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[REDACTED]

(THIS LETTER HAS BEEN *SLIGHTLY* MODIFIED FROM THE ORIGINAL SENT ON MAY 13. MODIFICATIONS HAVE BEEN MADE IN ANTICIPATION OF PUBLICATION OF THIS LETTER)

May 13, 2002

VIA FACSIMILE WITH CONFIRMATION
[REDACTED]

Timothy E. DeMasi, Esq.
Pennie & Edmonds LLP
1155 Avenue of the Americas
New York, NY 10036-2711

RE: *GM Network Limited vs. e-Gold Limited*
Civil Action No. 01 CV 9621 (RMB) (DFE)
Our file No. [REDACTED]

Dear Mr. DeMasi:

This letter, which I am simultaneously filing for docketing in this action, has a singular purpose. It is intended to demonstrate to you, with supporting evidence, that there is no infringement of GM Network's two patents-in-suit by e-gold, Ltd. or any related entity. Therefore, your clients have no hope of achieving legal success in this case. Thus, this letter is also intended to advise you that if your client continues this litigation in disregard of the fact that no infringement can be found, then e-gold will seek to have this case determined to be "exceptional" under 35 U.S.C. § 285 for the purpose of attorneys fees and costs. I will also seek to qualify this case under 28 U.S.C. § 1927 for award of attorneys' fees and costs incurred by e-gold in defending this specious claim, and seek sanctions under Fed.R.Civ.P. 11.

You would have had this letter sooner if I had not been tied up by the letter writing campaign that you have conducted to paper the case with allegations that e-gold has avoided or hindered discovery. The opposite is true and you know it. It is GM Network that has been dilatory and evasive in discovery, an issue that I will have to press if your response to this letter is negative.

You have still not provided e-gold with a detailed comparison of the claims of U.S. Patent Nos. 5,983,207 and 5,671,364 with the e-gold's and DigiGold's accused systems. You filed your complaint in November. At the Scheduling Conference, you could not identify the claims that Defendants' infringed because you were not familiar

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enough with the accused systems. At that conference, Judge Berman considered dismissing the case for want of an actual case or controversy. After four months, your initial response to an interrogatory demanding that you identify the claims infringed was that such a conclusion was "premature." Only when we threatened to bring your specious "premature" argument before Judge Eaton did you provide Defendants with a list of claims you believe are infringed.

You still have not provided a scintilla of support for this summary conclusion, even though we demanded it, and even though such proof, if you even have it, would be a simple job for Plaintiffs' patent litigation attorneys to provide. Surely, by this time, you have done an infringement analysis for your clients.

E-gold and its associates will not wait any longer for you to explain your theory of infringement. The Defendants have spent time and resources responding to discovery while Plaintiffs have done nothing more than print out pages from the parties' Web sites and produce some e-mail correspondence.

Now we find, in documents produced by GM Network, that the purpose of this lawsuit is to drive e-gold out of business. That admission merely confirms what is evident about this lawsuit to anyone who cares to examine its conduct. And, rest assured, we will have the court examine its conduct carefully before it is over. The one and only way to avoid that reckoning is to drop it now.

Why? Because the accused systems do not infringe the patents-in-suit. If you had reviewed the documents on the Internet available at e-gold's websites, and those documents already produced in discovery, you would already know that the claims of the patents-in-suit are not infringed. In an effort to conserve our clients' resources and blunt this specious attack, we are providing you with the analysis that we are due from you, even though we have no obligation to give you such an analysis. Your unresponsiveness, and your clients' conduct, has provoked us to take this highly unorthodox approach to the litigation. We are so confident in our facts, however, that we are providing you with a great deal of our non-infringement analysis in this letter.

The analysis that follows provides a partial list of the elements of the claims of the patents-in-suit that are not found in the e-gold system either literally or under the doctrine of equivalents. This list is all that should be necessary to demonstrate conclusively that this litigation has no hope of legal success and should be dropped. If this case is motivated, as we suspect, by something other than the hope of legal success, then we will engage GMN on that field of battle from now on.

