February 12, 2013

InsideCounsel.com

BUSINESS INSIGHTS FOR LAW DEPARTMENT LEADERS

COUNSEL COMMENTARY

IP: Federal Circuit weakens Internet patent troll model

THE RECENT DECISION IN SOVERAIN V. NEWEGG OFFERS SEVERAL TIPS FOR ONLINE RETAILERS NAMED AS PATENT DEFENDANTS

On Jan. 22, the Federal Circuit found that the claims of three patents Soverain Software asserted against Internet retailer Newegg were obvious. While procedurally surprising, because the question of obviousness never reached the jury in the trial court, the decision is consistent with earlier rulings that cumulatively undermine the business model of the infamous internet patent troll.

The story of the Soverain patents is a familiar one: A company (in this case Open Market) developed an Internet software product during the dot-com bubble and got patents on the technology. Unable to successfully sell its product, the company attempted to license its patents. The market responded with indifference and the patents were ultimately purchased out of bankruptcy.

The Soverain patents focused on specific ways to use the Internet to complete online retail tasks: using a shopping cart database to make online sales, accessing transaction history data using URLs and hypertext, and attaching a unique identifier to requests made to the server to identify the customer during her interaction with the website.

Questions of law must be correctly decided

At trial, Judge Leonard Davis of the Eastern District of Texas, decided that there was insufficient evidence on the issue of obviousness and removed that issue from the jury. Instead, he decided that Newegg had not proven the patents invalid for obviousness. Newegg moved for judgment as a matter of law (JMOL) and a new trial on the issue, but its motions were denied.

The Federal Circuit found that the district court's decision not to send obviousness to the jury did not deprive Newegg of its right to a jury trial because obviousness can procedurally be decided as a matter of law. "However, questions of law must be correctly decided" and the appeals court disagreed with the district court's determination that Newegg failed to meet its burden. Instead, the court reversed the district court and found each claim invalid as obvious.

It is obvious to apply known methods to Internet technology

Soverain admitted that it did not invent the Internet, or hypertext or the URL. Instead, Soverain's patents claimed the use of the Internet to perform pre-existing processes. The Federal Circuit rejected Soverain's attempt to claim the application of the basic functionalities of the World Wide Web to existing methods, citing its earlier rulings in *Leapfrog Enterprises, Inc. v. Fisher-Price, Inc.*, (which invalidated as obvious claims applying modern electronics to older mechanical products in children's learning devices) and *Muniauction, Inc. v. Thomson Corp.*, (invalidating the

application of a pre-existing bidding system for use in a web browser for online auctions as obvious). Soverain and its technical expert, Dr. Shamos, tried to distinguish Soverain's invention from prior art systems that performed similar tasks, but used networked computer systems that pre-dated the World Wide Web.

Newegg relied on one prior art system, an electronic commerce system called CompuServe Mall, to invalidate both the shopping cart and the hypertext statement claims. CompuServe Mall allowed customers to pick a product to purchase, and then placed an identifier of that product in a buyer's personal holding file. The customer could type "checkout" and edit the products or purchase them. Although this process took place on a pre-Internet network, the court found that a person of ordinary skill could have adapted the CompuServe order command to known browser capabilities when the capabilities became commonplace and it would be obvious to do so.

Soverain also asserted a patent alleged to cover the use of hypertext and URLs to make customer transaction details, such as order status or details of a customer's order, available online. The CompuServe Mall also allowed consumers to use their confirmation number to access all the information about that transaction that one might ever need, but on a pre-Internet network. Newegg's expert testified that the use of hypertext and URLs are basic functionalities of the World Wide Web and that anyone who could get access to information from a customer's transaction records would understand how to use HTML to present that information at various levels of detail. The court again agreed that this was "a routine incorporation of Internet technology into existing processes." Similarly, the court found that prior art systems for network logins or transaction identifiers rendered obvious the session identifier claims.

Expert opinions are not required on matters of law

Judge Davis appears to have relied in part on perceived deficiencies in Newegg's expert report regarding obviousness in his decision to exclude the issue from the jury. The Federal Circuit relied upon trial testimony from experts for both sides discussing each claim limitation and the workings of the prior art system, but noted explicitly that expert testimony is not required on matters of law, such as the obviousness determination.

Commercial success not supported by litigation-induced licensing

Pointing to media coverage, "an excellence award from the industry" and the breadth of its licensing program, Soverain argued that the success of the Transact product offered for sale under the patents demonstrated that its invention really wasn't obvious. On the contrary, the court found that there was no established connection between any success of the Transact software and the patent. The original inventors, developers and nearly all original customers abandoned the Transact product. Those who entered into licenses to buy litigation peace did not use Soverain's software. On balance, this evidence supported a finding of obviousness.

The lesson

For online retailers named as patent defendants, the *Soverain* opinion offers several tips:

1. Develop non-Internet prior art, because even the inclusion of a specific claim limitation requiring that the patented process use HTML, take place over the Internet or contain a URL will not prevent invalidation using pre-Internet prior art.

2. Make sure the commercial history of the patents, including abandonment of the invention by the inventors and customers, is admitted into evidence.

3. Preserve your arguments for appeal. Here, although the district court found Newegg's evidence insufficient even to make it to the jury, Newegg preserved the issue with motions for JMOL and new trial, and ultimately

convinced the Federal Circuit to not only reverse the exclusion from the jury but also to actually invalidate the patents.

Disclaimer: The information contained in this article is for informational purposes only and is not legal advice or a substitute for obtaining legal advice from an attorney. Views expressed are those of the author and are not to be attributed to Marshall, Gerstein & Borun LLP or any of its former, present or future clients.

Julianne M. Hartzell is a litigation partner at Marshall, Gerstein & Borun LLP. She has litigated patent, trademark, copyright, and trade secret matters in federal courts throughout the U.S. and before the Trademark Trial and Appeal Board. She has acted as first chair trial attorney at jury trial and, has argued before the Federal Circuit Court of Appeal. Ms. Hartzell may be reached at (312)-474-6625 or jhartzell@marshallip.com.