

No. 13-

IN THE
Supreme Court of the United States

SOVERAIN SOFTWARE LLC,
Petitioner,

v.

NEWEGG INC.,
Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

In *Graham v. John Deere Co. of Kansas City*, 383 U.S. 1, 17 (1966), this Court held that “[w]hile the ultimate question of patent validity is one of law,” that question is premised on “several basic factual inquiries.” Those inquiries include “the scope and content of the prior art” and the “differences between the prior art and the claims at issue.” *Id.* In *KSR International Co. v. Teleflex Inc.*, 550 U.S. 398, 407 (2007), this Court reaffirmed that the *Graham* factual questions “continue to define the inquiry that controls” the determination of obviousness. The Federal Circuit in this case resolved disputes about these “basic factual inquiries” under the guise of determining the ultimate legal question.

The question presented is:

Whether the Federal Circuit’s effective redefinition of obviousness as a pure question of law, allowing it to resolve disputed factual questions in the first instance on appeal, violates the Seventh Amendment and this Court’s precedent.

RULE 29.6 STATEMENT

No parent or publicly held company owns 10% or more of petitioner Soverain Software LLC's stock.

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PETITION FOR A WRIT OF CERTIORARI

Petitioner Soverain Software LLC respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit in this case.

OPINIONS BELOW

The opinion and judgment of the court of appeals (App. 1a-26a) is reported at 705 F.3d 1333. The court of appeals' errata correcting the opinion and judgment (*id.* 27a) is unreported. The order of the court of appeals requiring supplemental briefing (*id.* 69a-73a) is unreported, but is available at 515 F. App'x 883. The opin-

ion of the court of appeals granting rehearing and amending its judgment (App. 75a-81a) is reported at ___ F.3d ___, 2013 WL 4733819. The order of the court of appeals denying Soverain’s petition for rehearing en banc (App. 83a-84a) is unreported. The oral decision of the district court granting Soverain’s motion for judgment as a matter of law of non-obviousness (*id.* 29a) is unreported, and the written opinion of the district court (*id.* 31a-67a) is reported at 836 F. Supp. 2d 462.

JURISDICTION

The court of appeals entered judgment on January 22, 2013 (App. 1a, 26a), and denied rehearing en banc on September 4, 2013 (*id.* 83a-84a). This Court’s jurisdiction is invoked under 28 U.S.C. § 1254(1).

CONSTITUTIONAL AND STATUTORY PROVISIONS

The Seventh Amendment to the United States Constitution provides: “In Suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved, and no fact tried by a jury, shall be otherwise reexamined in any Court of the United States, than according to the rules of the common law.”

The version of 35 U.S.C. § 103 that applies to this case provides:

A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in

the art to which said subject matter pertains. Patentability shall not be negated by the manner in which the invention was made.¹

35 U.S.C. § 103(a) (2010).

INTRODUCTION

In *Graham v. John Deere Co. of Kansas City*, 383 U.S. 1, 17 (1966), this Court established that obviousness, while ultimately a question of law, must be determined based on “several basic factual inquiries.” In *KSR International Co. v. Teleflex Inc.*, 550 U.S. 398, 407 (2007), this Court reaffirmed that the *Graham* “factors continue to define” the obviousness inquiry. As *Graham* and *KSR* make clear, obviousness is a fact-intensive inquiry. Although the Court in *KSR* recognized that the “*Graham* approach” does not “exclude the possibility” of judgment as a matter of law in appropriate circumstances, *id.* at 426, it did not in any way empower courts to decide genuine disputes over factors that *Graham* classified as issues of fact. Indeed, the Court made clear in *KSR* that summary judgment on obviousness is appropriate only when the *Graham* factors “are *not* in material dispute.” *Id.* at 427 (emphasis added).

In this case, the Federal Circuit ignored the important distinction *KSR* drew between determining the

¹ Section 3(e) of the Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284, 287-288 (2011), amended Section 103 for patents with an effective filing date on or after March 16, 2013. Consistent with the transition to a first-to-file system, the amendment provides that obviousness will be measured at the time of the effective filing date of the patent application rather than at the time of invention. This amendment does not apply in this case and has no impact on the continuing importance of the issues raised in this petition.

legal question of obviousness based on undisputed facts—which a court may do—and resolving factual disputes in order to find patent claims obvious as a matter of law—which it may not. The Federal Circuit instead adopted an approach to obviousness that permits judges to resolve material factual disputes that this Court has specifically reserved for the jury. The court of appeals assessed the credibility of the parties’ dueling expert witnesses and resolved conflicts between their testimony as to the teachings of the primary prior art reference, the CompuServe Mall. Wholly ignoring the devastating cross-examination of Newegg’s expert witness, the panel repeatedly chose to credit his testimony over Soverain’s expert and other evidence introduced at trial, including the testimony of CompuServe’s former Chief Technology Officer.

The Federal Circuit’s decision is particularly striking, and far-reaching, given the procedural history of this case. At the close of the evidence, the district court found that Newegg had failed to present sufficient evidence on obviousness to go to the jury and granted Soverain judgment as a matter of law of non-obviousness as to all asserted claims. The jury, therefore, did not decide any of the predicate factual questions relating to obviousness. On appeal, Newegg conceded that there were factual disputes underlying obviousness, argued that the jury should have been allowed to consider the issue, and asked only for a new trial, not a judgment on obviousness. But instead of remanding the case as Newegg requested, the Federal Circuit engaged in a *de novo* review of the record and resolved disputes concerning “the scope and content of the prior art,” “differences between the prior art and the claims at issue,” and “secondary considerations”—questions

that this Court has classified as factual. *Graham*, 383 U.S. at 17.

The Federal Circuit’s decision to take for itself questions this Court has reserved for the trier of fact has significant consequences that threaten the stability and predictability of the patent system. This decision shifts the boundary between the ultimate legal question of obviousness and the underlying factual questions. It thus paves the way for district courts and other panels to decide factual questions and undermines the role that the jury and procedural safeguards play in ensuring that hindsight bias does not skew the analysis of obviousness. By downplaying the factual component of obviousness, the Federal Circuit’s decision also erodes the clear and convincing evidence standard for proving invalidity, which this Court reaffirmed in *Microsoft Corp. v. i4i Limited Partnership*, 131 S. Ct. 2238 (2011). As a result, the decision creates uncertainty and diminishes the value of patents—even those like Soverain’s that have received intense scrutiny from another federal jury and the Patent and Trademark Office and consistently been upheld as not invalid over the prior art.

STATEMENT

A. District Court Proceedings

Soverain’s U.S. Patents Nos. 5,715,314 (the ’314 patent), 5,909,492 (the ’492 patent), and 7,272,639 (the ’639 patent) are directed to systems and methods for conducting commercial transactions over the Internet. The now-familiar functionality described and claimed in the patents-in-suit has become the standard for operating e-commerce websites across the Internet. As is often the case with pioneering technology, what is now commonplace was revolutionary at the time of its invention.

The patented technology was developed by the software pioneer Open Market, Inc., which filed the original applications leading to the patents-in-suit in 1994 and 1995, at the dawn of the Internet, before the launch of Amazon, eBay, or Internet Explorer. A66, A114, A164, A1763.² The inventions were incorporated into Open Market’s “Transact” software product, which was quickly embraced by customers like AT&T, Sprint, and Disney. A1775-1777, A1825. By the late 1990s, Open Market commanded about 30% of the market for such software (A1775-1777, A1824), and its business was later acquired by Soverain (A1822, A1827-1828).

The asserted claims can be divided into three categories. First, the “shopping cart” claims of the ’314 and the ’492 patents describe systems for conducting commercial transactions over a computerized network that include a virtual “shopping cart” and “shopping cart messages” having a “product identifier” that allows the system to keep track of each customer’s products. A99 (13:62-14:33), A109 (1:29-30), A147-148 (14:44-15:15). Second, the “hypertext statement” claims of the ’492 patent are directed to systems that allow customers to retrieve online records of past transactions. A147 (13:61-14:17), A160 (1:26-30), A161 (3:26-33). Third, the “session identifier” claims of the ’639 patent recite methods for operating on a “stateless network,” such as the Internet, meaning that the system can simultaneously handle multiple communications from different users. A177-178 (2:40-3:19). The claimed methods achieve this, in part, by appending a unique “session identifier” to each user request. A183 (14:54-61).

² “A” refers to the court of appeals appendix.

Newegg Inc. is the second-largest exclusively online retailer in the United States, behind Amazon. A1627. On November 2, 2007, Soverain filed an infringement suit against Newegg. A3000-3009. A jury trial began on April 26, 2010. App. 32a. “At trial, Soverain argued that Newegg used technology for its websites that infringed claims 35 and 51 of the ’314 patent; claims 17, 41, and 61 of the ’492 patent; and claims 60 and 79 of the ’639 patent.” *Id.* Among other defenses, Newegg argued that the asserted claims were invalid as obvious. *Id.* 32a-33a, 53a.

Because the principal references Newegg relied on to prove obviousness were user manuals lacking technical detail (A2311), Newegg depended heavily on testimony from its expert witness, Edward Tittel, to bridge the gap between the prior art and Soverain’s claims. But Newegg’s expert’s credibility was attacked on cross-examination. By way of example, Tittel testified:

Q. [D]id you prepare an element-by-element comparison—

A. No.

Q. —of the claims to the prior art?

A. No, sir, I did not.

Q. You didn’t do that, right?

A. No, sir.

...

Q. And, in fact, you couldn’t even recall if you saw the Court’s claim constructions before you wrote your first report; isn’t that right?

A. Yes, sir, that is correct.

App. 85a-86a. Asked whether he had reviewed “the prosecution history for the patents involved in this case” before preparing his report or appearing for his first deposition, Tittel answered:

A. No, sir, I did not.

Q. And that’s something you would certainly do if you did this job again, wouldn’t you?

A. Yes, sir, it certainly is.

Id. Newegg attempted to preempt this cross-examination and bolster Tittel’s credibility on direct examination, by eliciting testimony that he “read the file histories” after being made aware of them at his deposition. Trial Tr. 16, Dkt. 394. There was no dispute, however, that he did not do so before adopting the opinions expressed in his expert report and being deposed. Nor did Tittel prepare an opinion on the question of obviousness. As he explained, “I don’t think I can decide matters of validity.” App. 86a.

At the close of the evidence, before submitting the case to the jury, the district court granted Soverain judgment as a matter of law of non-obviousness. App. 29a. As the district court concluded in an oral ruling on the matter, “I don’t think it’s a close call on obviousness. I don’t think there’s sufficient testimony to present an obviousness case to the jury.” *Id.*

The jury found no anticipation, found that Newegg had induced infringement of claims 35 and 51 of the ’314 patent and claims 17, 41, and 61 of the ’492 patent, and awarded Soverain \$2.5 million in damages. A35-37; App. 33a. The jury found no infringement of the ’639 patent, but the district court granted Soverain judgment as a matter of law on that issue and conditionally ordered a new trial on damages for that patent. App. 44a-48a.

After the verdict, Newegg again argued obviousness in its renewed motion for judgment as a matter of law. App. 53a. The district court again rejected this defense, this time by written opinion. The court concluded: Because Newegg did not present any “articulated reasoning with some rational underpinning to support the legal conclusion of obviousness” and because the case was “sufficiently complex to fall beyond the grasp of an ordinary layperson,” “Newegg did not meet its burden of establishing a *prima facie* case of obviousness.” *Id.* 55a, 56a (internal quotation marks omitted).

B. Federal Circuit Proceedings

Newegg appealed, raising a host of issues. Its argument on obviousness, which filled a mere six pages of its 60-page opening brief, was simple: The district court erred by refusing to submit the issue to the jury. *See* Newegg Br. 37-43 (Dec. 7, 2010). Accordingly, Newegg requested only a new trial on obviousness. *Id.* 43 (“[I]t was error to refuse to submit the issue of obviousness to the jury, and Newegg is entitled to a new trial on obviousness.”). Newegg did not request judgment as a matter of law on obviousness because, as Newegg conceded at oral argument, there were genuine issues of fact in dispute. *See* Oral Arg. Recording 2:9-12 (Aug. 4, 2011) (Newegg arguing that there was “conflicting evidence of exactly the kind that the jury should consider”).

