

**UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION**

C2 OPTIONS EXCHANGE, INCORPORATED

Plaintiff,

v.

INTERNATIONAL SECURITIES
EXCHANGE, LLC,

Defendant.

Case No. 10-cv-0643

**COMPLAINT FOR DECLARATORY JUDGMENT OF PATENT INVALIDITY, NON-
INFRINGEMENT AND UNENFORCEABILITY DUE TO INEQUITABLE CONDUCT
OF U.S. PATENT NO. 6,618,707**

Plaintiff C2 Options Exchange, Incorporated (“C2”), for its Complaint, alleges:

THE PARTIES

1. Plaintiff C2 is a Delaware corporation having its principal place of business at 400 South LaSalle Street, Chicago, Illinois 60605.

2. Defendant, International Securities Exchange, LLC (“ISE”), is a Delaware corporation having its principal place of business at 60 Broad Street, New York, New York 10004.

JURISDICTION AND VENUE

3. This action arises under the Patent Laws of the United States, Title 35, United States Code, Section 1 et seq., and is for a declaratory judgment that United States Patent No. 6,618,707 (the “‘707 patent”) is not infringed and/or not valid and/or not enforceable against plaintiff. A copy of the ‘707 patent is annexed as Exhibit A.

4. This court has jurisdiction of the subject matter hereof under the provisions of Title 28, United States Code, Sections 1338(a), 2201 and 2202.

5. Venue in this judicial district is proper under Title 28, United States Code, 1391(b) and 1391(c) in that a substantial part of the property that is the subject of this action is situated in this judicial district and/or a substantial number of the acts or omissions giving rise to the claim occurred in this judicial district.

CLAIM FOR RELIEF

6. C2 plans to launch during October 2010 as a national securities exchange that specializes in the trading of standardized securities options. Among other things, C2 plans to operate a trading platform based on a version of the CBOEdirect trade engine through which holders of trading permits can buy and sell options for their own account, for their employer's account, and for their customers. The C2 trading platform was discussed generally by CBOE Holdings, Inc. in its second quarter earnings call on August 5, 2010. The publicly-available presentation slides and prepared remarks concerning that earnings call are annexed as Exhibit B. As described in Exhibit B and C2's publicly-available trading rules, annexed as Exhibit C, the C2 trading platform is designed to use price/time priority. *See* Exhibit C at Rule 6.12. Despite SEC approval to do so, the C2 trading platform does not permit and cannot be configured to combine pro-rata (size-based) allocation with customer priority. C2 has submitted a rule change with the SEC, the stated purpose of which is to streamline its rule relating to order execution and priority, specifically clarifying that the C2 exchange will not combine pro-rata (size-based) allocation with customer priority. Nor is C2 capable of using the Ultimate Matching Algorithm (UMA) of the Hybrid Trading System of the Chicago Board Options Exchange. The design of C2, given its planned launch during October 2010, is substantially fixed. Moreover, C2 has long been engaged in meaningful preparation for the now imminent launch of its exchange. For example, C2's Notice of Filing of Application for Registration as a National Securities Exchange under Section 6 of the Securities Exchange Act of 1934, annexed as Exhibit D, was published on

February 24, 2009. Chicago Board Options Exchange, Incorporated has no ownership interest in C2.

7. ISE purports to operate an all-electronic securities exchange that offers trading in securities options. On information and belief, ISE purports to own the '707 patent.

8. There is a co-pending litigation in this judicial district between Chicago Board Options Exchange, Incorporated ("CBOE") and ISE (Case No. 1:07-CV000623 (JHL/JC), the "co-pending litigation") concerning the '707 patent. The co-pending litigation has been assigned to Hon. Joan H. Lefkow, U.S.D.J., who has issued a *Markman* order, construing the claims of the '707 patent. Moreover, a case-dispositive motion for summary judgment of non-infringement is currently pending before Judge Lefkow.