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In support of this analysis, we enclose the affidavit of e-gold Ltd., Gold & Silver Reserve, Inc., and DigiGold.net Ltd. director, Barry K. Downey. Mr. Downey makes statements in his affidavit that he would make both in deposition and at trial. Most are verifiable in the publicly available documents on the Internet. Others have long since been shared with your client in meetings prior to this action.

The Defendants do not infringe any claim of either of the patents in suit. If your firm and the Plaintiffs continue this lawsuit beyond a reasonable time for you to review this letter, you will be doing so in bad faith and the Defendants will seek recourse, including attorney fees, under at least 28 U.S.C. § 1927, 35 U.S.C. § 285, and Federal Rule of Civil Procedure 11 (which you and Mr. Klein have discussed previously).

Scope of Analysis

This analysis is based on the following materials:

1. U.S. Patent Nos. 5,983,207 and 5,671,364;
2. prosecution History of the '207 and '364 patents, including the prosecution history of U.S. Application Ser. No. 08/015,588;
3. Statements made by Barry Downey in his accompanying Affidavit;
4. e-gold documents produced in discovery;
5. examination of the e-gold system.

The following analysis considers whether the accused systems infringe any of the claims of the patents. It does not consider the roles of each accused Defendant in the operation of the systems beyond what is discussed because direct infringement is necessary to any finding of either induced or contributory infringement. The accused systems do not infringe the patents, so each Defendant's individual culpability is moot.

This analysis is premised on the assumption that the patents-in-suit are valid, an assumption not challenged in this analysis. However, the validity of the patents will certainly be subject to vigorous challenge in a trial. A successful validity challenge will both destroy the patents and forever give the lie to your client James Turk's oft-stated claim to be the inventor of digital gold currency.

The Accused Systems

1) The e-gold system

For the purposes of this analysis, the e-gold system is the system that encompasses e-gold Ltd. (“e-gold”), Gold and Silver Reserve, Inc. (“Omnipay”), The E-Gold Bullion Reserve Special Purpose Trust (the “Trust”), Baxter, Baker, Sidle, Conn, and Jones, P.A. (the “Escrow Agent”), and at least one account holder. You may define the e-gold system differently, but I have defined it broadly for the purpose of this letter (I may not be so generous at trial).

Overview of the e-gold system. The e-gold system allows e-gold Ltd. account holders to transfer precious metal backed digital currencies (e-metals) to other e-gold Ltd. account holders. These e-metals have intrinsic value because they are one hundred percent backed by precious metal held in a repository. E-gold’s Escrow Agent audits the amount of precious metal stored in the repository in the Trust’s name, so that e-gold Ltd. can ensure its account holders that the e-metals are at all times 100% precious metal backed.

An e-gold account holder obtains e-metals by either having someone with e-metals transfer e-metals to them, or by purchasing e-metals from a market maker, a role played by Omnipay in the e-gold system. A market maker is a company that exchanges e-metals with account holders. The most common exchange for a market maker is a national currency for e-metal exchange (and vice versa). Once an e-gold Ltd. account holder has e-metals, he can spend them to other e-gold account holders. Some services, like bananagold.com, even act as intermediary and allow users to spend their e-metals to websites that only accept national currencies.

For the following detailed discussion, refer to the illustration of “The E-gold System” that accompanies this letter.

1) **E-gold.** E-gold creates and removes from circulation e-metals (e-gold’s electronic currencies backed by precious metals: e-gold, e-silver, e-palladium, and e-platinum) and records transactions between e-gold account holders. Downey, ¶¶6 and 7. When precious metals are delivered to one of the Trust’s bullion accounts at a repository, the Trust informs e-gold and e-gold creates a corresponding amount of e-metal. Downey ¶7.

A similar process is available for an account holder who desires to purchase precious metal using his e-metal. [This exchange is not illustrated in the accompanying illustration of the E-gold System.] This process is only available if an account holder has enough e-metal to exchange his e-metal for an entire bar or bullion unit stored in the Trust's repository account, and such a transaction would require authorization of e-gold Ltd. and the Escrow Agent. Downey ¶8.