While Newegg’s appeal was pending, two independent fact-finders—the PTO and a federal jury in another case—confirmed that the asserted claims were non-obvious. First, the PTO completed a second round of reexamination of the patents-in-suit. The “shopping cart” claims and the “hypertext statement” claims in the ’314 and ’492 patents were reexamined over, *inter*

alia, effectively the same prior art relied on by Newegg at trial. The “session identifier” claims in the ’639 patent were reexamined twice, again over some of the same prior art relied on by Newegg. The PTO reaffirmed all of the asserted claims without amendment.³ In addition, Sovereign commenced a separate trial against Avon and Victoria’s Secret for infringement of claims 34 and 51 of the ’314 patent and claims 15, 17, and 39 of the ’492 patent. There, the defendants alleged that the claims were anticipated or obvious in light of prior art, including that which Newegg had relied on in this case.⁴ The jury returned a verdict of infringement and found no anticipation or obviousness.⁵

On January 22, 2013, almost a year and a half after the oral argument in this case, the Federal Circuit issued a decision invalidating what the panel (mistakenly) believed to be all of Sovereign’s asserted claims. The

³ Reexam Ctrl. Nos. 90/011,937 and 90/011,444, ’639 Patent, Certs. Issued, Feb. 1, 2013 & Oct. 4, 2011; Reexam Ctrl. No. 90/011,442, ’492 Patent, Cert. Issued, Nov. 28, 2012; Reexam Ctrl. No. 90/011,443, ’314 Patent, Cert. Issued, Sept. 11, 2012.

The ’314 patent, the ’492 patent, and the parent of the ’639 patent (U.S. Patent No. 5,708,780 (the ’780 patent)) were confirmed in prior reexaminations as well. Reexam Ctrl. No. 90/007,287, ’314 Patent, Cert. Issued, Oct. 9, 2007; Reexam Ctrl. No. 90/007,286, ’492 Patent, Cert. Issued, Aug. 7, 2007; Reexam Ctrl. No. 90/007,183, ’780 Patent, Cert. Issued, Apr. 4, 2006 (parent of the ’639 patent).

⁴ Defs.’ Final Ex. List, Dkt. 508-3, No. 09-cv-0274, *Sovereign Software LLC v. J.C. Penney Corp.* (E.D. Tex. Nov. 18, 2011) (citing DX No. 135 (Bowen), and DX Nos. 3, 21, 132, 140-141, 150, 153-154, 259-261, 291 (CompuServe)).

⁵ Verdict, Dkt. 505, No. 09-cv-0274, *Sovereign Software LLC* (E.D. Tex. Nov. 18, 2011); Final Judgment, Dkt. 559, No. 09-cv-0274, *Sovereign Software LLC* (E.D. Tex. Aug. 22, 2012).

court acknowledged that “[o]bviousness is a question of law based on underlying facts, as set forth in *Graham*.” App. 4a. It also recognized that the district court had “remov[ed] ... the legal question [of obviousness] from the jury.” *Id.* 5a. As the panel explained the scope of its review, “the district court’s determination of the question of obviousness as a matter of law” must be reviewed *de novo* to determine whether it was “correctly decided.” *Id.* 6a. “On these premises, [the Federal Circuit] determin[e]d the question of obviousness.” *Id.*

In so doing, however, the panel went beyond the ultimate legal question of obviousness to resolve disputes about the underlying facts. Indeed, as the panel acknowledged, Newegg had requested only a remand for a jury determination of obviousness. App. 5a (“Newegg argues that it was wrongfully deprived of a *jury determination* of the question of obviousness, pointing to the extensive testimony on this issue at trial.” (emphasis added)). In reaching its decision, the Federal Circuit conceded that the parties’ expert “witnesses stated divergent views” on key aspects of the prior art. *Id.* 10a. But it then proceeded to resolve those divergent views on appeal. *See id.* 10a-15a. The panel relied in part on “[p]recedent,” rather than the specific prior art at issue in this case, explaining that its cases “agree[d] with Newegg” that the inventions would have been obvious to a person of ordinary skill in the art. *Id.* 12a. And it credited Newegg’s expert over Soverain’s expert and other evidence admitted at trial. *See, e.g., id.* 20a, 24a-25a.

The Federal Circuit’s decision contained immediately apparent errors. Most prominently, as Newegg explained in a letter to the court, the decision analyzed the wrong claim of one of the asserted patents, the ’314

patent. Reines Ltr. (Feb. 5, 2013).⁶ The asserted claims of the '314 patent, as the district court expressly recognized in its opinion, were dependent claim 35 and claim 51—not independent claim 34 and claim 51, which the Federal Circuit had analyzed. *Compare* App. 32a, *with id.* 7a.

The parties therefore agreed that the decision needed to be amended, but disagreed on the extent of the panel's mistakes. Newegg argued that the errors in the decision were merely clerical. Reines Ltr. Soverain filed a petition for rehearing and rehearing en banc, arguing that by resolving disputed issues of fact, the Federal Circuit had impermissibly discharged functions properly reserved for the jury and contravened this Court's obviousness precedent and the Seventh Amendment. Soverain's Combined Pet. for Reh'g & Reh'g En Banc 1-3 (Mar. 1, 2013). With respect to the panel's analysis of the wrong claim, Soverain argued that because dependent claim 35 contained additional limitations, finding it obvious in the first instance would require the court to engage in more impermissible fact-finding. *Id.* 5 n.3.

On June 13, 2013, the court issued a per curiam order in which it acknowledged that the claim it had not

⁶ The decision also misquoted the claims of another patent. Where the panel intended to quote claim 60 of the '492 patent (from which asserted claim 61 depends), it instead quoted claim 60 of the '639 patent (and claim 1, from which claim 60 of the '639 patent depends). App. 18a-19a. The court corrected this mistake in an errata. *Id.* 27a.

Additionally, the decision stated: "The patents arise from a software system called 'Transact' that was developed in 1996[.]" App. 2a. In fact, the original applications leading to the patents-in-suit were filed in 1994 and 1995. A66, A114, A164, A1763.

analyzed, claim 35 of the '314 patent, included an additional limitation, and ordered supplemental briefing on “[t]he treatment at trial of the additional limitation in claim 35,” and “[w]hether claim 34 was treated as, or is properly deemed ‘representative’ of the shopping cart claims including claim 35.” App. 72a. In response, Soverain further detailed the extent of the factual disputes at trial over the scope of the prior art, the differences between the prior art and asserted claim 35 (and claim 34 from which it depends), and secondary indicia of non-obviousness, including commercial success. *See* Soverain’s Corrected Supp. Br. 3-8 (June 28, 2013).

On September 4, 2013, the court granted rehearing for the limited “purpose of clarification of the court’s rulings with respect to claims 34 and 35” of the '314 patent. App. 75a-76a. Notwithstanding the undisputed additional limitation in claim 35, the court concluded 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.” *Id.* 81a. Notably, the court did not address Soverain’s argument that it had impermissibly resolved disputed factual questions in reaching its determination on obviousness. App. 80a. The Federal Circuit denied Soverain’s petition for rehearing en banc that same day. *Id.* 83a-84a.

REASONS FOR GRANTING THE PETITION

I. THIS COURT SHOULD REVIEW AND REVERSE THE FEDERAL CIRCUIT’S DECISION RESOLVING DISPUTED FACTUAL QUESTIONS UNDER THE GUISE OF DECIDING THE ULTIMATE LEGAL QUESTION OF OBVIOUSNESS

The Federal Circuit’s decision in this case is but the most dramatic example of the extent to which that court has departed from the established rule—first set

forth in *Graham v. John Deere Co. of Kansas City*, 383 U.S. 1 (1966), and then reaffirmed in *KSR International Co. v. Teleflex Inc.*, 550 U.S. 398 (2007)—that obviousness, while ultimately a question of law, is based on underlying factual inquiries. Only by contravening this Court’s precedent and discharging fact-finding functions properly reserved for the jury under the Seventh Amendment was the Federal Circuit able to make a finding of obviousness in the first instance on appeal—a remedy that Newegg did not even request.

A. Under This Court’s Decisions In *Graham* And *KSR*, The Ultimate Legal Question Of Obviousness Depends On Factual Questions Reserved For The Jury

This Court in *Graham* established that *only* the ultimate conclusion of obviousness is “one of law.” 383 U.S. at 17. *Graham* also set forth the four “basic factual inquiries” underlying that conclusion—*i.e.*, “the scope and content of the prior art”; “differences between the prior art and the claims at issue”; “the level of ordinary skill in the pertinent art”; and “secondary considerations.” *Id.* These *Graham* factors are precisely the type of factual questions that must be resolved by a jury, not a court, under the Seventh Amendment. *See generally Dimick v. Schiedt*, 293 U.S. 474, 486 (1935) (“Maintenance of the jury as a fact-finding body is of such importance and occupies so firm a place in our history and jurisprudence that any seeming curtailment of the right to a jury trial should be scrutinized with the utmost care.”); *Mendenhall v. Cedarapids, Inc.*, 5 F.3d

1557, 1571 (Fed. Cir. 1993); *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 603 (Fed. Cir. 1985).⁷

In *KSR*, this Court reaffirmed *Graham*, holding that its four factual inquiries are the “factors [that] continue to define the inquiry that controls” the obviousness analysis. 550 U.S. at 407; *see also Microsoft Corp. v. i4i Ltd. P’hip*, 131 S. Ct. 2238, 2442-2243 (2011). Although the Court also held that the “*Graham* approach” does not “exclude the possibility of summary judgment” in appropriate circumstances, *KSR Int’l*, 550 U.S. at 426, it did not shift the line *Graham* drew between the underlying factual questions and the ultimate legal determination of obviousness. Nor did it empower courts to decide genuine disputes over factors that *Graham* classified as issues of fact. Indeed, the Court made clear in *KSR* that summary judgment on obviousness is appropriate only when the *Graham* factors “are *not* in material dispute.” *Id.* at 427 (emphasis added).

⁷ *Graham* reaffirmed a long line of cases holding that issues of “invention” (the pre-1952 precursor to obviousness) are fact questions for the jury. *See, e.g., Hotchkiss v. Greenwood*, 52 U.S. (11 How.) 248, 264-265 (1851); *Battin v. Taggart*, 58 U.S. (17 How.) 74, 85 (1854) (“The jury are ... to judge the novelty of the invention[.]”); *Turrill v. Michigan S. & N. Ind. R.R. Co.*, 68 U.S. (1 Wall.) 491, 512 (1864) (“[T]here was an important question of fact which should have been left to the jury, whether ... any of the prior movable pressblocks ... were substantially the same as the machine of the patentee.”); *Keyes v. Grant*, 118 U.S. 25, 36, 37 (1886) (whether differences from the prior art “would not require the exercise of the faculty of invention, but would be suggested by the skill of an experienced workman” “was a question of fact properly to be left for determination to the jury”); *cf. Newell Cos. v. Kenney Mfg. Co.*, 864 F.2d 757, 775-776 (Fed. Cir. 1988) (Newman, J., dissenting) (collecting cases).

KSR's holding on this point thus stands for the unexceptional proposition that an expert's "conclusory affidavit" addressing a *Graham* factor does not necessarily preclude summary judgment. 550 U.S. at 426. That holding was not an invitation for courts to decide disputed factual issues. *See id.* at 426-427. To the contrary, it was a straightforward recitation of the general summary-judgment standard. *See, e.g., Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248 (1986) (summary judgment standard requires "that there be no *genuine* issue of *material* fact"); *MD Mall Assocs., LLC v. CSX Transp., Inc.*, 715 F.3d 479, 485 n.6 (3d Cir. 2013) ("Summary judgment is proper only where the pleadings, discovery, and *non-conclusory* affidavits show that there is no genuine issue as to any material fact[.]" (emphasis added)); *accord Kariuki v. Tarango*, 709 F.3d 495, 505 (5th Cir. 2013).

B. The Federal Circuit Has Contravened *Graham* And *KSR* By Deciding Factual Questions Underlying Obviousness That This Court Reserved For The Jury

The Federal Circuit has misunderstood *KSR* as an invitation to sweep aside disputed factual issues and discharge for itself functions that are properly reserved for the jury. This case may be the most striking and far-reaching example of the Federal Circuit's unbounded approach to obviousness, but it is not an isolated occurrence. Post-*KSR*, the Federal Circuit has shown a willingness to invalidate patent claims as obvious on plenary appellate review, while resolving disputed factual questions that are properly the province of the jury. *See Bayer Healthcare Pharm., Inc. v. Watson Pharm., Inc.*, 713 F.3d 1369, 1375-1377 (Fed. Cir. 2013) (reversing summary judgment of non-obviousness,

holding claims invalid as a matter of law, and dismissing patentee’s reliance on secondary considerations as, *inter alia*, “not ... persuasive”); *Media Techs. Licensing, LLC v. Upper Deck Co.*, 596 F.3d 1334, 1339-1340 (Fed. Cir. 2010) (Rader, J., dissenting) (“Relying on wholly irrelevant prior art and ignoring significant objective indicia of non-obviousness, this court substitutes its judgment on patentability for that of a jury.”); *Wyers v. Master Lock Co.*, 616 F.3d 1231, 1233, 1242-1243 (Fed. Cir. 2010) (reversing jury’s finding and concluding that patents-in-suit were obvious as a matter of law, notwithstanding “distinctions” from the prior art); *see also Tokai Corp. v. Easton Enters., Inc.*, 632 F.3d 1358, 1380 (Fed. Cir. 2011) (Newman, J., dissenting) (“My colleagues depart from the law governing determination of obviousness. The disputed facts cannot be adversely found on summary judgment. The question at least requires trial.”).