9. On March 24, 2010, ISE, by its counsel in the co-pending litigation, sent to CBOE a letter, a copy of which is annexed as Exhibit E. In the March 24, 2010 letter, ISE alleged that the CBOEdirect trading platform "infringes the '707 patent," and went on to assert that ISE regarded every commercial implementation of the CBOEdirect trading platform to be an infringement.

10. On August 4, 2010, ISE, by its counsel in the co-pending litigation, sent CBOE a letter, a copy of which is annexed as Exhibit F. In the August 4, 2010 letter, ISE demanded that CBOE provide discovery concerning C2, and asserted that ISE regarded such discovery to be responsive to document requests concerning systems accused of infringement as well as, more generally, "to issues including infringement...[and] damages."

11. On August 6, 2010, ISE, by its counsel in the co-pending litigation, sent CBOE an email, a copy of which is annexed as Exhibit G. In the August 6, 2010 email, ISE asserted that its infringement allegations against CBOEdirect make discovery into C2 appropriate.

12. During an August 10, 2010 teleconference between counsel for ISE and CBOE in the co-pending litigation, ISE informed that it would seek to amend the scheduling order in the co-pending litigation, in which C2 is not a party, to allow further discovery based on alleged infringement by C2.

13. During a September 28, 2010 hearing before Judge Lefkow in the co-pending litigation, counsel for ISE stated on the record and in the presence of an officer of C2 that ISE regarded the C2 exchange to be an infringement of the '707 patent.

14. On information and belief, by reason of, *inter alia*, the *Markman* ruling in the co-pending litigation, referred to in paragraph 8 hereof, the C2 exchange does not infringe the '707 patent. Bases for non-infringement include, but are not limited to, those already set forth in the briefs in support of CBOE's motion for summary judgment in the co-pending litigation.

15. On information and belief, a grant of summary judgment of non-infringement in the co-pending litigation, specifically the second and third parts of the pending motion, would be dispositive of the non-infringement issues in the present action.

16. By reason of the facts set forth in Paragraphs 6 through 14, inclusive, hereof, a conflict of asserted rights has arisen between the parties and an actual controversy exists between plaintiff C2 and defendant ISE with respect to the infringement, validity, and enforceability of the '707 patent, in that plaintiff claims the right to operate the C2 exchange without interference from defendant and free from any and all charges of infringement against it.

Patent Invalidity

17. The '707 patent and each claim of such patent is, on information and belief, not infringed, and/or not valid and/or not enforceable against plaintiff under one or more of the provisions of Title 35, United States Code, Sections 101, 102, 103, or 112.

The '707 Patent is Unenforceable By Reason of Inequitable Conduct

18. As set forth in detail in Paragraphs 19 through 80 hereof, the '707 patent is further unenforceable by reason of inequitable conduct because, on information and belief, the applicant for such patent and/or his authorized representative and/or other persons associated with the preparation, filing and/or prosecution of Provisional Application No. 60/106,935 and/or Application No. 09/433,613, all of whom had the duty to disclose to the United States Patent and Trademark Office (the "PTO") information material to the patentability of the subject matter claimed in the application for the '707 patent, willfully and knowingly withheld and misrepresented in the proceedings before the PTO, knowledge and information relating to material prior art which would have been pertinent to the examination and evaluation conducted by the PTO that resulted in the issuance of the '707 patent.

19. The applicant for the '707 patent, his authorized representatives, and other persons associated with the preparation, filing and/or prosecution before the PTO of the application for the '707 patent (collectively, "the applicant") were aware at all relevant times of their duty to cite material information to the PTO during the prosecution of the application for the '707 patent. Despite this awareness, the applicant, with an intent to deceive the PTO, concealed from and/or misrepresented to the PTO material information during the prosecution of the application for the '707 patent as set forth in Paragraphs 21 through 80 hereof.

20. The knowing and willful concealment and/or misrepresentation of material information during the prosecution of the application for the '707 patent before the PTO, referred to in Paragraphs 21 through 80 hereof, renders the '707 patent unenforceable by reason of inequitable conduct.