E-gold records e-metal transactions between e-gold account holders. When a first e-gold account holder transfers e-metal to a second e-gold account holder, the first account is debited by the amount of e-metal the second account is credited with (less fees). This transfer is made using a book entry system. Downey ¶¶ 6, 10, 11, 12.

The e-gold account database is operated by Omnipay. Downey ¶15.

2) **Omnipay.** Omnipay is a market maker, which means that it exchanges an account holder's national currency into e-metals and vice versa. Downey ¶13. Omnipay has an e-gold account and several national currency accounts. When an account holder wants e-metal (or when an individual wants to open an account), the e-gold account holder wires national currency to Omnipay, and Omnipay transfers an equivalent amount of an e-metal from its e-gold account into the account holder's e-gold account. Similarly, if an e-gold account holder wants to convert an amount of e-metal into a national currency, he would transfer e-metal to Omnipay, and Omnipay would pay the user in the national currency. Downey ¶13. No part of these transactions involve a precious metal, or the assignment of ownership of a precious metal, or the conveyance of title to precious metal, either actual or virtual.

Omnipay endeavors to always have a supply of e-metal on hand. To maintain its supply of e-metal, Omnipay buys precious metal directly, and has the precious metal delivered into the Trust's bullion account at the repository. Once the Trust receives confirmation of the receipt of the metal, the Trust informs e-gold. E-gold creates a corresponding quantity of e-metal, and deposits that e-metal into Omnipay's e-gold account. In this manner, Omnipay usually has enough e-metal in its accounts to accommodate customers' requests for e-metal. Downey ¶¶ 13, 14. At this time, Omnipay is the only entity with the right to have bars delivered into the Trust's bullion accounts. Downey ¶14.

3) **The Trust.** The Trust receives precious metals from Omnipay and informs e-gold when precious metals are delivered. The precious metal is deposited into the repository in the Trust's name. From that time forward, the Trust owns the precious metal. The Trust does not hold the precious metal in account for any individual person.

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The Trust only releases precious metals with the approval of the Escrow Agent and e-gold. No e-gold account holder, therefore, ever owns the precious metal in the Trust, nor is the metal associated with any individual. Downey ¶¶ 14, 16, 17.

4) **The Escrow Agent.** The Escrow Agent verifies that the Trust holds a quantity of precious metal sufficient to provide 100% backing for any e-metals in circulation. Whenever a precious metal is purchased by an e-gold account holder using his e-metal, Barry Downey, as the director of e-gold, Ltd. in charge of this function, and the Escrow Agent would jointly sign off on the transfer from the vaults to the account holder. Downey ¶ 18.

2) The DigiGold system

For the purpose of this letter, I will define the DigiGold system as the system that encompasses DigiGold Ltd., e-gold, Ltd., and Omnipay. You may define the DigiGold system differently, but I have defined it broadly for the purpose of this letter. For the following discussion, refer to the illustration of “The DigiGold System” that accompanies this letter. It bears repeating, as we have told you several times, that DigiGold is not operational.

Overview of the DigiGold System. The DigiGold system allows DigiGold account holders to transfer digital currencies (DigiMetals) to other DigiGold account holders. DigiMetals are backed by a minimum of twenty-five percent e-metals. The remaining backing for DigiMetals is provided by interest-bearing securities.

A DigiGold account holder obtains DigiMetal either by having someone with DigiMetal transfer DigiMetal to him, or by purchasing DigiMetal from a market maker. Once a DigiGold account holder has DigiMetals, he can spend them to other DigiGold account holders.

1) **DigiGold.** DigiGold is the currency creating equivalent of e-gold, except that the DigiGold currencies are called “Grams of Gold,” “Grams of Silver,” “Grams of Platinum,” and “Grams of Palladium” (“DigiMetals”). In contrast to e-gold, which is fully backed by precious metals, the DigiMetals are backed by at least twenty-five percent e-metals from e-gold (this arrangement is contractual with e-gold), and the remaining backing for the DigiMetals are other interest-bearing instruments. DigiGold creates and removes from circulation its own currency. Downey ¶¶ 20-24.