At trial in this case, the district court determined that Newegg’s obviousness challenge to Soverain’s patents was so deficient that the issue should not even go to the jury. *Cf. Johnson v. Jones*, 515 U.S. 304, 316 (1995) (“[T]he existence, or nonexistence, of a triable issue of fact ... is the kind of issue that trial judges, not appellate judges, confront almost daily. Institutionally speaking, appellate judges enjoy no comparative expertise in such matters.”). The Federal Circuit apparently saw its review of the district court’s decision on obviousness as a matter of law as a license to decide the factual and legal components of the inquiry *de novo*. *See* App. 5a-6a. Newegg, however, conceded that there was “conflicting evidence of exactly the kind that the jury should consider.” Oral Arg. Recording 2:9-12 (Aug. 4, 2011). Thus, Newegg argued only—as the Federal Circuit expressly acknowledged—that it was

entitled to a new trial. App. 5a (“Newegg argues that it was wrongfully deprived of a jury determination of the question of obviousness, pointing to the extensive testimony on this issue at trial.”).⁸ Yet the Federal Circuit went beyond both the relief requested by Newegg and the legal question decided by the district court, to undertake a *de novo* review of the expert testimony, and to invalidate all of Soverain’s asserted claims (and one unasserted claim) as a matter of law. In so doing, the court effectively redefined the issue of obviousness as one of pure law subject to plenary review.

As the examples below make clear, the Federal Circuit here weighed and resolved competing evidence, approaching the question of obviousness as if it—not the jury—were entitled to decide disputes about the record, the invention, and the state of the art. This decision reveals the danger inherent in a court of appeals’ resolution of factual disputes: An appellate court, which does not hear live witness testimony, cannot observe a witness’s demeanor, and generally does not see all of the trial evidence, is ill-equipped to weigh competing testimony. *See, e.g., Anderson v. City of Bessemer City*, 470 U.S. 564, 575 (1985) (emphasizing importance of “variations in demeanor and tone of voice that bear so heavily on the listener’s understanding of and belief in what is said”); *Haebe v. DOJ*, 288 F.3d 1288, 1299 (Fed. Cir. 2002) (“[G]reat deference must be granted to

⁸ Of course, had Newegg requested a judgment of obviousness on appeal—and not simply a remand for a jury trial—Soverain would have briefed and argued the issue differently. *Cf. Dey, L.P. v. Sunovion Pharm., Inc.*, 715 F.3d 1351, 1360 n.5 (Fed. Cir. 2013) (declining to grant summary judgment on appeal because appellant “has not sought that relief from us and thus has not put its opponent on notice that it is at risk of having judgment directed against it”).

the trier of fact who has had the opportunity to observe the demeanor of the witnesses, whereas the reviewing body looks only at cold records.” (internal quotation marks omitted)); *In re Clay*, 35 F.3d 190, 194 (5th Cir. 1994) (“[A] cold record cannot capture the atmosphere, the expressions, the attitudes that are the marrow of a jury trial.”). This is particularly true in a case such as this one, where the weight the court of appeals gave to Newegg’s expert witness’s testimony was outcome determinative.

One of the underlying factual questions was whether one of the primary prior art references, a closed pre-Internet system called CompuServe Mall, satisfied certain elements of Soverain’s “shopping cart” claims. The Federal Circuit recognized that the parties’ “witnesses stated divergent views” on this issue (App. 10a), but it nonetheless resolved the issue against Soverain (*id.* 10a-12a). In so doing, the court discounted extensive evidence in the record distinguishing CompuServe Mall from Soverain’s “shopping cart” claims—including, for example, testimony from CompuServe’s own former Chief Technology Officer. *See, e.g.*, A2192 (testifying that the prior art “order command” “did not contain an identification of the product,” one of the claimed limitations).

Similarly, the court of appeals resolved a disputed factual issue on the scope of the prior art by determining that the “hypertext statement” claims were obvious in light of certain CompuServe Mall functionality regarding customer information. *See* App. 17a-20a. Again, in so doing, the court discounted testimony from Soverain’s expert, Dr. Michael Shamos, that the CompuServe functionality was “not close” to that of the “hypertext statement” claims (A2563), which disclose a completely automated system for providing customers

with information about past purchases and hyperlinks to detailed information about specific transactions (A147 (14:1-18), A2565).

Yet again, the Federal Circuit made factual determinations relating to the “session identifier” claims in the ’639 patent, crediting the testimony of Newegg’s expert, Tittel, over Soverain’s evidence. The court’s decision incorrectly suggests that Soverain’s expert distinguished the ’639 claims from the prior art based only on the addition of the Internet. *See* App. 24a. But in fact, he testified that the prior art did not disclose the ’639 patent’s critical invention of a “session identifier”—the “first viable solution” to the problem of maintaining “state” with multiple users of a website on the Internet. A2580-2581. The Federal Circuit also incorrectly suggested that “Tittel testified that the patents to Johnson and Gifford show all of the elements of claim 78 and 79” of the ’639 patent. App. 24a (citing Trial Tr. 76-81, Dkt. 394). In fact, the district court sustained Soverain’s objection and precluded Tittel from testifying that the prior art references included all of the limitations of claims 78 and 79 because his expert report failed to disclose opinions on those claims. A2343 (Trial Tr. 82-83, Dkt. 394); *see also* Soverain Br. 47-48 (Mar. 28, 2011).⁹

⁹ After it had “conclude[d]” that all of the asserted claims were obvious (App. 15a, 20a, 25a), the Federal Circuit very briefly addressed secondary considerations (*see id.* 25a-26a). At trial, Soverain introduced substantial evidence relating to this *Graham* factor, including, for example, that Open Market’s Transact product received widespread media recognition (A2578), received an industry excellence award (*id.*), and was widely licensed (A2579-A2580). Discounting this evidence as mere “assertions,” the court again resolved factual disputes against Soverain. App. 26a. But it never mentioned Soverain’s evidence that the session identifier

In addition to weighing conflicting evidence and making factual determinations, the Federal Circuit also made inferential leaps to fill gaps in Newegg’s evidence of obviousness. For example, the court’s decision on the “shopping cart” claims necessarily drew a factual inference—one that was not supported by the record—when it concluded that the prior art CompuServe Mall was “easily within” the claim construction set forth for the “shopping cart database” limitation. App. 13a. As another example, for the “session identifier” claims, the decision undertook a factual analysis of the “scope and content of the prior art,” *Graham*, 383 U.S. at 17, and drew inferences about the prior art’s teaching to supplement the deficiencies in the testimony of Newegg’s expert (*see* App. 23a-25a).

Perhaps the most telling feature of the Federal Circuit’s willingness to engage in fact-finding was its treatment of the parties’ experts. Because the principal references Newegg relied on to prove obviousness were user manuals that lacked technical detail, Newegg depended heavily on testimony from its expert witness, Tittel, to bridge the gap between the prior art and Soverain’s claims. Throughout its decision, the Federal Circuit repeatedly credited Tittel over other testimony, including that of Soverain’s expert, Shamos. *See, e.g.*, App. 20a (“[T]he record does not support that argument, but rather supports Newegg’s argument that these aspects were performed in the CompuServe Mall

patent was the first viable solution to “add state to http” (A2581), despite numerous failed attempts of others (A2580-A2581). Nor did the court address Soverain’s expert’s testimony that Newegg’s expert failed even to consider secondary considerations (A2577) and, in fact, praised Open Market for its accomplishments (A2578-A2579). This again illustrates the danger of an appellate court deciding factual questions based on its own review of the record.

System. Mr. Tittel explained that"); *id.* 24a ("[Soverain's expert] testified that the '639 claims are distinguishable However, Mr. Tittel pointed out that").¹⁰ Indeed, with respect to the "shopping cart" claims, the court even went so far as to fault Soverain and its expert for the perceived failure to "provide evidence to rebut Newegg's prima facie case"—primarily through Tittel's testimony—"that every claim element was embodied in the prior art." *Id.* 14a.

The Federal Circuit, however, ignored that Tittel was thoroughly discredited on cross-examination. By way of example, when Tittel was asked whether he had "prepare[d] an element-by-element comparison ... of the claims to the prior art," he answered, "No, sir, I did not." App. 85a. Indeed, he could not "even recall if [he] saw the Court's claim constructions before [he] wrote [his] first report." *Id.* 86a. And asked whether he had reviewed "the prosecution history for the patents involved in this case" before preparing his report or appearing for his first deposition, Tittel answered:

A. No, sir, I did not.

Q. And that's something you would certainly do if you did this job again, wouldn't you?

A. Yes, sir, it certainly is.

Id. Although Newegg attempted to preempt the force of this cross-examination by asking Tittel to confirm

¹⁰ The panel's extensive reliance on Tittel's testimony cannot be overstated. *See* App. 9a ("Tittel compared ... Tittel explained that ... Tittel concluded that"); *id.* 13a ("Tittel testified that ... He explained that"); *id.* 17a ("Tittel's testimony included ... Tittel testified that ... Tittel explained that"); *id.* 18a ("Tittel testified that"); *id.* 23a ("Tittel explained at trial"); *id.* 24a ("Tittel testified that ... He testified that").

that he “read the file histories” *after* they were “brought to [his] attention” *at his deposition* (Trial Tr. 16, Dkt. 394), there was no dispute that he did not do so before preparing his expert report and being deposed. Nor did Tittel prepare an opinion on the question of obviousness. As he explained, “I don’t think I can decide matters of validity.” App. 86a.

The Federal Circuit nonetheless credited Tittel’s testimony, notwithstanding that a jury could well have discredited that testimony (even if uncontradicted, as the court erroneously appeared to suggest) given his admittedly inadequate analysis and preparation. *See, e.g., Powers v. Bayliner Marine Corp.*, 83 F.3d 789, 798 (6th Cir. 1996) (“the jury could have rejected [the expert’s] testimony even if uncontradicted” (citing *Quock Ting v. United States*, 140 U.S. 417, 420 (1981))); *see also Gregg v. U.S. Indus., Inc.*, 887 F.2d 1462, 1470 (11th Cir. 1989) (“[E]ven uncontradicted expert testimony is not conclusive, and the jury has every right not to accept it.”).¹¹ Even after Soverain highlighted Tittel’s lack of credibility in its supplemental briefs on panel rehearing (*see* Responsive Supp. Br. 4-6 (July 3, 2013)), the panel offered no explanation or justification for crediting Tittel over Shamos. And whether to credit Tittel’s testimony—in whole, in part, or not at all—was a question for the jury, not the court.

¹¹ The Federal Circuit acknowledged that the district court “criticized” Tittel (App. 14a), but never explained why it nevertheless chose to credit his testimony over that of Soverain’s expert and other evidence admitted at trial.

**C. If Not Reversed, The Federal Circuit's
Sweeping Interpretation Of What Constitutes
The Legal Question Of Obviousness Will
Have Serious Negative Repercussions For
Patent Law**

The Federal Circuit's decision to take for itself questions that are properly reserved for a jury not only directly contravenes this Court's decisions in *Graham* and *KSR*, but also will have serious consequences for the patent system if not reversed. The decision makes it significantly more likely that patents will be invalidated on appeal—even when the accused infringer has not requested a judgment of invalidity and there are disputed issues of fact.¹² By increasing uncertainty, circumventing procedural protections, and significantly expanding the window during which a patent may be invalidated as a matter of law, the decision presents a threat to all who rely on the stability and predictability of the patent system.