**Inequitable Conduct with Respect to
the OM Product Description**

21. OM Stockholm AB (“OMX”) is a Swedish company that developed and commercialized an automated options exchange at least as early as 1990.

22. OMX developed the first such automated options exchange for use in its own options exchange in Stockholm, Sweden. By at least as early as 1996, OMX had begun licensing to third party customers its software system for implementing automated options exchanges. The OMX software system was known commercially as the “OM Click Exchange System.”

23. By 1996, automated options exchanges running OM Click software were in operation in several countries including Austria, England, Hong Kong and Italy.

24. A 100- plus page document entitled “The OM CLICK Exchange Software Product Description” (the “OM Product Description”) dated September 1996 was authored by OMX and distributed to potential customers. The OM Product Description is a description of the OM CLICK Exchange System and its subsystems that describes the automated financial exchange of the OM CLICK Exchange System and its functionality as it then existed.

25. On or about May 13, 1997, Patrick Egervall, the head of technology sales at OMX, while in the United States, provided a copy of the OM Product Description to Gary Katz, the sole named inventor of the ‘707 patent in suit. Mr. Katz used the OM Product Description as the starting point for and the basis of the automated financial exchange disclosed and claimed in the ‘707 patent.

26. By no later than May 21, 1997, Mr. Katz had reviewed the OM Product Description, and had prepared and sent to OMX a two-page list of questions and comments about the automated financial exchange disclosed in the OM Product Description.

27. By no later than May 30, 1997, Mr. Katz had prepared and sent to OMX a fourteen-page document entitled “Functional Specification for Electronic Trading” which is relied upon by ISE in the co-pending litigation as establishing May 30, 1997 as the date of conception of the subject matter claimed in at least claims 1 and 35 of the ‘707 patent in suit.

28. The OM Product Description is prior art to the subject matter of the claims of the ‘707 patent at least under 35 U.S.C. §102(f), as well as §§102(a) and (b). Mr. Katz derived the automated financial exchange disclosed and claimed in the ‘707 patent from the OM Product Description.

29. Claim 1 of the application for the ‘707 patent, as filed on November 2, 1999 (“claim 1 as filed”) reads as follows:

1. An automated exchange for a trading financial instrument, wherein the trade may be one of a purchase a quantity of the instrument and a sale of a quantity of the instrument, the exchange comprising:

an interface for receiving an incoming order to trade the instrument, the order having a size associated therewith;

book memory means for storing a plurality of previously received orders to trade a corresponding plurality of quantities of the instrument, the previously received orders being a customer order previously placed by a customer and a professional order previously placed by one or more professionals;

system memory means for storing parameters for allocating trades between the incoming order and the previously received orders; and

processor means for allocating portions of the incoming order among the plurality of previously received orders in the book memory means based on the parameters in the system memory means.

30. Using the “broadest reasonable interpretation” that the PTO could have used during patent prosecution, the OM Product Description, at least at pages 7, 11, and 33, discloses an automated exchange for trading a financial instrument.

31. Using the “broadest reasonable interpretation” that the PTO could have used during patent prosecution, the OM Product Description, at least at pages 7, 11, 12, 18, 47 and 73, discloses that the automated exchange includes an interface for receiving an incoming order to trade the instrument, the order having a size associated therewith.

32. Using the “broadest reasonable interpretation” that the PTO could have used during patent prosecution, the OM Product Description, at least at pages 11, 12, 13, 25 and 73, discloses that the automated exchange further includes a book memory means.

33. Using the “broadest reasonable interpretation” that the PTO could have used during patent prosecution, the OM Product Description, at least at pages 20, 23 and 24, discloses that the automated exchange further includes a system memory means for storing parameters for allocating trades between the incoming order and previously received order.

34. Using the “broadest reasonable interpretation” that the PTO could have used during patent prosecution, the OM Product Description, at least at pages 20, 23 and 24, discloses a processor means for allocating portions of the incoming order among the plurality of previously received orders in the book memory means based on the parameters in the system memory means.