A person downloads a DigiGold client program, which holds a DigiGold Ltd. account holder’s key for authenticating communication with the DigiGold account

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database. The client program keeps track of receipts and calculates a DigiGold account holder's DigiMetal balance. When a DigiGold account holder wants to spend DigiMetal to another DigiGold account holder, he transmits payment instructions to the DigiGold account database, and DigiGold executes the instructions by making a transfer between accounts. The transactions are recorded in a book entry system. Downey ¶¶ 21, 22.

A DigiGold account holder (an authorizer) can create a pre-authorized payment instruction. This payment instruction can be in bearer form, that is, the bearer of the pre-authorized payment instruction can exchange the instruction for a payment of DigiMetal, provided the instruction has not been previously exchanged, and provided there is enough DigiMetal in the authorizer's account to back the instruction. Downey ¶¶ 23, 26.

2) **Omnipay**. Omnipay serves as a market maker for DigiGold. That is, a DigiGold account holder can wire national currency to Omnipay and receive a payment in DigiMetal. Similarly, a DigiGold account holder could transmit DigiMetal to Omnipay and receive a payment in an equivalent amount of national currency. Downey ¶¶ 22, 24, 25.

Applicability of the '364 Patent to the Accused e-gold System

The '364 patent issued with 16 claims. Claims 1, 9 and 13 are independent claims. The remaining claims depend directly from one of the independent claims.

The prosecution history of each independent claim has been considered, since claim amendments or arguments in support of the patentability of a claim over the prior art often restrict the scope of an issued claim. In this case, the prosecution history of the '364 patent, which includes the prosecution history of the abandoned application Ser. No. 08/015,588, reveals that the original claims of the '364 patent were rejected under 35 U.S.C. §§ 101, 102, 103, and 112. In response to that rejection, claims 1, 9, and 16 were amended. After several Office Actions and a continuation application, the new claims were deemed by the examiner to be allowable.

'364 Patent Claim 1 Elements

Claim 1 is directed to a system having five major elements or limitations. Only the following elements are considered in this analysis:

Element 2. The second element in the claim is an inventory of a valuable commodity stored in the deposit site that is held for an account of at least one identified person.

Element 3. The third element is a computer system for processing transactions denominated in units of the commodity. The computer system has three sub-elements:

a) An account data storage device that records the identity of a person and a quantity of commodity units credited to their account, and an identification of the deposit site where the units are held.

b) A transaction storage device that “receives records” in units of a commodity from a person with an account having some units of the commodity therein. The records identify: 1) a person to be debited a quantity of the commodity at a storage site, 2) a person to be credited a quantity, and 3) an identification of the deposit site where the quantity of the units are held.

c) A transaction posting device for posting the records of transactions to the account storage device. The data posted comprises the identity of the person and quantity of units credited from a specific deposit site.

Element 4. The fourth element is a remote terminal located at a deposit site. The remote terminal receives and sends data to the computer system. The data must identify a person and quantity of units of the commodity held for the account of the person.

Element 5. The fifth element defines the interaction of the elements. The limitation requires that the claimed system allows transactions in commodities, without reliance on national currencies. The transaction that debits one person with units of a commodity and credits another person with units of commodity at a deposit site is extinguished upon posting of the transaction. According to the claim, this eliminates payment risk.

Elemental comparison of claim 1 of the ‘364 patent with the e-gold system

Element 2. The second element of claim 1 requires “an inventory of a valuable commodity stored in said secure facilities at a said deposit site, said inventory including a quantity of units of said valuable commodity held at said deposit site for an account of at least one identified person.”

The e-gold system has an inventory of precious metal at its repositories. Downey ¶¶ 14, 16. The repositories hold the metals in an account in the name of the Trust. The precious metals are not held for, or in the names of, *any* of the e-gold account holders.

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The relationship between the account holder and the deposit site that the patent claims is a “trust or bailment” relationship. The patentee made the following statement that confirms this in a March 17, 1997 Response to an Office Action:

[The prior art system] does not contemplate holding a valuable commodity for the ‘account of at least one identified person’ (claim 1) – which is a trust or bailment relationship where the deposit site has a specific obligation to hold and return gold belonging to the identified person.