Specifically, by paving the way for district courts and other panels to decide disputed factual questions that should be decided by the jury, the court of appeals' decision undermines the role that procedural safeguards, such as the proper allocation of tasks between judge and jury, play in ensuring that hindsight bias does not skew the analysis of obviousness. As this Court has recognized, the very success of an invention

¹² See Patton Boggs LLP, *Federal Circuit Finds Online Purchasing System Patent Is Invalid for Obviousness 2* (Sept. 12, 2013), available at <http://www.pattonboggs.com/viewpoint/federal-circuit-finds-online-purchasing-system-patent-is-invalid-for-obviousness> (“The *Sovereign* case is potentially significant because ... [t]he Federal Circuit's opinions suggest that the appellate court can resolve the defense [of obviousness] as a matter of law, even where there may be some facts in dispute.” (emphasis added)).

can make it seem obvious in retrospect. *See Graham*, 383 U.S. at 36; *see also KSR Int'l*, 550 U.S. at 421. And both *Graham* and *KSR* warned against the danger of “slipping into use of hindsight” and the “temptation to read into ... prior art the teachings of the invention in issue.” 383 U.S. at 36; *see also KSR Int'l* 550 U.S. at 421 (warning against “the distortion caused by hindsight bias” and “arguments reliant upon *ex post* reasoning”). The patents-in-suit, for example, describe now-familiar functionality for operating e-commerce websites, but they were revolutionary when the original applications were filed in 1994 and 1995, at the dawn of the Internet. Adherence to the requirements of the *Graham* standard requires discipline to ensure that the obviousness analysis for pioneering patents such as these is performed in the correct context. *See KSR Int'l*, 550 U.S. at 421; *Graham*, 383 U.S. at 36. This means that the analysis must be temporally anchored “at the time the invention was made.” 35 U.S.C. § 103(a). And the analysis must be made objectively, from the perspective of “a person having ordinary skill in the art.” *Id.* In the ordinary course, the jury is instructed to do just that. *See* The National Jury Instruction Project, *Model Patent Jury Instructions* 48 (June 17, 2009), *available at* http://www.txed.uscourts.gov/cgi-bin/view_document.cgi?document=2195 (“But you must be careful not to determine obviousness using hindsight; many true inventions can seem obvious after the fact.”).

The Federal Circuit’s free-wheeling approach to obviousness here invites district court judges and future panels to decide cases based on their own subjective impressions of the record (or, as is often the case

on appeal, some subset of the record).¹³ This case illustrates why such an unbounded approach to obviousness is so problematic. Here, on a cold record, just under a year and a half after oral argument and nearly three years after trial, the decision viewed the asserted claims from a 2013 perspective—not 1994 and 1995 (or, for that matter, 1996, as the Federal Circuit incorrectly appeared to suggest (*see* App. 2a))—when it concluded that the use of Internet-related technologies would have been obvious, regardless of what those technologies were or how they were implemented in the claimed method. *See id.* 12a (“Precedent agrees with Newegg that a person of ordinary skill could have adapted the CompuServe order comment to known browser capabilities when these capabilities become commonplace, and that it was obvious to do so.” (footnote omitted)). Similarly, the decision incorrectly assumed that the application of the brand-new technologies to arrive at the claimed systems and methods would have been within the capabilities of a person having ordinary skill. *See id.* 18a (“hypertext and URLs are basic functionalities of the World Wide Web, and ... ‘[a]nyone who wanted to move shopping on the web would know they had to use URLs to tie things together to deliver information’”). This case therefore distorts the obviousness analysis through hindsight in exactly the way the Su-

¹³ Even before *KSR*—indeed, almost since its inception—the Federal Circuit has been criticized for taking a subjective and unpredictable approach to patent law. *See, e.g.,* Lee & Evans, *The Charade: Trying a Patent Case to All “Three” Juries*, 8 Tex. Intell. Prop. L.J. 1, 14 (1999) (“[W]hen the Federal Circuit believes the jury verdict was correct, it simply holds that the substantial evidence test was met. On the other hand, when the Federal Circuit believes the jury verdict was wrong, it substitutes its opinion for that of the jury and simply states that the substantial evidence test was not met.”). This case, however, takes the problem to new heights.

preme Court in *Graham* and *KSR* said not to do, and its subjective approach breeds unpredictability.

As the Federal Circuit has recognized, “[t]he patent system as a whole benefits from clear, unambiguous rules.” *Waldemar Link, GmbH & Co. v. Osteonics Corp.*, 32 F.3d 556, 560 (Fed. Cir. 1994). And as this Court has warned, “[c]ourts must be cautious before adopting changes that disrupt the settled expectations of the inventing community.” *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 739 (2002).

Legal uncertainty around patents harms economic growth and innovation. If the patent system “is overly fraught with uncertainty, the incentive provided by the promise of monopoly becomes attenuated and does not properly incentivize invention.” Elkind, *Secrets, Secrets Are No Fun! Balancing Patent Law & Trade Secret Law Under the America Invents Act*, 22 Fed. Cir. B.J. 431, 436-437 (2013); *see also Bilski v. Kappos*, 130 S. Ct. 3218, 3227-3228 (2010) (plurality opinion) (noting reasons against application of a test in a way that would stifle innovation by “creat[ing] uncertainty as to the patentability” of certain technologies); Plager, *The Federal Circuit as an Institution: On Uncertainty and Policy Levers*, 43 Loy. L.A. L. Rev. 749, 754 (2010). Unpredictability about when, under what standard, and by which decision-maker a patent’s validity will be tested robs the patent system of the stability that companies need to structure their business affairs. *See* Elkind, 22 Fed. Cir. B.J. at 436-437; S. Rep. No. 97-275, at 6 (1981) (recognizing the importance of “stable and predictable law” for “[b]usiness planning”). It also disincentivizes settlement: Patentees will become “unable to ascertain their rights and obligations without engaging in costly litigation,” Mullally, *Legal (Un)Certainty, Legal Process, and Patent Law*, 43 Loy. L.A. L. Rev.

1109, 1113 (2010); infringers, in turn, will become more willing to continue rolling the dice in court on the chance that the Federal Circuit, if not the jury, will find facts in its favor. This uncertainty is compounded by the fact that, on many measures, reversal rates in the Federal Circuit are already significantly higher than in regional circuits. Field, “*Judicial Hyperactivity*” in the *Federal Circuit: An Empirical Study*, 46 U.S.F. L. Rev. 721, 723, 776 (2012).

The Federal Circuit’s decision also erodes the clear and convincing evidence burden recently reaffirmed in *Microsoft Corp. v. i4i Limited Partnership*, 131 S. Ct. 2238 (2011), by downplaying the factual component of obviousness. By misunderstanding *KSR* and characterizing the legal question of obviousness very broadly, the Federal Circuit can resolve factual questions on a *de novo* review of the record, granting accused infringers a judgment of invalidity without the need to prove the underlying facts to a jury by clear and convincing evidence. And at least one study has shown that after *KSR*, the Federal Circuit and district courts “are much more willing to find patent claims obvious.” Mojibi, *An Empirical Study of the Effect of KSR v. Teleflex on the Federal Circuit’s Patent Validity Jurisprudence*, 20 Alb. L.J. Sci. & Tech. 559, 561 (2010); *see id.* at 582-583 (Federal Circuit findings of obviousness increased from 40% before *KSR* to 57.4% after *KSR*; among district courts surveyed, findings of obviousness increased from 6.3% before *KSR* to 40.8% after *KSR*).

Under the court of appeals’ decision here, the question of obviousness has effectively become one of pure law subject to plenary review. As a result, the decision makes it easier to invalidate patents—even patents like Soverain’s that have received intense PTO scrutiny and been reaffirmed.

II. THIS CASE IS AN IDEAL VEHICLE TO REVIEW THE FEDERAL CIRCUIT'S APPROACH TO FINDINGS OF OBVIOUSNESS

This case squarely presents the question whether courts can resolve genuinely disputed issues of fact on the underlying *Graham* factors in deciding the ultimate legal issue of obviousness. This question was fully briefed by the parties in connection with Soverain's petition for rehearing and rehearing en banc and the related supplemental briefing, and the Federal Circuit's willingness to resolve disputed factual issues and find all of the asserted claims obvious was outcome determinative—indeed, Newegg never even requested that relief.

The procedural history here perfectly sets the stage for this Court's resolution of this important issue. At trial, the district court concluded that Newegg's obviousness defense was so deficient that it should not even go to the jury, and, as a result, the jury never decided any of the predicate factual questions under *Graham* relating to obviousness. On appeal, Newegg affirmatively argued that there were factual disputes on obviousness that required a jury trial. *See* Newegg Br. 43; Aug. 4, 2011 Oral Arg. Recording 2:9-12. But the Federal Circuit—even though it acknowledged Newegg's requested relief and accepted that there was “divergent” witness testimony—found all the claims at issue obvious in the first instance.

This was no mere oversight. Soverain, in its petition for rehearing and rehearing en banc, detailed the repeated examples of improper fact-finding (Soverain's Combined Pet. 7-12), and requested that the court review its decision to answer the precise question “[w]hether it violates the Seventh Amendment right to

a jury trial for an appellate court to resolve genuinely disputed issues of fact and fill evidentiary gaps in the trial record in order to make a finding of obviousness in the first instance” (*id.* 1). The panel, however, ignored this issue in its amended ruling (App. 80a), and the Federal Circuit denied rehearing en banc that same day (*id.* 83a-84a).

The Federal Circuit’s misinterpretation of *KSR* in this case is not an isolated occurrence. *See supra* pp. 16-17. But the decision below illustrates just how far the Federal Circuit has strayed from this Court’s decisions and how significantly it has undermined the protections afforded by the Seventh Amendment. This decision is now the law of that circuit, which district courts and subsequent panels will apply. The important issue regarding the Federal Circuit’s approach to obviousness is therefore ripe for review, without the need for further percolation in the lower courts.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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APPENDIX

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APPENDIX A

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

SOVERAIN SOFTWARE LLC,
Plaintiff-Appellee,

v.

NEWEGG INC.
Defendant-Appellant.

2011-1009

Appeal from the United States District Court for
the Eastern District of Texas in case no. 07-CV-0511,
Judge Leonard Davis.

Decided: January 22, 2013

* * *

Before NEWMAN, PROST, AND REYNA, *Circuit Judges.*

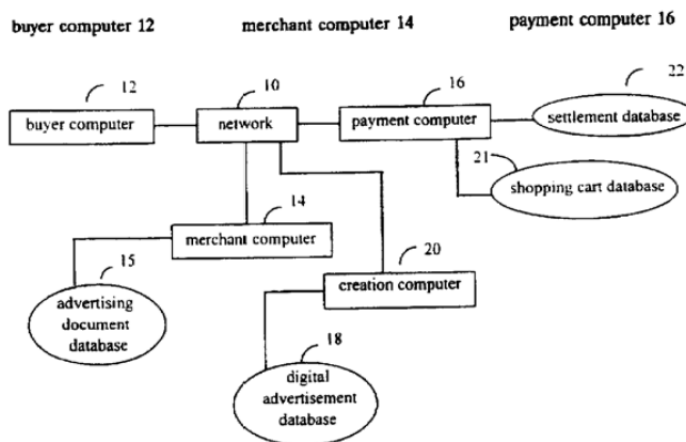
NEWMAN, *Circuit Judge.*

Soverain Software LLC brought this patent infringement suit against Newegg Inc. for infringement of specified claims of United States Patent No. 5,715,314 (“the ’314 patent”), its continuation Patent No. 5,909,492 (“the ’492 patent”), and Patent No. 7,272,639 (“the ’639 patent”). The patents relate to

electronic commerce, wherein a merchant's products are offered and purchased online, through computers interconnected by a network. The patents arise from a software system called "Transact" that was developed in 1996 by a company named Open Market, Inc. The Abstract of the '314 and '492 patents describes the subject matter as follows

A network-based sales system includes at least one buyer computer for operation by a user desiring to buy a product, at least one merchant computer, and at least one payment computer. The buyer computer, the merchant computer, and the payment computer are interconnected by a computer network. The buyer computer is programmed to receive a user request for purchasing a product, and to cause a payment message to be sent to the payment computer that comprises a product identifier identifying the product. The payment computer is programmed to receive the payment message, to cause an access message to be created that comprises the product identifier and an access message authenticator based on a cryptographic key, and to cause the access message to be sent to the merchant computer. The merchant computer is programmed to receive the access message, to verify the access message authenticator to ensure that the access message authenticator was created using the cryptographic key, and to cause the product to be sent to the user desiring to buy the product.

Figure 1 in the '314 and '492 patents is:



In 2001 Open Market was sold, with the Transact software and patents, to a company named Divine, Inc. Former Divine employee and current Soverain President Katharine Wolanyk testified that the Transact software was “a very complex product” that required constant support services and engineering development, that Divine was unable to provide the necessary support and development, and that Divine declared bankruptcy after fifteen months. Soverain acquired the Transact software and patents. Soverain then sued seven online retailers, including Newegg, for patent infringement. The record states that all of the defendants except Newegg took paid-up licenses to the patents. Trial Tr. 47 ll.7-25, ECF No. 392.

Newegg declined to pay for a license, stating that its system is materially different from that described and claimed in the patents, and that the patents are invalid if given the scope asserted by Soverain. Newegg pointed out that similar electronic commerce systems were known before the patented system, that the Transact software was generally abandoned, and that

Newegg's system, which is based on the different principle of using "cookies" on the buyer's computer to collect shopping data, is outside of the claims.

Suit against Newegg proceeded in the United States District Court for the Eastern District of Texas.¹ The jury found Newegg liable for infringement of the '314 and '492 patents, and awarded Soverain damages of \$2.5 million. The jury found that Newegg did not infringe the '639 patent, but the district court granted Soverain's motion for JMOL of infringement of the '639 patent, and ordered a new trial to assess damages for the '639 patent, to be tried after the completion of appeals. The district court awarded Soverain post-verdict damages and an ongoing royalty.