35. With respect to claim 1 as issued, using the “broadest reasonable interpretation” that the PTO could have used during patent prosecution, the OM Product Description, at least at pages 7, 11, and 33, discloses an automated exchange for trading a financial instrument.

36. With respect to claim 1 as issued, using the “broadest reasonable interpretation” that the PTO could have used during patent prosecution, the OM Product Description, at least at pages 7, 11, 12, 18, 47 and 73, discloses that the automated exchange includes an interface for receiving an incoming order or quotation to trade the instrument, the order or quotation having a size associated therewith.

37. With respect to claim 1 as issued, using the “broadest reasonable interpretation” that the PTO could have used during patent prosecution, the OM Product Description, at least at pages 11, 12, 13, 25 and 73, discloses that the automated exchange further includes a book memory means.

38. With respect to claim 1 as issued, using the “broadest reasonable interpretation” that the PTO could have used during patent prosecution, the OM Product Description, at least at pages 20, 23 and 24, discloses that the automated exchange further includes a system memory means for storing parameters for allocating trades between the incoming orders or quotations and previously received orders or quotations.

39. With respect to claim 1 as issued, using the “broadest reasonable interpretation” that the PTO could have used during patent prosecution, the OM Product Description, at least at pages 20, 23 and 24, discloses a processor means for allocating portions of the incoming order among the plurality of previously received orders or quotations in the book memory means based on the parameters in the system memory means.

40. With respect to issued claim 35 of the ‘707 patent, using the “broadest reasonable interpretation” that the PTO could have used during patent prosecution, the OM Product Description, at least at pages 7, 11, and 33, discloses an automated exchange for trading a financial instrument.

41. With respect to issued claim 35, using the “broadest reasonable interpretation” that the PTO could have used during patent prosecution, the OM Product Description, at least at pages 9, 11, 12, 13, 14, 15, and 35, discloses that the automated exchange “stor[es] a public customer order to trade the instrument in a book memory, the public customer order having a size.”

42. With respect to issued claim 35, using the “broadest reasonable interpretation” that the PTO could have used during patent prosecution, the OM Product Description, at least at pages 9, 11, 13, 14, 15, 35 and 73, discloses that the automated exchange “stor[es] a plurality of professional orders or quotations entered for one or more professionals to trade the instrument in the book memory, the professional orders or quotations having a respective plurality of sizes.”

43. With respect to issued claim 35, using the “broadest reasonable interpretation” that the PTO could have used during patent prosecution, the OM Product Description, at least at pages 13, 15, and 23, discloses that the automated exchange “establish[es] a best price for the instrument.”

44. With respect to issued claim 35, using the “broadest reasonable interpretation” that the PTO could have used during patent prosecution, the OM Product Description, at least at pages 20 and 23, discloses that the automated exchange “establish[es] an allocating parameter.”

45. With respect to issued claim 35, using the “broadest reasonable interpretation” that the PTO could have used during patent prosecution, the OM Product Description, at least at pages 11 and 73, discloses that the automated exchange “receiv[es] an incoming order or quotation for the purchase or sale of the instrument, the incoming order or quotation having a size associated therewith.”

46. The OM Product Description is material to the claimed subject matter of the '707 patent because there is a substantial likelihood that a reasonable examiner would have considered the OM Product Description important in deciding whether to allow the November 1999 application to issue as a patent.

47. The OM Product Description is material prior art because it formed the basis for the invention of the '707 patent, both as claimed in at least claim 1 of the application as filed and claims 1 and 35 of the '707 patent as issued.

48. As set forth in Paragraphs 30 through 34, inclusive, hereof, the OM Product Description is material because it discloses all of the elements and limitations of at least claim 1 as filed, which is reproduced at Paragraph 29 hereof. As such, the OM Product Description fully anticipates such claim under 35 U.S.C. §102. The fact that the PTO never rejected claim 1 as filed under 35 U.S.C. § 102 demonstrates that no prior art reference before the examiner discloses the elements and limitations of claim 1 as filed, much less the complete combination of the relevant claimed features.