The patent contemplates holding a valuable commodity for the “account of at least one identifiable person.” This is entirely different from the e-gold system, wherein the precious metals are held in a repository in the name of the Trust, in order to meet the 100% precious metal backing requirement of e-metals. The precious metals are not held for an identified account holder. The precious metals are not held in bailment for an e-gold account holder. While the precious metals are held in the name of the Trust, the only purpose of the Trust is to meet the backing requirement (See E-Gold Reserve Special Purpose Trust documents). The Trust has no specific obligation to “return” precious metals to an account holder. The precious metals do not “belong” to an account holder. Downey, ¶¶ 10, 16, 17.

In that same response, the patentee went on to say:

[T]he present invention involves gold ‘held for the account’ of an identified person, with all the attendant obligations of safekeeping... There is no provision [in the prior art] for *transfer of the right to remove stored commodities* such as gold among third parties in the system.

In the e-gold system, no such right is transferred because, unlike the patented invention, no account holder owns such a right in the first place. The vaults that store precious metals backing e-metals are under no obligation to “return gold belonging to” an e-gold account holder. The only way for an e-gold account holder to obtain precious metal with e-metal is to make an exchange of e-metal for precious metal through e-gold, Ltd. Downey ¶¶ 13, 17.

Thus, Element 2 of the patent claim is not found in the e-gold system.

Element 3. The third element of the claims requires:

a computer system for processing data for accounting transactions denominated in said units of said commodity, having

(a) an account data storage device for recording data comprising an identification of persons and a quantity of units of said commodity credited to said account of each of said persons and an identification of said deposit site where said units of commodity are held,

(b) a transaction data storage device for receiving records of transactions denominated in units of said commodity from a said person identified as having a quantity of said units of said commodity credited to said account of said person, said records of transactions including at least an identification of a person who will receive a debit, a person who will receive a credit, an amount of a debit of a quantity of said units of said commodity held at a deposit site, an amount of a credit of a quantity of said units of said commodity held at a deposit site, and an identification of the deposit site where said quantity of said units of said commodity are held,

(c) a transaction posting device for posting said records of transactions to said account data storage device to update said data comprising an identification of persons and a quantity of units of said commodity credited to said account of said persons at an identified deposit site...

First, the e-gold system has a computer system that processes transactions denominated in units of e-metals, not units of a commodity, as that term is used in the patent. Considerations of the sub-elements follows.

Sub-element (a): The e-gold system stores the identity of its account holders and the amount of e-metal (not a “commodity”) in an account holder’s account. The e-gold account system does not identify “said deposit site where said units of commodity are held.” E-gold’s account system only records transactions (debits and credits) in e-metal. The e-gold account database makes no record of where precious metal is held. It also does not specify that specific metal in a specific repository backs the currency of a specific user. Downey ¶ 11.

The metal in the repositories in Dubai or London backs the collective sum of e-metals in circulation and gives e-metals their intrinsic value. Once the metal is deposited in the vault, a corresponding amount of e-metal is created by e-gold. That e-metal is freely transferable, and is not accounted, credited or debited in relation to any repository or precious metal. E-metal may be transferred between users and there is no way of knowing where the e-metal originated.

To illustrate the difference between the patented system and e-gold, if one of the repositories' supplies of metal in the Trust's name disappeared (there are safeguards against this eventuality of course), the value of every e-gold account holders' e-metal would decrease, since there is no "tag" on e-metal denoting the repository associated with it. Nor is there a particular person associated with the precious metal that vanished. The overall currency system's backing would decline. If a similar situation took place under the patent, only units of the commodity identified as coming from that particular vault would lose value. Only the certain persons associated with that quantity of precious metal would be affected. The value of the remaining units in other deposit sites would be unaffected.

Thus, sub-element (a) cannot be found in the e-gold system.

Sub-element (b): The e-gold system records transactions in units of e-metal. As referred to in (a), above, the e-gold transaction system does not record transactions in units of a commodity stored at a specific deposit site. It merely records transactions in denominations of e-metal. The e-gold transactions do not include "an amount of a debit [or credit] of a quantity of said units of said commodity *held at a deposit site.*" The e-gold transactions do not record any information identifying the deposit site where the quantity of units are held.

Thus, sub-element (b) cannot be found in the e-gold system.