After the close of evidence the district court removed the question of obviousness from the jury, the court stating: "I don't think there's sufficient testimony to present an obviousness case to the jury. I think it would be very confusing to them." Trial Tr. 3 ll.9-12, ECF No. 395. The district court then held that the claims are not invalid on the ground of obviousness. Op. at 478-79. Newegg's motions for JMOL or a new trial were denied.

OBVIOUSNESS

Obviousness is a question of law based on underlying facts, as set forth in *Graham v. John Deere Co.*, 383 U.S. 1 (1966). The *Graham* factors are (1) the scope and content of the prior art, (2) the difference between the prior art and the claimed invention, (3) the level of ordinary skill in the field of the invention, and (4) any relevant objective considerations. The *Graham* Court

¹ *Soverain Software LLC v. Newegg, Inc.*, 836 F. Supp. 2d 462 (E.D. Tex. 2011) (herein "Op.").

explained that “the ultimate question of patent validity is one of law.” *Id.* at 17. Thus on appellate review, the question of obviousness is decided *de novo*. See *Vulcan Eng’g Co. v. Fata Aluminium, Inc.*, 278 F.3d 1366, 1372 (Fed. Cir. 2002) (district court’s application of the law of obviousness to the found facts is reviewed for correctness); *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1351-52 (Fed. Cir. 1998) (“The ultimate determination of obviousness *vel non* is a legal conclusion.”).

Newegg argues that it was wrongfully deprived of a jury determination of the question of obviousness, pointing to the extensive testimony on this issue at trial. However, Federal Rule of Civil Procedure 50 “allows the trial court to remove cases or issues from the jury’s consideration ‘when the facts are sufficiently clear that the law requires a particular result,’” *Weisgram v. Marley Co.*, 528 U.S. 440, 448 (2000) (quoting Wright & Miller, *Federal Practice and Procedure* (2d ed. 1995)). The Court has explained that the purpose of Rule 50 is “to speed litigation and avoid unnecessary retrials.” *Neeley v. Martin K. Eby Const. Co.*, 386 U.S. 317, 326 (1967).

Although here both sides had presented witnesses and evidence on the question of obviousness, the district court’s removal of the legal question from the jury did not violate the right to jury trial. See *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 389 (1996) (“[A]ny credibility determinations will be subsumed within the necessarily sophisticated analysis of the whole document.”). In *KSR International Co., v. Teleflex, Inc.*, 550 U.S. 398, 427 (2007), the Court applied similar principles in its determination of the question of obviousness, stating that: “Where, as here, the content of the prior art, the scope of the patent claim, and the level of ordinary skill in the art are not in material dis-

pute, and the obviousness of the claim is apparent in light of these factors, summary judgment is appropriate” and remand unnecessary.

However, questions of law must be correctly decided, and the district court’s determination of the question of obviousness as a matter of law receives *de novo* determination on appeal. See *Western Union Co. v. MoneyGram Payment Sys., Inc.*, 626 F.3d 1361, 1369 (Fed. Cir. 2010) (reversing judgment of nonobviousness when “[t]he parties’ disputes revolve around whether the prior art taught three specific elements of the claimed inventions, whether there was a motivation to combine these elements with the prior art system, and whether secondary considerations support a finding of nonobviousness.”); *Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318, 1327 (Fed. Cir. 2008) (reversing judgment of nonobviousness when defendant “clearly and convincingly established a prima facie case that [the] claims [were] obvious as a matter of law.”); *Inventio AG v. Otis Elevator Co.*, No. 2011-1615, 2012 WL 5907489, at *5 (Fed. Cir. Nov. 27, 2012) (non-precedential) (reversing judgment of nonobviousness when patent was “a clear example of a ‘combination of familiar elements according to known methods [yielding] no more than ... predictable results.’” (citations omitted)).

On these premises, we determine the question of obviousness. Newegg relied primarily on a prior electronic commerce system called “CompuServe Mall.” The district court, sustaining validity of all claims in suit, did not discuss the claims or the prior art; the court stated that Newegg’s expert had not presented a prima facie case of obviousness, and criticized Newegg for not presenting “some articulated reasoning with

some rational underpinning to support the legal conclusion of obviousness.” Op. at 479.

The parties divided the claims in suit into three groups, and presented evidence and argument, including expert and other witness testimony, for the claims as grouped. We retain the parties’ groupings, as follows:

A

The ’314 and ’492 patents—the “shopping cart” claims

Soverain asserted claims 34 and 51 of the ’314 patent and claim 17 of the ’492 patent as a group called the “shopping cart” claims. These claims are directed to the overall system wherein products are offered online by a merchant, a buyer designates products for purchase, and payment for the designated products is initiated upon the buyer’s request for checkout, all operating through a computer network. The parties agreed that claim 34 of the ’314 patent is representative of this group. Claim 34 follows (with bracketed numbers added):

34. A network-based sales system, comprising:

[1] at least one buyer computer for operation by a user desiring to buy products;

[2] at least one shopping cart computer;
and

[3] a shopping cart database connected to said shopping cart computer;

[4] said buyer computer and said shopping cart computer being interconnected by a computer network;

[5] said buyer computer being programmed to receive a plurality of requests from a user to add a plurality of respective products to a shopping cart in said shopping cart database, and, in response to said requests to add said products, to send a plurality of respective shopping cart messages to said shopping cart computer each of which comprises a product identifier identifying one of said plurality of products;

[6] said shopping cart computer being programmed to receive said plurality of shopping cart messages, to modify said shopping cart in said shopping cart database to reflect said plurality of requests to add said plurality of products to said shopping cart, and to cause a payment message associated with said shopping cart to be created; and

[7] said buyer computer being programmed to receive a request from said user to purchase said plurality of products added to said shopping cart and to cause said payment message to be activated to initiate a payment transaction for said plurality of products added to said shopping cart;

[8] said shopping cart database being a database of stored representations of collections of products, and said shopping cart computer being a computer that modifies said stored representations of collections of products in said database.

At the trial the CompuServe Mall system was the primary reference against the shopping cart claims, including two books describing the system: Bowen &

Peyton, *How to Get the Most Out of CompuServe* (4th ed. 1989) and Ellsworth & Ellsworth, *Using CompuServe* (1994). Newegg presented testimony of CompuServe's former Chief Technology Officer Alexander Trevor, Newegg's expert witness Mr. Edward Tittel, and Newegg's Chief Technology Officer James Wu, who designed the Newegg system.

Mr. Tittel compared claim 34 with the prior art system, element by element. Trial Tr. 55-81, ECF No. 394. Mr. Tittel testified that the CompuServe Mall was a "network-based sales system" (claim preamble) in which the buyer computer (clause [1]) interacted with a CompuServe server computer (clause [2]) that stored buyers' product selections in "shopping carts" called personal holding files (clause [3]), all via a computer network (clause [4]). *Id.* 57-60. Mr. Tittel explained that products were added to the personal holding files when the buyer computer sent an order command "O" to the CompuServe server, at which time the server would "update" the personal holding file for each such selection (clauses [5], [6] and [8]). *Id.* 61-63. When the buyer was ready for checkout, the buyer typed "check-out" and was presented with a screen to review the designated items, and with a request to initiate payment (clause [7]). *Id.* 64-65. Mr. Tittel concluded that all of the elements and limitations of Soverain's shopping cart claims were "shown or apparent" in the prior art CompuServe Mall. *Id.* 67 l.25.

Mr. Trevor testified as to the CompuServe Mall system, for which he had been the Chief Technology Officer. According to Mr. Trevor, the CompuServe Mall provided the buyer with access to over a hundred online stores. Trial Tr. 32 ll.21-23, ECF No. 396. Within each store, products were presented in menus. When a buyer found a product of interest, the buyer

selected the product from the store menu and a detailed description would be displayed, in some cases with a photograph. *Id.* 33 ll.9-13. If the buyer wanted to purchase the product, the buyer would type the order command “O” and CompuServe would store the product in the buyer’s personal holding file on the server. *Id.* 33 ll.14-17. The buyer could designate up to forty items for placement in the personal holding file. *Id.* 34 ll.8-11. By typing “checkout,” the buyer could review selections and modify or delete items in the personal holding file, or proceed to purchase. *Id.* 43 ll.8-17.

Soverain’s expert witness Dr. Michael Shamos stated that the Newegg witnesses’ description of the CompuServe Mall was “consistent with my understanding,” but presented the argument that the CompuServe Mall lacked two elements of the shopping cart claims: first, that the CompuServe system lacked the “shopping cart message [that] comprises a product identifier” of claim clause [5]; and second, that CompuServe lacked the “shopping cart database” of clause [3]. Trial Tr. 154-69, ECF No. 397. Dr. Shamos did not dispute that the other elements of claim 34 were embodied in the CompuServe Mall. We have given particular attention to the two aspects on which the witnesses stated divergent views.

1. the product identifier message, clause [5]

Dr. Shamos did not disagree with Mr. Tittel that the CompuServe Mall’s “order command” was a “shopping cart message” as in clause [5], and agreed that when a CompuServe Mall buyer entered the order command, the CompuServe server computer would identify the product and place it in a personal holding file for that buyer. Trial Tr. 155 ll.24-25, ECF No. 397; *id.* 165 ll.5-9. However, Dr. Shamos argued that the

CompuServe Mall was different because the “product identifier” in the CompuServe Mall was not “in the message.” *Id.* 154 ll.9-17. Dr. Shamos stated that the CompuServe Mall system of product identification was based not on the order command itself, but on what the server “knew” based on “previously sent” messages. *Id.* “It was just an indication that the order key had been—had been hit at that time.” *Id.* 156 ll.2-3. Thus Dr. Shamos argued that the CompuServe order command was not a “message ... which comprises a product identifier” as required by claim clause [5]. *Id.* 155 ll.2-7.

The distinction proposed by Dr. Shamos and advanced by Soverain is not embodied in the claims and not reflected in the claim construction. It was not disputed that the CompuServe Mall order command designated a specific product for placement in the buyer’s personal holding file, or shopping cart, as recited in claim clause [3]. *See* Trial Tr. 54, ECF No. 394; Trial Tr. 165 ll.5-9, ECF No. 397. Nor was it disputed that, regardless of how the order command was structured, it conveyed the requisite information to the CompuServe server computer. *Id.* The message set forth in the claims is not distinguished from the message in the CompuServe Mall. The term “product identifier” was not given a special meaning in the specification or through claim construction, and contains no designated format requirements. “No principle of law ... authorize[s] ... read[ing] into a claim an element which is not present, for the purpose of making out a case of novelty” *E.I. DuPont de Nemours & Co. v. Phillips Petroleum Co.*, 849 F.2d 1430, 1433 (Fed. Cir. 1988) (quoting *McCarty v. Lehigh Valley R. Co.*, 160 U.S. 110, 116 (1895)).

Soverain also argues that its system is superior to the CompuServe “order command” because the system

of the patents in suit is adapted to the Internet, whereas the CompuServe Mall operated on a pre-Internet network. Trial Tr. 159-162, ECF No. 397. In *Muniauction* this court held that “conducting previously known methods through an Internet web browser was obvious because it amounted to no more than applying the use of the Internet to existing electronic processes at a time when doing so was commonplace.” 532 F.3d at 1327. Precedent agrees with Newegg that a person of ordinary skill² could have adapted the CompuServe order command to known browser capabilities when these capabilities became commonplace, and that it was obvious to do so. The product identifier message term does not distinguish the shopping cart claims from the prior art CompuServe Mall.

2. the shopping cart database, clause [3]

Dr. Shamos also stated his opinion that the CompuServe Mall did not have a “shopping cart database” as in the claims in suit. Dr. Shamos agreed with Newegg’s expert Mr. Tittel that the CompuServe Mall system included “personal holding files,” and Dr. Shamos agreed that a shopping cart database “might have been a reasonable design choice,” but he opined that such database “wasn’t required” by the CompuServe Mall and that the prior art did not “necessarily

² The parties agreed that the level of ordinary skill in the field of this invention is “a Bachelor of Science degree in computer engineering or computer science, or equivalent education, with two to three years of practical experience developing or operating software and systems that relate to commerce on the Internet.” Plaintiff’s Submission of Joint Proposed Charge of the Court 29-30, ECF No. 289-3; Defendant’s Submission of Joint Proposed Charge of the Court 35, ECF No. 289-4.

disclose a database.” Trial Tr. 167 ll.12-16, ECF No. 397.