49. The OM Product Description is material prior art information because it establishes a prima facie case of unpatentability of at least claim 1 as filed, as well as at least issued claims 1 and 35 of the '707 patent, and it refutes and is inconsistent with positions taken by the applicant during the prosecution of the November 1999 application in opposing arguments of unpatentability relied on by the PTO and in asserting arguments of patentability, as set forth in detail in Paragraphs 50 through 52 hereof.

50. At page ISE 389 of the prosecution history of the application for the '707 patent (the "'707 prosecution history,'" which was produced as a "public" document by ISE in the co-pending litigation), Mr. Katz's attorney argued that the present invention was "not shown or

suggested by Minton [the principal prior art reference known to the examiner] at least because Minton does not show an exchange where portions of an incoming order are allocated among previously-received orders or quotations based on an allocating parameter . . .” The OM Product Description refutes and is inconsistent with the foregoing position taken by Mr. Katz’s attorney. The foregoing argument could not have been made to distinguish at least claim 1 as filed and claims 1 and 35 as issued over the OM Product Description because the OM Product Description discloses this feature as set forth at least at Paragraphs 33, 34, 38 and 39 through 44 hereof. Mr. Katz admitted this fact at his deposition taken in the co-pending litigation.

51. At page ISE 389 of the ‘707 prosecution history, Mr. Katz’s attorney, again to distinguish over the Minton reference, argued that “[t]he system according to Minton will not automatically match quotes and orders.” The OM Product Description refutes and is inconsistent with the foregoing position taken by Mr. Katz’s attorney. The foregoing argument could not have been made to distinguish at least claim 1 as filed and claims 1 and 35 as issued over the OM Product Description because the OM Product Description discloses this feature as set forth at least at Paragraphs 30, 31, 35, 36, 40, 41 and 42 hereof. Mr. Katz admitted this fact at his deposition taken in the co-pending litigation.

52. At page ISE 389 of the ‘707 prosecution history, Mr. Katz’s attorney, again to distinguish over the Minton reference, argued that “there is no suggestion in Minton that where a trade results in the execution of one portion of an order, the remaining position is allocated among other orders.” The OM Product Description refutes and is inconsistent with the foregoing position taken by Mr. Katz’s attorney. The foregoing argument could not have been made to distinguish at least claim 1 as filed and claims 1 and 35 as issued over the OM Product Description because the OM Product Description discloses this feature as set forth at least at

Paragraphs 34 and 38 hereof. Mr. Katz admitted this fact at his deposition taken in the co-pending litigation.

53. Although, as set forth in Paragraphs 25 through 28 hereof, the sole named inventor, Gary Katz, was fully aware of the OM Product Description at a time prior to when he conceived the automated financial exchange disclosed and claimed in the '707 patent in suit and had used the OM Product Description as the starting point for and the basis from which he derived such automated financial exchange, he never disclosed the OM Product Description to the PTO.

54. At all relevant times, Mr. Katz was cognizant of his duty of candor to the PTO, particularly his duty to disclose to the PTO any relevant prior art of which he was aware. Notwithstanding such awareness, Mr. Katz did not disclose the material prior art OM Product Description to the PTO or his patent attorney who prepared and prosecuted the November 1999 application in the PTO.

55. Although Mr. Katz knew when he filed the November 1999 application that the subject matter disclosed in the OM Product Description had been created prior to the time he made his invention and that he was not an inventor of any of the subject matter disclosed in the OM Product Description, testifying under oath at his deposition taken in the co-pending litigation, he could offer no explanation as to why he failed to disclose the OM Product Description to his patent attorney or the PTO.

56. Absent disclosure by the applicant, the examiner had no way of learning of the existence of the OM Product Description let alone that the named inventor had used the OM Product Description as the starting point for and the basis of the invention claimed in the 1999 application and the '707 patent.

57. By reason of the facts and circumstances set forth in Paragraphs 21 through 56 hereof, there is a clear inference Mr. Katz withheld the OM Product Description from the PTO with deceptive intent.