Sub-element (c) This sub-element requires transaction posting that comprises "an identification of persons and a *quantity of units of said commodity credited to said account of said persons at an identified deposit site.*" Quite simply, e-gold transactions are posted, but they are not posted with any identification of the deposit site nor of the quantity of units of a commodity (the precious metal) an account holder has, as this element requires. That is impossible since no account holder's account information includes that type of information.

Thus, sub-element (c) cannot be found in the e-gold system.

Element 4. The fourth element requires:

a remote terminal located at said deposit site for receiving and sending data to said computer system, said data identifying a person and a quantity of units of said commodity held at said deposit site for an account of said person.

The e-gold system does not have any such “remote terminal located at said storage site.” Any communication from the repository identifying units of held precious metals is directly with the Trust through paper mail. Occasionally, Ominipay will receive a confirmatory e-mail from the repository that precious metal has been deposited with them. Any such correspondence via e-mail is not between a remote terminal as defined, and the e-gold computer system. Rather, such correspondence is between individuals. Moreover, even if there were such a terminal, the data that terminal would report would not identify a person and quantity of units of the commodity held at the deposit site for account of a person. The repository does not hold gold or other commodities on account for any person who uses the e-gold system.

Therefore, for several reasons, element 4 cannot be found in the e-gold system.

Element 5. The claim requires an “electronic commodity based system permitting persons to conduct financial transactions without reliance on national currencies in conducting said financial transactions whereby obligations, of a person receiving a said debit of said units of said commodity held at a deposit site, to another person receiving a said credit of said units of said commodity held at a said deposit site, are extinguished upon posting of said records of transactions, thereby eliminating payment risk.”

The e-gold system allows account holders to conduct transactions without reliance on national currencies, by allowing them to exchange e-metal for goods or services. This is not the actual exchange of units of commodity at a deposit site. The final clause of this element, “thereby eliminating payment risk,” is the goal and an important requirement of all of the claims of both of the patents-in-suit.

The elimination of “payment risk” is discussed several times in the prosecution history of the patents. It is never mentioned in the patents’ specification, though it is an element of the claims. In an October 24, 1996 Response to an Office Action, the patentee stated:

The present invention relates to a system and method that permits gold to be used as a deposit currency (i.e., to permit units of gold

to be used as a medium of exchange but without requiring physical transfer of the gold to effect a transaction such as a payment transaction). The invention is accomplished by providing a secured deposit site where the gold is kept and by **creating an account based on units of gold held for a person at the deposit site**. The units of gold represented to the account may be transferred among various identified persons to extinguish obligation or effect other financial transactions. The invention is designed to operate in a global market where fluctuations among various national currencies create uncertainty and risk in fixing an obligation in a particular national currency. Other problems of security associated with transfer of national currencies are the risk that a bank holding funds can fail, and that national currencies may be counterfeited. The invention completely eliminates these risks by permitting parties to electronically transfer units of gold as a means to effect a financial transaction. [emphasis added]

In marked contrast, the e-gold system does not create an account based on units of gold “held for a person at a deposit site.” Rather, the precious metals backing e-metals are held in the Trust’s name; they are never held for an account holder.

Finally, the Examiner’s reasons for allowance addressed the “payment risk” term.

Payment risk is defined as the risk incurred by accepting national currencies (liability) in exchange for goods and services. Payment risks is eliminated when the medium of exchange is a tangible asset (gold) instead of a liability (national currencies). Unlike national currencies, the value of gold is not dependent upon the creditworthiness of a bank or government. **Payment risk is eliminated when the payee receives ownership of the gold.** [emphasis added]

The examiner’s reason for allowance is most illustrative of the difference between the invention in the patent claims and the e-gold system. A payor and payee in the e-gold system never exchange ownership of a precious metal (“commodity”). In the e-gold system, the persons using the system never become directly associated with a quantity of precious metal (the commodity). In that critical sense, the e-gold system does not

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conform to the description of eliminating payment risk given by Turk and understood by the examiner.

Therefore, element 5 is not found in the e-gold system.

Several of the elements and limitations in the claim are not present in the e-gold system. The e-gold system does not infringe claim 1 of the '364 patent.

