



Federal Circuit Review

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Judgment of Infringement Entered as Sanction

In *Alexsam, Inc. v. IDT Corp.*, Appeal No. 12-1063, the Federal Circuit affirmed the district court's judgment of no invalidity and some of its findings of infringement.

Alexsam accused four different IDT systems (used for selling phone and gift cards) of infringing a patent related to activating "multifunction card[s]." During trial, the district court found that IDT failed to fully and completely respond to interrogatories with regards to the fourth system, and therefore the court entered judgment of infringement of the fourth system as a sanction. The jury then found infringement by the first, second and third systems, as well as no invalidity. Following trial, the court granted a motion for noninfringement of the third system based on a licensing agreement.

The Federal Circuit reversed the finding of infringement for the first and second systems. The patent recites a system including "an unmodified existing standard retail point of sale device." At trial, Alexsam's experts testified that the systems could use an unmodified terminal, but did not testify that the systems actually used an unmodified terminal.

The Federal Circuit affirmed the sanction regarding infringement of the fourth system. The Federal Circuit found this sanction to be "just and fair," with a "substantial relationship" to the facts sought to be established.

The Federal Circuit affirmed the finding of a license covering the third system. A license agreement between Alexsam and MasterCard defined "Licensed Transactions" as those using the MasterCard network, and included an implied sublicense for all such transactions. Because IDT's third system uses MasterCard's network, these transactions were found to be covered by this license agreement. MasterCard's refusal to pay royalties for these transactions did not retroactively revoke the sublicense under which these transactions took place.

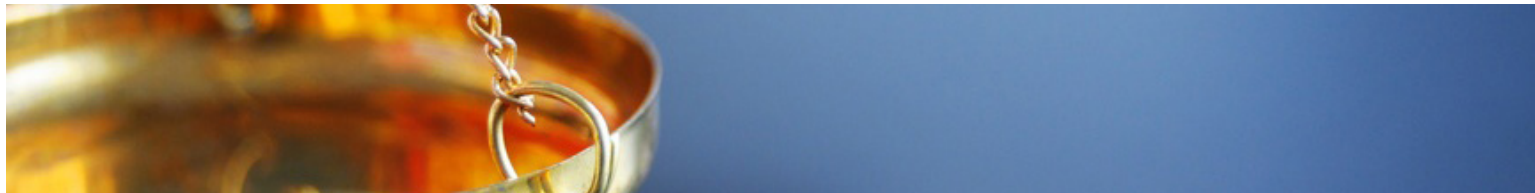
Patent Exhaustion Does Not Apply to Harvested Seeds

In *Bowman v. Monsanto*, No. 11-796, argued February 19, 2013, and decided May 13, 2013, a unanimous Supreme Court affirmed the decision of the Federal Circuit holding that patent exhaustion does not permit a farmer to reproduce patented seeds through planting and harvesting without the patent holder's permission.

Monsanto invented and patented Roundup Ready soybean seeds, which contain a genetic alteration that allows them to

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survive exposure to the herbicide glyphosate. Monsanto sells the seeds subject to a licensing agreement that permits farmers to plant the purchased seed in one, and only one, growing season. Growers may consume or sell the resulting crops, but may not save any of the harvested seeds for replanting. Bowman purchased Roundup Ready soybean seed for his first crop of each growing season from a company associated with Monsanto and followed the terms of the licensing agreement. However, Bowman saved some harvested seeds to use for later planting. After discovering this practice, Monsanto sued Bowman for patent infringement. Bowman raised the defense of patent exhaustion.

Under the patent exhaustion doctrine, the initial authorized sale of a patented article terminates all patent rights to that item and confers on the purchaser, or any subsequent owner, the right to use or sell the item as he sees fit. The Supreme Court held that the doctrine restricts the patentee's rights only as to the "particular article" sold. So, the doctrine allows the patentee to prevent a buyer from making new copies of the patented item. By planting and harvesting Monsanto's patented seeds, the Supreme Court held that Bowman made additional copies of Monsanto's patented invention, and his conduct thus falls outside the protections of patent exhaustion. The Court held that Monsanto's patent would have little value if a farmer needed to buy seed only once and then replant harvested seeds.

Judges Disagree on § 101 Standards

In *CLS Bank Int'l v. Alice Corp. Pty. Ltd. [En Banc Opinion]*, Appeal No. 11-1301, the Federal Circuit affirmed the district court's finding of invalidity under § 101 as to method and computer-readable medium claims (7 judges to 3), as well as system claims (5 to 5).

Alice alleged infringement of several patents on risk management in trading by CLS. CLS claimed that the patents were invalid.

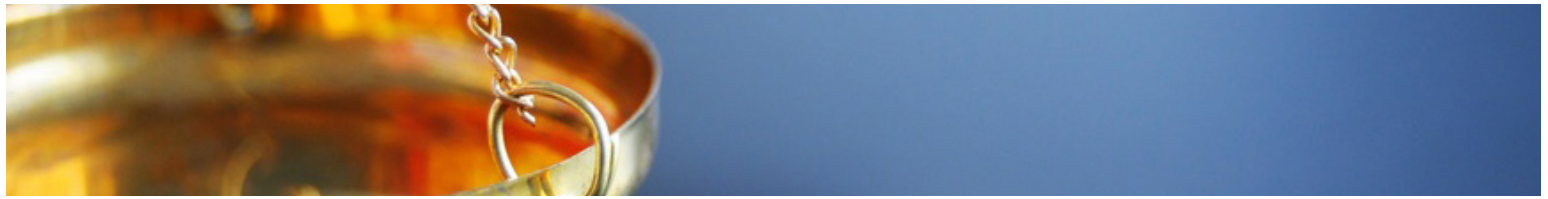
The parties filed cross-motions for summary judgment on the issue of invalidity under § 101. The parties stipulated, for purposes of determining the § 101 issue, that all of the asserted claims should be construed to require implementation on a computer. As described below, the Federal Circuit Judges issued separate opinions, each interpreting the content and ramifications of this stipulation quite differently and therefore reach conflicting results.

