The Fed. Circ. In October: Aetna And License-Term Review

By **Sean Murray and Jeremiah Helm** (November 5, 2024)

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This article is part of a monthly column that highlights an important patent appeal from the previous month. In this installment, we examine the Federal Circuit's ruling in AlexSam Inc. v. Aetna Inc.

The Oct. 8 decision in AlexSam v. Aetna from the U.S. Court of Appeals for Federal Circuit serves as a warning to licensees that believe their agreement protects them from being sued for infringing the patent.

In this case, Aetna had a good reason to be confident. In its 2013 decision in AlexSam v. IDT Corporation, the Federal Circuit had previously considered the same license agreement and the same AlexSam patent, and then ruled that the license barred AlexSam's infringement claims against IDT.

But this time around, the court reached the opposite conclusion. It held that Aetna's license did not immunize it from AlexSam's infringement claims.

AlexSam is the owner of U.S. Patent No. 6,000,608, a now-expired patent that AlexSam has asserted in several lawsuits and against numerous defendants.

The '608 patent is directed to a debit card or credit card system with a processing hub that allows cardholders to conduct specialized transactions — such as accessing funds in a health savings account — using standard credit card readers of the sort commonly found in stores and banks.

In 2005, AlexSam granted MasterCard a license under multiple patents including the '608 patent. The license authorized MasterCard "to process and enable others to process Licensed Transactions."

Two years later, AlexSam sued IDT Corp., Walgreens Co. and others who were using the MasterCard network to activate prepaid phone cards and gift cards.

In its 2013 decision in IDT, the Federal Circuit ruled that AlexSam's claims against IDT failed because IDT had a sublicense under the AlexSam-MasterCard license. The court relied on language in the license specifying that licensed transactions included "the entire value chain and all parts of the transaction and may involve other parties including ... processors [and] card vendors."

The license also provided that, "[t]o the extent that these other parties participate in a Licensed Transaction, they will also be licensed under this Agreement," and that "all Licensed Transactions shall be deemed sublicensed under an implied sublicense granted hereunder to all participating parties."

At some point before 2015, Aetna began offering customers a PayFlex Mastercard that could be used to pay medical expenses from a health savings account. AlexSam sued MasterCard

in the U.S. District Court for the Eastern District of New York in 2015, and it sued Aetna in the U.S. District Court for the District of Connecticut in 2019.

In the Connecticut case, Aetna moved to dismiss the complaint under Rule 12(b)(6), asserting that the allegedly infringing activities were licensed. It was undisputed that Aetna had a sublicense under the AlexSam-MasterCard license.

Relying on the Federal Circuit's IDT decision, the district court ruled that all of Aetna's transactions in connection with PayFlex MasterCards were licensed because the AlexSam-MasterCard license applied to transactions at any point in the value chain. The district court therefore granted the motion to dismiss.

AlexSam appealed the dismissal, and the Federal Circuit reversed. After reviewing the specific language of the AlexSam-MasterCard license, the court concluded that the scope of the license was not as broad as the scope of AlexSam's asserted claims.

It was therefore possible that some of Aetna's PayFlex MasterCard transactions could have fallen within the scope of the asserted patent claims, but outside the scope of the license.

The Federal Circuit's analysis turned on the license agreement's definition of "Licensed Transaction." That term was defined as

> each process of activating or adding value to an account or subaccount which is associated with a transaction that utilizes MasterCard's network or brands where data is transmitted between a POI Device ["Point-Of-Interaction Device"] and MasterCard's financial network or reversing such process, provided that such process is covered by one of the Licensed Patents.

Under this definition, only transactions that involved "activating or adding value to an account" were licensed.

Unfortunately for Aetna, the asserted claims of the '608 patent were not so limited.

They recited a system in which (1) a bank card communicates a unique identification number, such as a medical identification number, to a processing hub via a standard point-of-sale credit card reader; and (2) the processing hub accesses different databases depending on whether the card is being used as a credit card or a medical card.

Thus, nothing in the asserted claims required that the transaction involve activating or adding value to an account. Notably, routine transactions in which cardholders debit their health savings accounts in order to pay medical expenses could infringe the asserted claims, but would likely fall outside the scope of the license.

In ruling for AlexSam, the Federal Circuit observed that the district court relied too heavily on the IDT decision interpreting the AlexSam-MasterCard license. The district court seemed to believe the IDT decision meant that any transaction in a MasterCard value chain was licensed.

However, AlexSam had asserted different claims in the IDT case. In that case, which involved prepaid phone and gift cards, the asserted claims were expressly limited to activation or adding value.

The Federal Circuit concluded: "Just because all of the alleged activity at issue in IDT was

licensed does not make all of the allegedly infringing activity in this case also licensed."

AlexSam's lesson for licensees is clear: Carefully review the terms of the license before jumping in. MasterCard probably obtained a license that was limited to activating or adding value to an account because, in 2005, it was only contemplating using the patented system with phone cards and gift cards.

Had it negotiated for an unqualified license under the '608 patent, it would have had the flexibility to partner with Aetna in issuing health savings account cards.

Aetna, of course, had no opportunity to review the license terms when the AlexSam-MasterCard agreement was executed. It became a licensee years later, by automatic operation of the agreement.

But Aetna could have reviewed the license terms when it decided to partner with MasterCard in issuing PayFlex health savings account cards to its customers. Aetna and MasterCard presumably signed one or more agreements to govern their new business relationship.

Before an important business agreement is signed, each party should conduct a thorough due-diligence investigation to assess the risks associated with the agreement, including intellectual property risks. As the Aetna case highlights, that due diligence should include evaluating license agreements that could impact the company's business plans.

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