As you well know, the absence of any one of the several elements and sub-elements of claim 1 negates infringement under the law of both literal infringement and the doctrine of equivalents. The absence of so many is impossible to overcome.

Comparison of claims 2-8 of the '364 patent with the e-gold system

Claims 2-8 narrow the scope of claim 1 by adding certain definitive limitations that claim 1 did not contain (e.g., gold or silver as the "commodity"; means for remote access to submit transaction records, identity verification means). The conclusion as to infringement of claims 2-9 is the same as the conclusion for claim 1 since the dependent claims contain all of the elements of the independent claim 1, which cannot be infringed. Since several of the elements and limitations in these claims are not present in the e-gold system, the e-gold system does not infringe claims 2-8 of the '364 patent.

Comparison of claims 9-12 of the '364 patent with the e-gold system

Claim 9 is an independent claim similar to claim 1 with the most notable difference between the claims being that claim 9's computer system includes an inventory data storage device and a verification means, and claim 9 is directed only to gold. Claims 1 and 9 have nearly identical elements and limitations otherwise. The analysis for those elements in claim 1 is equally applicable here.

For instance, e-gold's gold is not "held at the deposit site for the account of at least one identified person," as is required by claim 9. E-gold's account holders own e-metal (e-gold), not the actual gold. E-gold's system does not conform to the patentee's and the examiner's definition of how payment risk is negated. The identity of the deposit site is not stored with records of transactions. For these reasons and all of the reasons stated above in the analysis of claim 1, the e-gold system does not infringe claims 9-12 of the '364 patent.

Comparison of claims 13-16 of the ‘364 patent with the e-gold system

Independent claim 13 and its dependent claims 14-16 all contain some of the same elements as claim 1, the absence of which has already been established. As has been previously stated, the precious metals that back e-metals are not “stored at a deposit site for the benefit of the person,” where the benefit is ownership of the precious metals as is required in this claim. E-gold’s account holders own e-metal, not the actual precious metal. E-gold’s system does not conform to the patentee’s and the examiner’s definition of how payment risk is negated. The identity of the deposit site is not stored with records of transactions. For these reasons and the reasons stated above in claim 1 (except for the remote terminal requirement, which does not exist in claims 13-16), the e-gold system cannot infringe claims 13-16 of the ‘364 patent.

Comparison of claims 1-16 of the ‘364 patent with the DigiGold system

For all of the reasons listed above, and further, since the DigiGold currency is not backed solely by commodities, but rather is backed by e-gold and other paper assets, the DigiGold system does not infringe claims 1-16 of the ‘364 patent.

Applicability of the ‘207 Patent to the Accused DigiGold and e-gold Systems

The complaint alleges that operation of “the DigiGold system” infringes the ‘207 patent. For that reason, this section addresses first a comparison of the DigiGold system, which is not even operating, with the claims of the ‘207 patent.

Comparison of claim 1 of the ‘207 patent with the DigiGold system

The ‘207 patent is a continuation in part of the application that issued as the ‘364 patent. As such, the ‘364 patent’s prosecution history, and those sections of that prosecution history cited above, are equally pertinent when interpreting claim terms in the ‘207 patent.

Element 3.

Sub-element (b): This is a “means plus function” claim. In order to infringe a means plus function element, an accused device must perform the same function recited in the claimed element using either the means disclosed in the specification, or its equivalent means.

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The function of the “creating means” is the creation of electronic coins having all the limitations in the element. The means for creating such coins is the “emint” defined in the patent. Regarding the emint, the patent states:

The “emint” is a computer and communications system which creates, distributes and verifies the authenticity of ecoins, and which receives information from the storage sites regarding gold held there for storage and specifically identified for use in the digital cash system. [Col. 4, lines 45-49]

The DigiGold system creates the DigiMetal, and also verifies the authenticity of the key an account holder enters to collect his DigiMetal. The DigiGold system does not receive information from the precious metal storage sites. Further, DigiMetal does not have a “specified amount said valuable commodity” associated with it, as is required in the claim. The DigiMetal currency has its own intrinsic value, and is *backed* by a combination of e-gold and other interest bearing paper. Downey ¶ 20.