The basis for the § 101 challenge in this case is the "abstract idea" exception. Both the opinion by Judge Lourie and the opinion by Judge Rader explain that abstract ideas are unpatentable. These opinions further explain, however, that claims which recite particular applications of abstract ideas may be patentable, assuming they meet the other requirements beyond § 101, if they include sufficiently meaningful limitations. The Lourie Opinion and the Rader Opinion disagree about what makes a set of limitations sufficiently meaningful. The opinion by Judge Newman condemns the jurisprudence surrounding abstract ideas and § 101 as fundamentally inconsistent. Newman advocates for a simpler view of patentability, arguing that the court should "abandon its failed section 101 ventures into abstraction, preemption, and meaningfulness."

The Lourie Opinion asserts that the elements which are not part of the abstract idea itself must exhibit some "ingenuity," and be more than merely "tangential, routine, well-understood, or conventional." Applying this standard to the present case, the Lourie Opinion concludes that the method and computer-readable medium claims fail to recite meaningful limitations beyond the abstract idea of "reducing settlement risk by facilitating a trade through third-party intermediation." Moreover, the system claims, despite their recitation of "a computer," a "data storage unit," a "first party device," and a "communications controller," are also drawn at a "striking level of generality." According to the Lourie Opinion, therefore, the differences between the system claims and the other claims may be dismissed as an attempt to patent an abstract idea by clever draftsmanship, without including sufficiently meaningful limitations.

The Rader Opinion argues that Lourie's approach unduly conflates abstractness and obviousness. According to the Rader Opinion, claim elements may impose meaningful limitations on a particular implementation of an abstract idea without satisfying Lourie's requirement of "ingenuity." Specifically, elements may impose meaningful limitations even if they are known and routinely applied. As explained by the Rader Opinion, claim elements impose meaningful limitations if (1) they are not necessary for all practical implementations of the abstract idea and (2) they are integral to the claimed implementation of the abstract idea (i.e., not merely tacked on before or after the idea is applied).

Judges Rader, Linn, Moore, and O'Malley all join the Rader Opinion in its explanation of the foregoing standard, but they disagree about the proper application of the standard to the facts of the case.

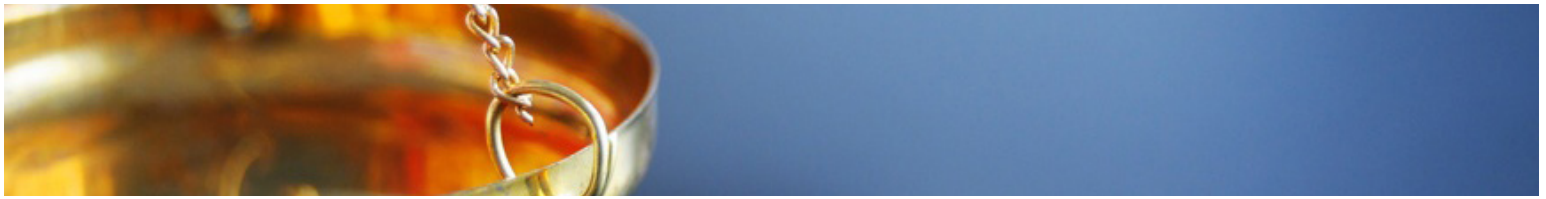


Litigation Is Not a Domestic Industry

In *Motiva, LLC v. ITC*, Appeal No. 12-1252, the Federal Circuit affirmed the Commission's finding that Motiva's litigation activities did not satisfy the economic prong of the domestic industry requirement of Section 337.

In 2008, Motiva filed a lawsuit against Nintendo for infringing two related patents, the parent having issued in 2007. In 2010, Motiva filed a complaint with the ITC seeking to bar importation of Nintendo's Wii for infringing the two patents. The Commission found that, although Motiva had previously invested in developing a domestic industry for the patents in suit, at the time of filing its ITC complaint Motiva's development efforts were limited to the litigation against Nintendo. This was insufficient to meet the economic prong of the domestic industry requirement at the time of filing the complaint.

The Federal Circuit affirmed, finding that substantial evidence supported the Commission's conclusion. Though the Federal Circuit noted that investment in litigation can satisfy the economic prong of the domestic industry requirement if the investment is substantial and directed toward a licensing program encouraging adoption of the patented technology, such investment was lacking here. First, Motiva was never close to launching a product incorporating the technology and no partners had been interested in doing so for years before the launch of the Wii. Second, because Motiva never asked for a preliminary injunction at the district court and waited three years before seeking relief from the ITC, the evidence suggested that Motiva's litigation was directed toward financial gain and not the adoption of the technology.



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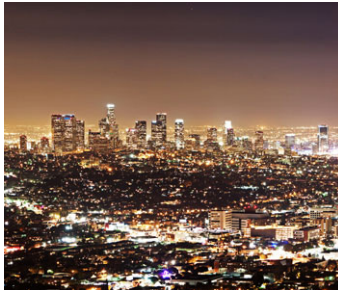
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