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ALERT

Federal Circuit Patent Bulletin: *Soverain Software LLC v. Victoria's Secret Direct Brand Mgmt., LLC*

February 12, 2015

"[Regarding issue preclusion, there is no supporting authority for] the notion that a full and fair opportunity to litigate is lacking where a party might have argued differently on appeal."

On February 12, 2015, in *Soverain Software LLC v. Victoria's Secret Direct Brand Mgmt., LLC*, the U.S. Court of Appeals for the Federal Circuit (Dyk,* Taranto, Hughes) reversed the district court's judgment that Victoria's Secret and Avon infringed U.S. Patents No. 5,715,314 and No. 5,909,492, which related to virtual shopping carts, and that the asserted claims were not invalid. The Federal Circuit stated:

"Issue preclusion prohibits a party from seeking another determination of the litigated issue in the subsequent action." The Fifth Circuit applies issue preclusion where the following four conditions are satisfied: First, the issue under consideration in a subsequent action must be identical to the issue litigated in a prior action. Second, the issue must have been fully and vigorously litigated in the prior action. Third, the issue must have been necessary to support the judgment in the prior case. Fourth, there must be no special circumstance that would render preclusion inappropriate or unfair. Our own law is similar. . . .

Practice Areas

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[A] defense of issue preclusion applies where a party is "facing a charge of infringement of a patent that has once been declared invalid," even though the party asserting the defense was not a party to the action where the patent was invalidated. "[O]nce the claims of a patent are held invalid in a suit involving one alleged infringer, an unrelated party who issued for infringement of those claims may reap the benefit of the invalidity decision under principles of collateral estoppel." [I]ssue preclusion applies even though the precluding judgment (Newegg) comes into existence while the case as to which preclusion is sought (this case) is on appeal. . . .

Soverain agrees that issue preclusion would normally be applicable but argues that it should not apply here because Soverain has not had a full and fair opportunity to litigate the issue of obviousness. . . . The unusual full and fair opportunity argument made here requires an understanding of the appeal in Newegg. In the district court in Newegg, at the close of evidence, Soverain and the defendant Newegg Inc. ("Newegg") filed cross-motions for judgment as a matter of law ("JMOL"); the district court granted Soverain's JMOL motion of non-obviousness and denied Newegg's JMOL motion of obviousness. As a result of the grant of Soverain's motion, the jury did not address obviousness.

After the jury's verdict, the district court denied Newegg's renewed JMOL motion and alternative motion for a new trial. Newegg appealed from the district court's judgment of non-obviousness. While Newegg had preserved in the district court the argument that it should have been granted JMOL on the issue of obviousness, on appeal Newegg explicitly argued only that the district court erred in granting JMOL for Soverain on the issue of non-obviousness and in not granting Newegg's motion for a new trial. Newegg also requested "any other and further relief to which it may be justly entitled." We acknowledged that Newegg on appeal had argued only for a new trial but noted that, "[h]owever, questions of law must be correctly decided . . . ." On "th[o]se premises, we determine[d] the question of obviousness." . . . Soverain's arguments for nonobviousness relied on features that were either "not embodied in the claims and not reflected in the claim construction," or related to incorporation of known internet technology.

Soverain petitioned for rehearing and rehearing enbanc. Soverain argued that the court improperly ordered JMOL when, on appeal, Newegg had asked only for a new trial. Additionally, Soverain and Newegg both noted that claim 35 of the '314 patent had not been addressed in our decision, even though it had been included in the district court's judgment of no invalidity. We subsequently granted panel rehearing and, after considering supplemental briefing and arguments, "confirm[ed] that claim 34 is representative of the 'shopping cart' claims, including claim 35, and conclude[d] that dependent claim 35 is invalid on the ground of obviousness." We implicitly rejected the patentee's argument that the court should have granted a new trial rather than JMOL, implicitly rejecting the idea that Soverain did not have a full and fair opportunity to litigate.

Rehearing en banc was denied. Soverain's petition for a writ of certiorari to the Supreme Court was denied.

We note that Soverain does not argue that it was deprived of crucial evidence or witnesses in the first litigation or that it would present additional evidence at a new trial. Nor is there any contention that Soverain did not have a full and fair opportunity to litigate the question of obviousness at the district court. Rather, Soverain's argument is that it did not have the incentive to fully litigate the issue of non-obviousness on appeal. Specifically, Soverain contends that it would have raised different or additional arguments on appeal if it had known that this court might reverse the district court on invalidity rather than only granting a new trial. But Soverain does not cite any case to support the notion that a full and fair opportunity to litigate is lacking where a party might have argued differently on appeal. In Newegg, the same basic issue of obviousness was central whether the focus was on insufficiency of the evidence as a ground for JMOL or on insufficiency of the evidence as a ground for a new trial. Not surprisingly, Soverain has not identified any significant new arguments that were not in fact raised in the earlier appeal. . . .

The fact that Soverain had arguments which it did not make does not mean that Soverain lacked the incentive to make them. The invalidity of the asserted claims of the '314 and '492 patents is established by issue preclusion. The judgment of infringement and no invalidity accordingly is reversed.