58. By reason of the facts and circumstances set forth in Paragraphs 21 through 56 hereof, Mr. Katz, with the intent to mislead and deceive the PTO, withheld from the PTO both the material prior art OM Product Description and the fact that the OM Product Description constituted the starting point for and the basis of the invention claimed in the 1999 application and the '707 patent.

**Inequitable Conduct with Respect to Trade
Allocation Mechanisms that Were Being Used
By Existing Options Exchanges**

59. Claim 1 of the '707 patent as issued reads as follows:

1. An automated exchange for trading a financial instrument wherein the trade may be one of a purchase of a quantity of the instrument and a sale of a quantity of the instrument, the exchange comprising:

an interface for receiving an incoming order or quotation to trade the instrument, the incoming order or quotation having a size associated therewith;

book memory means for storing a plurality of previously received orders or quotations to trade a corresponding plurality of quantities of the instrument, the previously received orders and quotations each having a size associated therewith and the previously received orders including public customer orders previously entered for public customers and professional orders or quotations previously entered for one or more professionals;

system memory means for storing allocating parameters for allocating trades between the incoming order or quotation and the previously received orders and quotations; and

processor means for allocating portions of the incoming order or quotation among the plurality of previously received orders and

quotations in the book memory means based on the allocating parameters in the system memory means,

wherein the allocating parameters include parameters for allocating a first portion of the incoming order or quotation against previously received customer orders and allocating a remaining portion of the incoming order or quotation preferentially against professional orders and quotations with larger size.

60. Claim 1 as issued, reproduced at Paragraph 59 hereof, is virtually identical to claim 1 as filed, reproduced at Paragraph 29 hereof, except that claim 1 as filed was amended during prosecution of the application to include as limitations references to “quotations” and the identification of the particular allocation mechanisms of

allocating a first portion of the incoming order or quotation against previously received customer orders [i.e. customer priority], and

allocating a remaining portion of the incoming order or quotation preferentially against professional orders and quotations with larger size. [i.e. size-based allocation]

61. Prior to the date of conception of the subject matter disclosed and claimed in the ‘707 patent, options exchanges in the United States operated in accordance with certain allocation mechanisms. Such allocation mechanisms, both as disclosed in the rules of prior options exchanges and as implemented in public use by such prior options exchanges are prior art to the subject matter of the claims of the ‘707 patent under 35 U.S.C. §§102(a) and/or 102(b).

62. The prior art allocation mechanisms and the prior public use of such allocation mechanisms referred to in Paragraph 61 hereof include public customer priority, size-based allocation, and pro rata allocation, alone and in combination. Public customer priority, size-based allocation, and pro rata allocation are not disclosed as prior art in the Background of the Invention section of the ‘707 patent. Nor do any of the prior art references of record before the PTO disclose any of the foregoing allocation mechanisms.

63. Katherine Simmons is an attorney at law who, beginning in 1996, represented ISE as outside counsel in connection with the efforts of ISE to obtain approval for its automated financial exchange from the United States Securities and Exchange Commission (the "SEC"). Prior to the filing of the November 1999 application, Ms. Simmons became employed by ISE.

64. Ms. Simmons was responsible for writing the trading rules for the ISE. Sections of the proposed trading rules were reviewed by Mr. Katz. At all relevant times, Ms. Simmons had knowledge of the prior public use of allocation mechanisms of existing exchanges, particularly including the material prior art allocation mechanisms of public customer priority, size-based allocation and pro rata allocation. Also, at all relevant times Mr. Katz had knowledge of the prior public use of allocation mechanisms of existing exchanges, particularly including the material prior art allocation mechanisms of public customer priority, size-based allocation and pro rata allocation. Mr. Katz was aware when he filed his patent application that other exchanges were practicing customer priority by exchange rule. Moreover, prior to his conception of the subject matter claimed in the '707 patent, Mr. Katz had been an employee of the New York Stock Exchange ("NYSE") options exchange, which implemented and published rules concerning size-based allocation and pro rata allocation and where his responsibilities included maintaining a familiarity with the rules of other options exchanges.