The agreed claim construction for “shopping cart database” was “a database of stored representations of collections of products,” where “database means a collection of logically related data stored together by one or more computerized files.” Claim Construction Order 3, ECF No. 214. The use of personal holding files in the CompuServe Mall is easily within this definition. Mr. Tittel testified that the personal holding file in CompuServe Mall was “a shopping cart in a shopping cart database.” Trial Tr. 56 ll.9-10, ECF No. 394. He explained that “[t]he personal holding file itself is a shopping cart. And because CompuServe supported multiple individuals shopping in the same store at the same time, a collection of such files would be maintained, and that would meet the Court’s requirements for a shopping cart database.” *Id.* 56 ll.11-16. In addition, Mr. Trevor testified that the personal holding files in the CompuServe Mall system stored products “specific to each customer” and constituted an “in-memory database.” Trial Tr. 39 ll.7-10, ECF No. 396.

The Ellsworth & Ellsworth book describes the storage of customer product selections in the CompuServe personal holding files. *Using CompuServe* 376, ECF No. 247-10 (“When you find a product that you want to buy, press O for order. Your order will be stored in a personal holding file until you leave that merchant’s store.”). The book further describes that items placed in the personal holding file are not yet purchased, and are held until the buyer types the “checkout” command. *Id.* (“When you are finished shopping in that store, type **checkout**. An electronic order form appears.”).

When Dr. Shamos was asked how a person of skill in the art would have implemented the CompuServe online shopping system other than through a database, he suggested that CompuServe could have used a “fulfillment house,” which would “fill your order and send it to you without ever recording it in a database.” Trial Tr. 168 ll.9-14, ECF No. 397. Whether that alternative was feasible, it is not stated to be what CompuServe did. The Ellsworth & Ellsworth book states that the buyer’s product selections are “stored”—not sent “without ever recording it in a database.” The “fulfillment house” alternative proposed by Dr. Shamos does not relate to a personal holding file, and appears to have no relation to either the prior art or the patents. Dr. Shamos conceded that a database would have been a “reasonable design choice” for the personal holding files, and his statements that the prior art did not “necessarily disclose a database” are not evidence of nonobviousness. “Because the patentee is required to define precisely what his invention is ... it is unjust to the public, as well as an evasion of the law, to construe it in a manner different from the plain import of its terms.” *Phillips v. AWH Corp.*, 415 F.3d 1303, 1312 (Fed. Cir. 2005) (en banc) (citations omitted).

The district court’s conclusion that a prima facie case of obviousness was not met is not explained by the court or by Soverain, and does not accord with the record. Dr. Shamos did not provide evidence to rebut Newegg’s prima facie case that every claim element was embodied in the prior art.

Although the district court criticized Mr. Tittel’s expert report on the question of obviousness, the trial record contains extensive testimony of the experts for both sides, discussing every claimed element of the patented subject matter and the prior art system. Their

testimony was subjected to examination and cross-examination, before decision of the question of obviousness was removed from the jury. Also, precedent does not require “expert” opinions on matters of law. In *Nutrition 21 v. United States*, 930 F.2d 867, 871 n.2 (Fed. Cir. 1991) this court observed that “[a]n expert’s opinion on the ultimate legal conclusion is neither required nor indeed ‘evidence’ at all.” *Avia Group Int’l v. L.A. Gear Cal., Inc.*, 853 F.2d 1557, 1573 (Fed. Cir. 1988) (“an expert’s opinion on the legal conclusion of obviousness is neither necessary nor controlling”).

We conclude that the prior art CompuServe Mall system, by clear and convincing evidence, rendered obvious the “shopping cart” claims: claims 34 and 51 of the ’314 patent and claim 17 of the ’482 patent. These claims are invalid; the district court’s contrary ruling is reversed.

B

The ’492 patent—the “hypertext statement” claims

The ’492 patent is a division of the ’314 patent, with the same specification and drawings. Soverain asserted infringement of claims 41 and 61 of the ’492 patent, called the “hypertext statement” claims. These claims are directed to the aspect of the online shopping system set forth in the patents, in which the client computer receives transaction statements from the server computer, in response to a request from the client computer. The district court included these claims in its ruling of nonobviousness, although the specific subject matter and claims were not mentioned by the court. We thus determine this question of law *de novo*.

Claim 41 is shown below, with claim 15 from which it depends, and bracketed numbers added to each claim clause:

15. A hypertext statement system, comprising:

[1] a client computer for operation by a client user; and

[2] one or more server computers for operation by a server user;

[3] the client computer and the server computers being interconnected by a public packet switched computer network;

[4] at least one of the server computers being programmed to record information pertaining to purchase transaction records in a database, and to transmit a statement document comprising the purchase transaction records to the client computer over the network;

[5] the client computer being programmed to display the statement document to receive a request from the client user to display transaction details corresponding to a portion of the statement document displayed by the client computer, and to cause a transaction detail hypertext link corresponding to the portion of the statement document to be activated;

[6] at least one of the server computers being programmed to respond to activation of the transaction detail hypertext link by transmitting the transaction details to the client computer over the network as a transaction detail document.

41. A hypertext statement system in accordance with claim 15, wherein

[7] the statement document is sent by at least one of the server computer to the client computer in response to a statement URL sent by the client computer to at least one of the server computers.

Newegg argued that claim 41 is rendered obvious by the CompuServe Mall system, for the commonplace sending of a statement of a transaction or receipt, in response to a URL inquiry by the purchaser (claim clause [7]), does not contribute nonobviousness to known systems of e-commerce over the network, (clause [6]). Mr. Tittel's testimony included an element by element comparison of these claims with the CompuServe Mall statement system. Trial Tr. 71-76, ECF No. 394. Mr. Tittel testified that in the CompuServe Mall, the client user operated a client computer (clause [1]), and a server user operated a server computer (clause [2]), and the computers were interconnected by a public network (clause [3]). *Id.* 72. The CompuServe server recorded and transmitted purchase information, and provided a "confirmation number" from which buyers could "get all the information about that transaction that you might ever need," (clause [4]). *Id.* 73 ll.10-22. The client user could request transaction information using the confirmation number (clause [5]), and receive access to such information from the CompuServe system (clause [6]), though not using URLs or hypertext (clause [7]). *Id.* 74 ll.4-5. Mr. Tittel explained that the CompuServe Mall did not employ hypertext or URLs because it pre-dated the Internet and did not use the tools of the World Wide Web, but "[a]nyone who could get access to the text in a transaction record would un-

derstand how to use html to present that information at a variety of levels of details.” *Id.* 75 ll.13-18.

At the trial, both sides presented testimony concerning the statement URL (clause [7]). Dr. Shamos argued that the statement URL rendered these claims nonobvious because there was no way of obtaining transaction details online in the CompuServe Mall system. Trial Tr. 173 ll.3-20, ECF No. 397; Soverain Br. 46. Mr. Tittel testified that hypertext and URLs are basic functionalities of the World Wide Web, and that “[a]nyone who wanted to move shopping on the web would know they had to use URLs to tie things together to deliver information.” Trial Tr. 71 ll.4-6, ECF No. 394.

Also in suit was claim 61 of the ’492 patent, shown with claims 1 and 60 from which claim 61 depends:

61. A hypertext statement system in accordance with claim 60, wherein the information on transactions by the user includes at least one of the following types of information: a date of transaction, an identification of the product, a payment amount, and a merchant identifier.

60. The method of claim 1, wherein at least one service request comprises a purchase request, the purchase request including an associated user identifier, the method further comprising:

accessing, upon receipt of the purchase request at the server system, user information associated with the user identifier sufficient to charge to an account associated with the user, the purchase price of the product identified by the purchase request;

charging the user for the product identified by the purchase request according to the user information; and

fulfilling the purchase request based on the user information.

1. A method of processing service requests from a client to a server system through a network, said method comprising the steps of

forwarding a service request from the client to the server system, wherein communications between the client and server system are according to hypertext transfer protocol;

returning a session identifier from the server system to the client, the client storing the session identifier for use in subsequent distinct requests to the server system; and

appending the stored session identifier to each of the subsequent distinct requests from the client to the server system.

Newegg points out that the elements of a “statement URL” (claim 41) and general purchase information (claim 61) are “routine modifications that are a part of adapting [the Internet] to an existing system,” and do not render the system nonobvious, citing *Western Union*, 626 F.3d at 1370, where the court held the claimed system of Internet-based money transfer to be obvious, for the prior art money transfers were simply implemented by a newer electronic method that had become commonplace. Reply Br. 4. *See also Muniauction*, 532 F.3d at 1326 (“modification of [bid calculation software] to incorporate web browser functionality represents a combination of two well known prior art elements to a person of ordinary skill in the art.”). Although

Soverain argues that the CompuServe Mall did not disclose “most, if not all, of the elements recited in the hypertext statement claims,” such as a “statement document,” or a “transaction detail document,” Soverain Br. 46, the record does not support that argument, but rather supports Newegg’s argument that these aspects were performed in the CompuServe Mall system.

Mr. Tittel explained that in the CompuServe Mall, buyers could get all the information about a transaction from the confirmation number. Tr. 73 ll.10-22, ECF No. 394. Soverain argues that in CompuServe Mall it might be necessary to resort to the telephone or email to get the transaction information, but Newegg states that whatever distinction Soverain is drawing, it is not a limitation on the claims other than a commonplace Internet capability to facilitate on-line transactions. *See Muniauction*, 532 F.3d at 1327 (holding it obvious to “apply[] the use of the Internet to existing electronic processes at a time when doing so was commonplace.”).

Open Market did not invent the Internet, or hypertext, or the URL. *See* Trial Tr. 196-97, ECF No. 397 (testimony of Soverain’s expert Dr. Shamos). Newegg is correct that the use of hypertext to communicate a “statement document” or “transaction detail document” was a routine incorporation of Internet technology into existing processes. *See Western Union*, 626 F.3d at 1370-71; *Muniauction*, 532 F.3d at 1327.

We conclude that Newegg presented clear and convincing evidence of obviousness of claims 41 and 61 of the ’492 patent. The district court’s ruling of nonobviousness is reversed.

C

The '639 patent—the “session identifier” claims

The '639 patent is directed to “methods of processing service requests from a client to a server system through a network.” '639 patent, col.3 ll.6-7. The subject matter is summarized in the '639 Abstract as follows:

This invention relates to methods for controlling and monitoring access to network servers. In particular, the process described in the invention includes client-server sessions over the Internet. In this environment, when the user attempts to access an access-controlled file, the server subjects the request to a secondary server which determines whether the client has an authorization or valid account. Upon such verification, the user is provided with a session identification which allows the user to access to the requested file as well as any other files within the present protection domain.

Claims 60 and 79 of the '639 patent were in suit, called the “session identifier” claims. The jury found that these claims are not infringed by the Newegg system. On Soverain’s motion for JMOL as to claim 79, the district court reversed the verdict and ruled the claim infringed. Claim 60 was not included in Soverain’s motion, and is not included on this appeal. Claim 79 follows, shown with claim 78 from which it depends:

79. The method of claim 78, further comprising, in the server system:

receiving an initial service request from the client;

creating, responsive to the initial service request, the session identifier; and

returning the session identifier to the client for storage by the client for use in subsequent requests to the server system.

78. A method of processing, in a server system, service requests from a client to the server system through a network, said method comprising the steps of:

receiving, from the client, a service request to which a session identifier stored at the client has been appended by the client, wherein communications between the client and server system are according to hypertext transfer protocol;

validating the session identifier appended to the service request; and servicing the service request if the appended session identifier is valid.

The parties stipulated that “session identifier” means “a text string that identifies a session,” wherein a “session” is a “series of requests and responses to perform a complete task or set of tasks between a client and a server system.” Claim Construction Order 3, ECF No. 214. Newegg again argues that the district court erred in its ruling of nonobviousness. The court did not discuss the prior art or explain its reasoning, other than to include this patent in the general statement that Newegg had not presented a prima facie case of nonobviousness, and to criticize the expert witness for omitting to provide his conclusions as to validity.

Newegg relies on U.S. Patent No. 5,560,008 to Johnson and U.S. Patent No. 5,724,424 to Gifford, stat-

ing that either Johnson alone, or Johnson in view of Gifford, renders obvious the claimed subject matter. Soverain responds that neither Johnson nor Gifford discloses a “session identifier.” Soverain states that the “credential identifier” of Johnson cannot be a “session identifier” because it identifies a “user rather than a session,” and therefore “can cover a portion of a single session or ... multiple sessions.” Soverain Br. 47. Newegg states, and Mr. Tittel explained at trial, that “the same mechanisms that are used to set up a network login [as in Johnson] apply to establishing a session [as in the ’639 patent].” Newegg Br. 42-43; Trial Tr. 78 ll.17-18, ECF No. 394.

