of laches arises only when there is a delay in bringing suit of more than six years. A.C. Aukerman Co. v. R.L. Chaides Construction Co., 960 F.2d 1020 (Fed. Cir. 1992)(in banc). A successful establishment of a laches defense only bars pre-filing damages. In the present negotiations, IBM noticed Debtors in April 1999, which resulted in several face-to-face meetings between the companies extending through 2001. These facts do not even remotely establish a claim of laches in the manner

asserted by RCN. In particular, IBM notes that it never received a written response from Debtors regarding IBM's substantive infringement positions sent in January 2000. IBM and Debtors continued their negotiations with a face-to-face meeting in January 2001, and through several phone discussions thereafter.

39.   With regard to estoppel, the infringer's burden is much higher compared to the burden of establishing laches. See A.C. Aukerman Co. In this instance, Debtors have not even attempted to establish the requisite estoppel elements of "misleading conduct" on IBM's part and "material prejudice" resulting from Debtors' "detrimental reliance" upon IBM's conduct. Debtors have merely continued its business in the usual course from the date of IBM's notice of infringement. Therefore, none of these equitable defenses apply to the current facts. Contrary to Debtors' assertions, IBM and Debtors continued patent licensing negotiations in person at Debtors' premises in January 2001, where additional infringement evidence was provided to RCN and later communicated to its general counsel, John Jones. Telephone negotiations continued after that date.

IV.   IBM'S CLAIMS ARE NOT BARRED BY THE DOCTRINE OF LICENSES.

40.   Debtors have incorrectly argued that web browser software infringes the asserted IBM patents, rather than Debtors' products because Debtors are passive participants in the provision of "vendor data." To repeat IBM's refutation: "Debtors' arguments ignore the fact that the 'vendor data' provided to the reception system is Debtors' Web site data from Debtors' host servers. As has been previously noted, Debtors are a content provider hosting hundreds of thousands of Web pages on Debtors' servers." Because IBM has established that Debtors' products, not web browsers, infringe IBM's Patents, any licenses IBM might have in place with web browser companies are irrelevant to the issue of Debtors' infringement.

V.   IBM'S CLAIMS ARE NOT BARRED BY 35 U.S.C. § 287.

41.   IBM provided legally sufficient notice of infringement under 35 USC § 286 to Debtors, via a letter dated April 26, 1999, and in its presentation of the Infringement Proofs. These communications are clearly legally sufficient to begin accrual of patent infringement damages under all of the asserted IBM patents. As shown above, these are the bases relied upon by IBM in its royalties calculations. It is also well settled law that the marking requirement mentioned by Debtors does not apply to at least two of IBM's asserted patents that are directed to a method or process. Bandag, Inc. v. Gerrard Tire Co., Inc., 217 USPQ 977, 979 (Fed. Cir. 1983) (holding that damages are not limited to the infringement that occurred after the infringer was notified). Thus, IBM is entitled to royalties from infringements prior to Debtors' actual notice of infringement.

VI.   IBM'S CLAIMS ARE NOT BARRED BY PATENT MISUSE.

42.   IBM contests the defense of patent misuse. IBM does not "use its massive patent portfolio as a weapon to coerce 'prospective licensees' into buying unpatented products."   IBM has not uncovered any writings on this point and denies that any such statement was ever made. IBM wishes to note the difficulty in proving a negative. In considering the likelihood of this allegation, however, IBM observes, first, that it is unclear what, if any, IBM servers are not "covered" by IBM patents. IBM does have a sizable portfolio and it is highly likely that a server would be covered by a number of IBM patents. Second, RCN's counsel challenged the infringement proofs, when presented and also seriously challenged the amount owed to IBM. Moreover, IBM would have no reason to deviate from IBM practice in such a contentious context and seek to tie the grant of a patent license to the required purchase of unpatented servers. Debtors seem to contend that upon being told by Debtors that the patents are not applicable and Debtors do not need a license, the IBM representative imposed this further

requirement when IBM had not convinced the Debtors to license the technology in the first place.

VII. IBM'S CLAIMS ARE NOT DUPLICATIVE.

43.   In their Objection, the Debtors argue that IBM's claims are duplicative because they involve identical allegations against each of the Debtors, and if one claim is allowed, the remaining claims should be disallowed. IBM's claims are based on total Debtors' sales revenues, which may or may not include sales figures of Debtors' subsidiaries. Even if the total sales revenues include subsidiary sales, IBM's claims are not duplicative, and so IBM's claim is clearly valid. All ten of the Debtors filed for bankruptcy protection at various times and the Court entered orders in each of cases for joint administration. Each of the ten Debtors filed individual schedules and statements of financial affairs; however, those documents consolidate much of the financial information. This consolidation left IBM unable to verify the nature of each subsidiary business and their respective revenue. Accordingly, IBM looked to the financial information that was publicly available. This included filings with the Securities and Exchange Commission from which IBM was able to determine the gross revenue for the consolidated entities. From this, IBM based its overall claim at $37,600,000, which it asserted against the parent. To the extent this consolidated revenue number is attributable to specific subsidiaries, the number may well be shifted from the parent to the subsidiaries, whether or not in bankruptcy. However, to the extent that there is revenue of subsidiaries in the internet service provider business that is not included in the consolidated revenue figure, there may be additional amounts owed. As a result, IBM filed similar proofs of claim against each of the Debtors' subsidiaries with an undetermined amount for the claim value. Each of these claims is a separate claim for patent infringement. Although the patents infringed may be the same, the actual acts of infringement vary for each of the Debtors depending upon the extent or nature of each debtor's

activities. If one or more claims are resolved, the other claims will remain valid. Therefore,

IBM's claims should not be disallowed based upon the theory of duplication.

VIII. IBM'S RESPONSE TO DEBTORS' SPECIFIC REQUESTS.

    A.   CALCULATION FOR THE $37.6 MILLION CLAIM FILED AGAINST RCN CORPORATION.

44.   See Section II.B. for the calculations of the $37.6 Million claim against RCN.

    B.   CLAIM CHART IDENTIFYING EACH ASSERTED CLAIM.

45.   IBM has attached Exhibits to this Response, including Infringement Proofs, which

provide more information than the typical claim chart format.

    C.   STATEMENT SETTING FORTH REASONS WHY RELIEF REQUESTED IN DEBTORS' OBJECTION SHOULD BE DENIED.

46.   See Sections I through VIII for specific reasons.

    D.   ALL OTHER DOCUMENTATION OR EVIDENCE OF IBM'S PROOFS OF CLAIM.

47.   There are volumes of evidence that may support our claim. However, we have

attached sufficient documentation to respond to this Objection.

    E.   ADDRESS TO WHICH A REPLY SHOULD BE SENT.

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    F.   CONTACT INFORMATION FOR INDIVIDUAL WITH AUTHORITY TO RECONCILE, SETTLE, OR OTHERWISE RESOLVE IBM'S CLAIMS.

49.   IBM is eager to discuss settlement and settlement discussions have actually been

ongoing. If Debtors have additional questions, Debtors should please contact Steve W. Meyer

CONCLUSION

WHEREFORE, for the foregoing reasons, IBM respectfully requests that (i) the Debtors' Objection is overruled, (ii) that the Court establish a schedule for discovery and a date for an evidentiary hearing, (iii) that it be awarded the allowance and payment of its claims based on patent infringement, and (iv) for such other and further relief as this Court deems just and proper.

Respectfully submitted,

International Business Machines Corporation

OPPENHEIMER WOLFF & DONNELLY LLP

Dated: October 28, 2004

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