65. On information and belief, at the time he filed the application for the '707 patent, Mr. Katz was aware that then-existing options exchanges utilized customer priority.

66. On information and belief, Ms. Simmons knew at all relevant times that existing exchanges, prior to the alleged invention of the '707 patent, utilized public customer priority. There is no difference or distinction between the mechanism of public customer priority as claimed in claim 1 of the '707 patent and the mechanism of public customer priority that Ms.

Simmons admitted during her deposition taken in the co-pending litigation that she knew was part of the accepted structure in the prior options exchanges.

67. At all relevant times, Ms. Simmons knew that the mechanism of allocating a first portion of an order to public customer orders was something that had been done at existing exchanges. The foregoing admission tracks the language of claim 1 as issued, which is reproduced at Paragraph 59 hereof.

68. At all relevant times, Ms. Simmons knew that the mechanism of allocating a remaining portion of an order (after public customer orders are filled) preferentially against professional orders or quotations of larger size, was something that had been done at existing options exchanges. The foregoing admission tracks the language of claim 1 as issued, which is reproduced at Paragraph 59 hereof.

69. The withheld knowledge of prior public uses of allocation mechanisms by other options exchanges is material to the subject matter of at least claims 1 and 35 of the '707 patent because there is a substantial likelihood that a reasonable examiner would have considered such knowledge of such prior public uses important in deciding whether to allow the November 1999 application to issue as a patent.

70. On information and belief, Ms. Simmons knew that before the alleged invention of the '707 patent other exchanges (including for example, CBOE) has customer priority rules and utilized and/or had rules concerning pro rata allocation. On information and belief, these rules were published and their use was public.

71. The withheld knowledge of prior public uses of allocation mechanisms by other options exchanges and/or the published rules of such exchanges relating to such allocation mechanisms is material because none of the prior art before the PTO discloses the mechanism of

size based allocation, pro rata allocation or customer priority (let alone any combination thereof). Also, the known public uses of allocation mechanisms withheld by Ms. Simmons and Mr. Katz refute and are inconsistent with positions taken by the applicant during the prosecution of the November 1999 application in opposing arguments of unpatentability relied on by the PTO and in asserting arguments of patentability at least because the applicant distinguished prior art for its failure to disclose a size-based allocation and customer priority. The applicant made arguments for patentability that could not have been made had the allocation mechanisms of other exchanges and/or the prior public use of such allocation mechanisms of other exchanges been disclosed to the PTO.

72. At page ISE 600 of the prosecution history, Mr. Katz's attorney, to distinguish over the Minton reference, referred to in Paragraphs 50 through 52 hereof, argued that "Minton does not show or suggest allocating an incoming order among a plurality of previously received orders on the basis of a stored allocating parameter, or that such an allocating parameter includes parameters for allocating preferentially against professional orders or quotations with larger size, as required by claims 1 and 35." The OM Product Description referred to in Paragraphs 24 through 26, 28, and 30 through 45 hereof, refutes and is inconsistent with the first part of the position taken by Mr. Katz's attorney for the reasons set forth in Paragraph 50 hereof. The public use of the prior art allocation mechanisms of size-based allocation and pro rata allocation refute and are inconsistent with the second part of the position taken by Mr. Katz's attorney. The argument regarding the parameter "for allocating preferentially against professional orders or quotations with larger size" could not have been made to distinguish over the prior public use by options exchanges of the known mechanisms of size-based allocation and pro rata allocation.

73. At page ISE 601 of the prosecution history, Mr. Katz's attorney, to distinguish over the Rickard reference [a second reference being relied upon by the examiner] argued that "[t]he allocation in Rickard is not made preferentially on the basis of the size of the professional's quotations Rickard does not show or suggest that the allocation is made preferentially, based on the professional's quotation size." The public use of the prior art mechanisms of size-based allocation and pro rata allocation refute and are inconsistent with the position taken by Mr. Katz's attorney. The foregoing argument could not have been made to distinguish over the prior public use by options exchanges of the known mechanisms of size-based allocation and pro rata allocation.