The “credential identifier” is described by Johnson as follows:

A message, called a request for service, is sent from the user client machine to the server remote machine anytime that service is needed on the remote machine. ... The server builds a set of credentials that represent all of the interesting security facts about the remote user. This information includes the user id, the group id that the user is in, the group set of other group ids that the user has access to, an account id, the set of privileges of the user that allow the user to bypass the normal security restrictions on the system, etc. The server establishes all of the credentials for the user, and stores this information in a data structure called the credentials structure, and returns a small value (e.g. 64 bits) to the client machine where the user is running. This returned small value is referred to as the credentials identifier.

After the credentials identifier is returned to the user, all the user has to do is to present the credentials identifier to the server in every request requiring authentication that is made of that server. ...

Johnson patent col.5 l.47-col.6 l.2. The credential identifier in Johnson is “a flexible authentication and authorization process,” col.6 ll.51-54, where the server decides “the length of time that the credential structure will be maintained,” col.6, ll.51-54.

Mr. Tittel testified that the patents to Johnson and Gifford show all of the elements of claims 78 and 79. Trial Tr. 76-81, ECF No. 394. He testified that the “service requests” of the ’639 claims appear in Johnson’s “requests for service.” *Id.* 79 ll.5-6. The ’639 claims refer to “appending” the session identifier to a service request, and Johnson refers to “presenting” the credential identifier in “every request.” *Id.* 81 ll.3-4.

Dr. Shamos testified that the ’639 claims are distinguishable because the Johnson reference pre-dated the World Wide Web. However, Mr. Tittel pointed out that that the Gifford reference includes application of the Web to the same effect. *Id.* 80 ll.8-11. Gifford describes a “complete system for the purchasing of goods or information over a computer network,” that is “based upon the hypertext conventions of the World Wide Web.” Gifford patent, Abstract; col.4 ll.61-63. Gifford specifically teaches the use of hypertext strings in e-commerce transactions for payment authorization and security, a “transaction identifier” that is a hypertext string used to authenticate a transaction. *Id.* col.11 ll.32-35. Soverain does not dispute that Gifford teaches “additional Internet functionality” not taught in Johnson. Soverain Br. 47.

On the agreed claim construction and the teachings of Johnson and Gifford, we discern no distinction between the session identifier claims and Johnson alone, or Johnson with Gifford. In *KSR* the Court explained:

When we apply the standards we have explained to the instant facts, claim 4 must be found obvious. ... we see little difference between the teachings of Asano and Smith and the adjustable electronic pedal disclosed in claim 4 of the Engelgau patent. A person having ordinary skill in the art could have combined Asano with a pedal position sensor in a fashion encompassed by claim 4, and would have seen the benefits of doing so.

550 U.S. at 422. We conclude that claim 79 of '639 patent is invalid on the ground of obviousness.

D

Secondary Considerations

Before reaching our conclusions regarding obviousness referred to above, we have also considered the matter of secondary considerations. Soverain argues that obviousness of all of the claims in suit is negated by the favorable market response that was achieved by Open Market's Transact product, which Soverain states received "widespread recognition in the general media," "an excellence award from the industry," and was "widely licensed." Soverain Br. 50-51. Newegg responds with evidence that the Transact system was abandoned by its developers and almost all of its original users. Newegg points out that licenses were taken to avoid the costs of litigation, and not to use the flawed Transact system embodied in its software. Newegg Br. 5-6.

The record does not establish a nexus between use of the Transact software and the patents. At trial, former Open Market employee and inventor Alexander Treese testified that Open Market had attempted to license its patents apart from the software, but without success. Trial Tr. 108 l.25-109 l.3, ECF No. 391 (testimony of Alexander Treese stating that patent licensing program went “Not very well.”). The record shows that the software was abandoned by almost all of its initial licensees, Trial Tr. 23 ll.12-25, ECF No. 392 (testimony of Sovereign’s President Katherine Wolanyk), and is not used by those who bought litigation peace, *compare id.* 38 ll.12-15 (listing current licensees of Transact) *with id.* 47 ll.17-18 (listing companies that settled after being “contacted first with a lawsuit”). The assertions of commercial success as here presented do not support nonobviousness.

SUMMARY

The claims in suit of the ’314 and ’492 patents are invalid for obviousness over the CompuServe Mall system. The claims of the ’639 patent are invalid for obviousness over Johnson in view of additional prior art, and the other evidence presented. The judgments of validity are reversed, and therefore the judgments of infringement and damages are vacated.

REVERSED IN PART, VACATED IN PART

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APPENDIX B

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

March 11, 2013

ERRATA

Appeal No. 2011-1009

SOVERAIN SOFTWARE LLC,

v.

NEWEGG INC.

Decided: January 22, 2013
Precedential Opinion

Please make the following edits:

Page 17, lines 32-33: delete “, shown with claims 1 and
60 from which claim 61 depends”.

Pages 18-19, delete lines 18:7 through 19:3.

APPENDIX C

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
TYLER DIVISION

SOVERAIN SOFTWARE

-vs-

NEWEGG INC.

DOCKET NO. 6:07cv511

Tyler, Texas

9:00 a.m.

April 30, 2010

**TRANSCRIPT OF TRIAL
MORNING AND AFTERNOON SESSIONS
BEFORE THE HONORABLE LEONARD DAVIS,
UNITED STATES DISTRICT JUDGE, AND A JURY**

THE COURT: * * * I am granting Plaintiff's JMOL motion on obviousness. I'm denying it as to anticipation.

But I think—I don't think it's a close call on obviousness. I don't think there's sufficient testimony to present an obviousness case to the jury. I think it would be very confusing to them.

31a

APPENDIX D

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
TYLER DIVISION

SOVERAIN SOFTWARE LLC,
Plaintiff,

vs.

NEWEGG INC.
Defendant.

CASE NO. 6:07 CV 511
PATENT CASE

MEMORANDUM OPINION AND ORDER

Before the Court are Soverain's Renewed Motion for Judgment as a Matter of Law ("JMOL") of Infringement of the '314, '492, and '639 Patents and Motion for New Trial ("MNT") on '639 Patent Damages (Docket No. 402); Soverain's Motion for Permanent Injunction or, in the Alternative, Ongoing Royalties (Docket No. 403); Soverain's Motion for Prejudgment Interest and Costs, Post-Verdict Damages to Judgment, and Post-Judgment Interest (Docket No. 404); Newegg's Renewed Motion for JMOL on Damages and Alternative MNT or Remittitur (Docket No. 406); Newegg's Renewed Motions for JMOL of Non-Infringement and Invalidity of the Asserted Claims and Alternative MNT (Docket No. 407); and Newegg's Opposed Motion to Strike Certain Evidence Submitted in

Support of Soverain's Post-Trial Motions (Docket No. 411). For the reasons stated below, the Court **GRANTS** in part Soverain's motion for JMOL on infringement and MNT on damages (Docket No. 402), **GRANTS** in part Soverain's motion for permanent injunction or, in the alternative, ongoing royalties (Docket No. 403), **GRANTS** in part Soverain's motion for prejudgment interest, post-verdict damages, and post-judgment interest (Docket No. 404), and **DENIES** all other motions.

BACKGROUND

Plaintiff Soverain Software LLC ("Soverain") filed suit against Newegg Inc. ("Newegg") and several other defendants in November 2007. Newegg is the only remaining defendant. Soverain asserts U.S. Patent Nos. 5,715,314 (the "'314 patent"), 5,909,492 (the "'492 patent"), and 7,272,639 (the "'639 patent") (collectively, "the patents-in-suit") against Newegg. The '314 and '492 patents, both entitled "Network Sales System," are directed to a network-based sales system including at least one buyer computer, at least one merchant computer, and at least one payment computer, all interconnected by a computer network. The asserted claims in the '314 and '492 patents are system claims. The '639 patent, entitled "Internet Server Access Control and Monitoring Systems," is directed to methods for controlling and monitoring access to network servers. The asserted claims of the '639 patent are method claims.

A jury trial began on April 26, 2010. At trial, Soverain argued that Newegg used technology for its websites that infringed claims 35 and 51 of the '314 patent; claims 17, 41, and 61 of the '492 patent; and claims 60 and 79 of the '639 patent. Newegg argued that it did not infringe Soverain's patents and that Soverain's pa-

tents were invalid. Following a five day trial, the Court submitted the following issues to the jury: (1) direct infringement and active inducement of infringement of the '314 and '492 patents, (2) direct infringement of the '639 patent, (3) invalidity of the patents-in-suit based on anticipation, and (4) damages. The jury returned a verdict finding the patents-in-suit not invalid, the '314 and '492 patents infringed, and awarding Soverain \$2,500,000 in damages. Specifically, the jury found Newegg liable for induced infringement of claims 35 and 51 of the '314 patent and claims 17, 41, and 61 of the '314 patent, but found that Newegg did not directly infringe any of the asserted claims of the patents-in-suit.

MOTIONS FOR JMOL & NEW TRIAL

JMOL Standard

“The grant or denial of a motion for judgment as a matter of law is a procedural issue not unique to patent law, reviewed under the law of the regional circuit in which the appeal from the district court would usually lie.” *Summit Tech. Inc. v. Nidek Co.*, 363 F.3d 1219, 1223 (Fed. Cir. 2004). In the Fifth Circuit, JMOL may not be granted unless “there is no legally sufficient evidentiary basis for a reasonable jury to find as the jury did.” *Hiltgen v. Sumrall*, 47 F.3d 695, 700 (5th Cir. 1995) (internal quotation marks omitted). A court reviews all the evidence in the record and must draw all reasonable inferences in favor of the nonmoving party, however, a court may not make credibility determinations or weigh the evidence, as those are solely functions of the jury. *See Reeves v. Sanderson Plumbing Prods., Inc.*, 530 U.S. 133, 150-51 (2000).

New Trial Standard

Under Rule 59(a) of the Federal Rules of Civil Procedure, a new trial can be granted to any party to a jury trial on any or all issues “for any reason for which a new trial has heretofore been granted in an action at law in federal court.” “A new trial may be granted, for example, if the district court finds the verdict is against the weight of the evidence, the damages awarded are excessive, the trial was unfair, or prejudicial error was committed in its course.” *Smith v. Transworld Drilling Co.*, 773 F.2d 610, 612-13 (5th Cir. 1985).

INFRINGEMENT

NEWEGG’S MOTION FOR JMOL & MNT—NO INDIRECT INFRINGEMENT OF ’314 AND ’492 PATENTS

Newegg moves for JMOL, or alternatively for a new trial, on the issue of no indirect infringement of claims 35 and 51 of the ’314 patent, claim 17 of the ’492 patent, and claims 41 and 61 of the ’492 patent. Claims 35 and 51 of the ’314 patent and claim and claim 17 of the ’492 patent are referred to as the “shopping cart claims.” Claims 41 and 61 of the ’492 patent, are referred to as the “hypertext statement claims.”

Shopping Cart Claims

Newegg first argues that there was no legally sufficient evidence from which a reasonable jury could conclude that the accused Newegg system meets all the limitations of independent claim 34 of the ’314 patent¹ or independent claim 17 of the ’492 patent (“shopping

¹ Asserted claims 35 and 51 of the ’314 patent depend from independent claim 34 of the ’314 patent.

cart claims”), either literally or under the doctrine of equivalents.

In Newegg’s accused system, when a customer adds an item to a shopping cart, product information concerning that item is held in a cookie on the customer’s computer. Once the customer hits checkout, the contents of the cookie are transferred all at once to a shopping cart database. The issue is whether this transfer in the accused system satisfies two specific limitations in the shopping cart claims: (1) the “modification limitations” and (2) the “plurality limitations.”

Claim 34 of the ’314 patent requires “said shopping cart computer [to be] a computer that modifies said stored representations of collections of products in said database,” and also requires the shopping cart computer be programmed “to modify the shopping cart in the shopping cart database to reflect the plurality of requests to add the plurality of products to the shopping cart.” ’314 patent, col. 14:12-15, 26-28. Claim 17 of the ’492 patent similarly requires “the shopping cart computer [to be] a computer that modifies the stored representations of collections of products in the database,” and that the shopping cart computer be programmed “to modify the shopping cart in the shopping cart database to reflect the plurality of requests to add the plurality of products to the shopping cart.” ’492 patent, col. 14:64-67; col. 15:13-15. These are referred to as the “modification limitations.”

Newegg contends that its system cannot satisfy the modification limitations because there is no modification of the shopping cart database, let alone a modification of the shopping cart *in the* shopping cart database. Soverain contends that there is a modification of a shopping cart in the shopping cart database because an

instance of a shopping cart in the database is changed. The Court construed the phrase “to modif[y] [the shopping cart in the shopping cart database]” to mean “to change [an instance of a shopping cart in a shopping cart database].” Docket No. 359-1, at 1. Soverain’s technical expert, Dr. Grimes, basing his opinion on the Court’s claim construction and other evidence presented at trial, testified that Newegg’s system uses a two step process. First, when the customer clicks the check out button, a shopping cart ID is generated, which creates a holding space in the shopping cart database. Soverain contends this step creates an instance of a shopping cart in the shopping cart database. Next, the contents of the customer’s shopping cart are moved to the shopping cart database in association with the shopping cart ID. Soverain contends this step represents the required modification. Dr. Grimes further testified that modifying the shopping cart to add all the products at once upon checkout is sufficient to satisfy the modification limitations.