Transactions in DigiMetal are kept in log entry book form. Ecoins are not created in the DigiGold system.

Therefore, sub-element (b) cannot be found in the DigiGold system.

Sub-element (e): The sub-element defines a “means for confirming” that the electronic coins have not been previously spent. In the specification, the confirming means is accomplished within the emint. The emint comments made above are equally pertinent here.

Therefore, sub-element (e) cannot be found in the DigiGold system.

Element 4. This limitation requires that the ecoins be backed by equal or greater amounts of the valuable commodity in the secure facility. DigiMetal is not 100% backed directly by any valuable commodity, and to the extent that it is, it needs to be only backed by twenty-five percent e-metals (which is a precious metal backed digital currency, not a commodity in the sense used in the patent). Downey ¶ 20.

Since the DigiMetal is partially backed by negotiable instruments, meaning that the “ecoins” are not fully backed by either the commodity (precious metals) or e-metals, this element is not present in the DigiGold system.

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Element 5. The final limitation requires the elimination of payment risk in the sense argued by the patentee and understood by the examiner in prosecution of the patent. Payment risk was defined and discussed above with respect to the e-gold system, and those comments are applicable to the DigiGold system.

Since several of the elements and limitations in the claim are not present in the DigiGold system, the DigiGold system does not infringe claim 1 of the '207 patent.

Comparison of claims 2-11 of the '207 patent with the DigiGold system

Claims 2-11 narrow the scope of claim 1, which is the broadest of the '207 patent's claims, and include all of the elements of claim 1. Therefore, the conclusion as to infringement of claims 2-11 is the same as the conclusion for claim 1.

Comparison of claims 1-11 of the '207 patent with the e-gold system

Though the e-gold system is not alleged to infringe the '207 patent in the complaint, let it be clear here that the e-gold system does not infringe the '207 claims either. As previously set forth, E-gold's account holders own e-metals (e-gold), not the actual gold. E-gold's system does not conform to the patentee's and the examiner's definition of how payment risk is negated. The e-gold system does not create ecoins with serial numbers as is required in the claims. Downey ¶ 12. The e-gold system has no emint, as the term is defined in the patent at least because the system does not receive and account for the location of gold or other precious metals through a computer communications system for the purpose. For all of these reasons (and several more), the e-gold system does not infringe claims 1-11 of the '207 patent.

Conclusion

Accordingly, the e-gold and DigiGold systems do not infringe either the '207 or the '364 patent. There is no proof that can be presented to a court or jury that makes infringement even a remote possibility in this case.

The appropriate thing to do under these circumstances is to withdraw the lawsuit. I advise you to take that action immediately. You should explain to your clients that they have no possibility of winning on the law or the facts and that continuing this case is a calculated risk.

Here's how you calculate the risk. Consider the possibility that e-gold will prevail on one of more of its counterclaims, including that these patents are invalid and

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worthless, and collect damages for your client's willfully tortious conduct. (Consider, while you are at it, the impact on a jury of the incredible letter that your client had a Bermuda attorney write to Michael Mello, which included an express threat to turn him over to the Bermuda judicial system for investigation of charges appearing in "the Press", and which involved only a third party.) Add to that the attorneys' fees and costs associated with the case, which e-gold will aggressively pursue if this case is maintained beyond the end of this month (May, 2002).

Do not even consider the possibility that your client can bargain with e-gold for some kind of concession on the patents (like a royalty) or on the services offered by e-gold. No chance. Your clients' choice is this: drop the suit now and walk away or face the consequences.

If you regard the information provided in this letter as somehow inconclusive on one or more points, I invite you to meet with me and discuss the issues that you need resolved with particularity so that this case can be brought to a rapid conclusion. I will cooperate to clarify anything that you believe is in doubt. You need not wait for your expert witness to slog through all of the control software to get definitive answers. I will help you get them for the simple reason that they will demonstrate non-infringement of the patents on which you base your clients' claim. Inaction, however, is unacceptable.

I await your response.

Very truly yours,

Joseph R. DelMaster, Jr.

JRD
Enclosure
cc: Clerk of the Court