74. At page ISE 603 of the prosecution history, Mr. Katz's attorney, to distinguish over the combination of the Minton and Rickard references, argued that "the features set forth in the amended claims (namely, allocation of quotes and orders via allocating parameters that include allocating first against customer orders and next preferentially against professional orders and quotes with larger size . . .) in the manner [sic] are not found in either of the references separately, and such features are therefore lacking in any combination of the references." The public use of the prior art allocation mechanisms of customer priority, size-based allocation and pro rata allocation refute and are inconsistent with the position taken by Mr. Katz's attorney. The foregoing argument could not have been made to distinguish over the prior public use by options exchanges of the known allocation mechanisms of customer priority, size-based allocation and pro rata allocation.

75. Ms. Simmons participated in the preparation of the November 1998 provisional application for the '707 patent and the preparation of the November 1999 application. Ms. Simmons also participated in the prosecution of the November 1999 application in the PTO,

including appearing in person at an interview with the examiner at which the allocating parameters claimed in claims 1 and 35 were discussed. Ms. Simmons did not inform the examiner at that time as to her knowledge of the prior public uses of the claimed allocating parameters or her knowledge of specific rules of other exchanges disclosing such parameters. (ISE 401).

76. At all relevant times, Ms. Simmons and Mr. Katz were cognizant of their duty of candor to the PTO, particularly of their duty to disclose to the PTO any relevant prior art of which they were aware. Notwithstanding such awareness, Ms. Simmons and Mr. Katz did not disclose the material prior art allocation mechanisms or their knowledge of the public use of prior art allocation mechanisms of public customer priority, size-based allocation, and pro rata allocation to the PTO.

77. The strategy of ISE in obtaining SEC approval was to minimize the differences between the proposed ISE trading rules and the trading rules of the existing options exchanges.

78. As a representative of ISE before the SEC and a participant in the preparation of the 1998 provisional application, and the preparation and prosecution of the 1999 application for the '707 patent, Ms. Simmons was aware at all relevant times that ISE was representing to the SEC that its trading rules and mechanisms were similar to the trading rules and mechanisms of the existing exchanges while at the same time withholding that information from the PTO even though the claimed allocation mechanisms of public customer priority, size-based allocation, and pro rata allocation were being relied upon in arguments to obtain allowance of at least claims 1 and 35 of the 1999 application for the '707 patent.

79. By reason of the facts and circumstances set forth in paragraphs 59 through 78 hereof, there is a clear inference that Mr. Katz and Ms. Simmons withheld from the PTO their

knowledge of the prior public uses at existing options exchanges of the allocation mechanisms of public customer priority, size-based allocation and pro rata allocation and/or the published rules of such exchanges relating to such allocation mechanisms with deceptive intent.

80. By reason of the facts and circumstances set forth in Paragraphs 59 through 78 hereof, the applicant, and in particular Ms. Simmons and Mr. Katz, with the intent to mislead and deceive the PTO, withheld from the PTO evidence of the prior public use of the material prior art allocation mechanisms of public customer priority, size-based allocation and pro rata allocation and/or the published rules of such exchanges relating to such allocation mechanisms.

81. By reason of the facts and circumstances set forth in Paragraphs 21 through 80 hereof, the '707 patent is unenforceable by reason of inequitable conduct.

PRAYER FOR RELIEF

WHEREFORE, plaintiff demands judgment as follows:

- A. The '707 patent is invalid.
- B. The '707 patent is not infringed by plaintiff.
- C. The '707 patent is unenforceable against plaintiff.
- D. Awarding plaintiff its costs and disbursements in this action.
- E. Awarding plaintiff reasonable attorneys' fees.
- F. For such other and further relief as the Court deems just and proper.

JURY DEMAND

C2 respectfully requests a trial by jury as to all issues so triable.

Dated: October 8, 2010

By: s/Ayad Paul Jacob

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