Newegg argues that Soverain’s logic is flawed because the shopping cart ID and the shopping cart are inserted into the database at the same time, and this “single instantiation” cannot be a modification of the shopping cart. Newegg also argues that a shopping cart ID cannot be a shopping cart under the Court’s construction. Soverain does not allege that the shopping cart ID is a shopping cart, just that once the shopping cart ID is created, “an instance of a shopping cart” exists in the database. Once the customer’s selected products are inserted into the shopping cart in the shopping cart database, that “instance of a shopping cart” is modified. Both Newegg and Soverain presented their infringement theories to the jury, and it was up to the jury to determine which infringement theory

was best supported by the testimony and evidence. Accordingly, Soverain presented legally sufficient evidence for the jury to conclude that Newegg's system satisfied the modification limitations.

Claim 34 of the '314 patent requires the buyer computer be programmed "to receive a plurality of requests from a user to add a plurality of respective products to a shopping cart in said shopping cart database," and claim 17 of the '492 patent similarly requires the buyer computer be programmed to "receive a plurality of requests from a user to add a plurality of respective products to a shopping cart in the shopping cart database." '314 patent, col. 14:3-6; '492 patent, col. 14:54-57. These are referred to as the "plurality limitations."

Newegg contends that moving the customer product information "en masse" from the cookie to the shopping cart database reads the word "respective" out of the plurality limitations. Newegg argues the word "respective" in the claim language requires the accused system to modify the shopping cart database after each product is requested by the customer. However, Dr. Jack Grimes, Soverain's expert, testified that the customer's "ADD TO CART" requests are "requests from a user to add ... products to a shopping cart in [the] shopping cart database" because the products requested from the user ultimately end up in the shopping cart database, which is all the limitation requires. Trial Tr. 4/26/10 P.M., 81:15-86:7. Dr. Grimes further testified that the plurality limitations are satisfied because each request is associated with a respective product, and a modification of the shopping cart database after each request is not required by the claims. Trial Tr. 4/27/10 A.M. 30:15-31:2. Thus, Soverain presented legally suffi-

cient evidence for the jury to conclude that Newegg's system satisfied the plurality limitations.

Furthermore, Dr. Grimes testified that Newegg's method of adding products one at a time to a cookie and then all at once to a shopping cart in the shopping cart database is equivalent to adding the products one at a time to a shopping cart in the shopping cart database. Trial Tr. 4/26/10 P.M., 93:13-97:17. Thus, at the very least, there was substantial evidence to support a finding that Newegg's system satisfies both the modification and plurality limitations and infringes under the doctrine of equivalents. Accordingly, Soverain presented legally sufficient evidence for the jury to conclude that Newegg's accused system satisfied all limitations of the shopping cart claims, either literally or by equivalents.

Hypertext Statement Claims

Claims 41 and 61 of the '492 patent, which depend from claim 15 of the '492 patent, are referred to as the "hypertext statement claims." These claims require a hypertext link that provides details about the transaction, including transaction history. Newegg argues Soverain presented no evidence that any Newegg customer ever accessed the hypertext link on Newegg's accused system and thus there is no evidence of any "use" of the hypertext statement system.² Newegg relies on *ACCO Brands, Inc. v. ABA Locks Manufacturer Co.*, 501 F.3d 1307 (Fed. Cir. 2007), *Lucent Techs.*,

² Although Newegg also contends it does not satisfy the limitation of "the client computer being programmed to display the statement document" in Claim 15 of the '492 patent, there is legally sufficient evidence to support the jury's finding that Newegg's accused system meets this limitation of the hypertext statement claims. See Trial Tr. 4/26/10 P.M., 118:18-120:6.

Inc. v. Gateway, Inc., 580 F.3d 1301, (Fed. Cir. 2009), and *E-Pass Techs., Inc. v. 3Com Corp.*, 473 F.3d 1213 (Fed. Cir. 2007), to challenge the jury’s finding of infringement. In *ACCO*, the Federal Circuit found no direct infringement where the accused product could be used in both an infringing and non-infringing manner and the accused inducer only instructed customers on the non-infringing manner. *ACCO*, 501 F.3d at 1313. In *Lucent*, the Federal Circuit allowed the jury’s verdict of induced infringement to stand where the accused inducer designed the accused products to be used in an infringing manner and instructed its customers to use the accused products in both an infringing and non-infringing manner. *Lucent*, 580 F.3d at 1318-19. In *E-Pass*, the only proof of direct infringement was excerpts from product manuals for various accused devices, “show[ing], at best that the [defendants] taught their customers each step of the claimed method in isolation.” *E-Pass*, 473 F.3d at 1222.

ACCO and *E-Pass* are distinguishable from the instant facts and do not support overturning the jury’s verdict, while *Lucent* actually supports the jury’s verdict. Although capable of noninfringing modes of operation, Newegg’s order history system is reasonably capable of infringing the hypertext statement system claims. See *Mass Engineered Design, Inc. v. Ergotron, Inc.*, 633 F. Supp. 2d 361, 378 (“[T]o infringe an apparatus claim, it is not necessary for an accused device actually to be performing the functions specified by the claim. All that is required is that the device have the claimed structure, and that this structure in the device have the capability of functioning as described by the claim.”). Soverain presented sufficient evidence showing that Newegg instructs its customers to use its system in an infringing manner. Pl.’s Ex. 15, Docket No.

409-10. Indirect infringement and the corresponding direct infringement may be proved by circumstantial evidence. See *Liquid Dynamics Corp. v. Vaughan Co.*, 449 F.3d 1209, 1219 (Fed. Cir. 2006). “There is no requirement that direct evidence be introduced, nor is a jury’s preference for circumstantial evidence over direct evidence unreasonable per se.” *Id.* Accordingly, the jury was presented with legally sufficient evidence to conclude that Newegg’s customers used the order history system, and thus infringed the hypertext statement claims.

Newegg’s Customers “Use” of the System Claims

Newegg next argues that even if the accused systems meet all limitations of the shopping cart and hypertext statement claims, there was no legally sufficient evidence from which a jury could conclude that any Newegg customer satisfies each and every limitation of any relevant claim. Induced infringement requires the plaintiff to prove a corresponding act of direct infringement. See *DSU Med. Corp.*, 471 F.3d at 1303. Newegg contends that its customers do not directly infringe any relevant claim because they do not own, possess, operate, direct, or control the accused system. Specifically, Newegg argues that because its customers only own or possess the buyer or client computer and do not “use” anything on the “Newegg side” of the system, they do not practice each and every element of the claimed invention and thus cannot directly infringe. Soverain contends Newegg’s customers “use” the system “as a whole” and thus directly infringe.

The relevant claims of the ’314 and ’492 patents are all system claims. Although Newegg originally argued that the divided infringement standard set forth in *BMC Resources, Inc. v. Paymentech, L.P.*, 498 F.3d

1373, and *Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318 (Fed. Cir. 2008), applied to both system and method claims, Newegg now concedes that the *BMC/Muniauction* divided infringement standard only applies to method claims and is inapplicable here. Accordingly, the Court is tasked with determining what constitutes “use” of system claims for purposes of determining infringement. “In the context of [35 U.S.C.] § 271(a), courts interpret the term ‘use’ broadly to determine if behavior constitutes an infringing ‘use’ of a patented invention.” *Renhcol Inc. v. Don Best Sports*, 538 F. Supp. 2d 356, 360 (E.D. Tex. 2008) (Davis, J.) (citing *NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d 1282, 1316-17 (Fed. Cir. 2005)). In *NTP, Inc. v. Research in Motion, Ltd.*, the Federal Circuit addressed what constitutes “use” for purposes of determining the situs of use of a claimed system. 418 F.3d at 1313-18. “The use of a claimed system under section 271(a) is the place at which the system *as a whole* is put into service, i.e., the place where control of the system is exercised and beneficial use of the system obtained.” *Id.* at 1317 (emphasis added). The *NTP* court specifically emphasized the fundamental distinction between the “use” of a system and the “use” of method, noting that “use” of a method is “unlike use of a system *as a whole*, in which the components are used *collectively*, not individually.” *Id.* at 1318 (emphasis added).

Numerous district courts have utilized the Federal Circuit’s analysis in *NTP* to interpret “use” broadly to determine infringement. In *epicRealm, Licensing, LLC v. Autoflex Leasing, Inc.*, the claimed method and apparatus was directed to “managing dynamic web page generation requests.” 492 F. Supp. 2d 608, 613 (E.D. Tex. 2007) (Folsom, J.). The court found that the customers did not “use” the software because they did

not control and were not responsible for running the software that managed the incoming requests—they merely submitted requests to the web server. *Id.* at 615. The court noted that “the issue of control is central to determining whether a party is liable for ‘using’ a claimed invention,” and that it is important that the function controlled by the user is the exact function the claimed system was directed to. *Id.* at 614 (“Importantly, the claimed system in *NTP* was directed to a system for the transmission of messages ... and that is exactly the function that the defendant’s customers controlled. Thus, the defendant’s customers were users of the system.”).

In *Renhcol Inc. v. Don Best Sports*, the claims were directed to an electronic marketplace for prediction information, claiming a computer storage medium comprising code to facilitate transactions in the prediction information market and a computer programmed to execute that code. 538 F. Supp. 2d at 361-62. In *Renhcol*, this Court found that “use” of the computer storage medium and programmed computer required control of the execution of the code located on the accused computer and computer storage medium, but found that certain suppliers and consumers of the marketplace controlled execution of the code by uploading and downloading prediction info to and from the marketplace, thus precluding summary judgment based on situs of use. *Id.* at 363-64. In *Nuance Communications Inc. v. Tellme Networks, Inc.*, the claims were direct to an “apparatus for processing verbal information for competing a task.” — F. Supp. 2d —, 2010 WL 1609883, *8 (D. Del. April 20, 2010). The *Nuance* court noted that “[t]he completion of a task is the reason that a caller engages the accused services,” and thus calling the accused services may constitute an infringing use if

the caller exercised control over the accused services by dictating the format and manner in which the task is accomplished.

Newegg's "own, possess, operate, direct, or control" standard is in direct conflict with the analysis set forth in *NTP*. Although Soverain's "use" of a system "as a whole" standard is more in line with established law, the cases here also stress the importance of the control element. The shopping cart claims are directed to a "network-based sales system" and "hypertext statement system." The claimed systems are directed to the function of purchasing products and viewing order and transaction history, and those are the exact functions controlled by Newegg's customers. Newegg's customers control the operation of Newegg's sales system by choosing the products to purchase, when to checkout, and when to submit an order, and they control Newegg's hypertext-statement system by choosing to view their order history and transaction details. *See* Trial Tr. 4/26/10 P.M., 60:18-129:4, 135:15-137:21. In addition, Newegg's customer use and benefit from Newegg's systems when they purchase products and view their order histories. *See id.* Accordingly, the jury was presented with sufficient evidence to support the jury's verdict that Newegg's customers were "users" of the Newegg's system. Thus, the Court **DENIES** Newegg's motion for JMOL and MNT of no indirect infringement of the '314 patent and '492 patents.

***SOVERAIN'S MOTION FOR JMOL & MNT—
DIRECT INFRINGEMENT OF '314 AND '492
PATENTS***

Soverain moves for JMOL, or alternatively for a new trial, on the issue of direct infringement of claims 35 and 51 of the '314 patent, claim 17 of the '492 patent,

and claims 41 and 61 of the '492 patent. Soverain contends that Newegg directly infringes the asserted claims of the '314 patent and '492 patents because Newegg “uses” its sales system just as Newegg’s customers do. Soverain’s post-verdict briefing does not adequately address the necessary control element that is central to determining “use” of a claimed invention. Furthermore, at the post-verdict hearing, Soverain indicated that “[t]he reason ... [it] moved for a new trial under direct [infringement] theories [was] in case ... [Newegg] prevail[ed] on their induced theory.” Post-Verdict Hr’g Tr. 4/2/10 P.M., 16:7-10. As Newegg did not prevail on overturning the jury’s verdict of induced infringement of the '314 patent and '492 patents, it is not necessary to address Soverain’s motion for JMOL of direct infringement in detail. The jury was presented with sufficient evidence to support the jury’s verdict that Newegg is not a “user” of its system and thus, does not infringe. Accordingly, the Court **DENIES** Soverain’s motion for JMOL and MNT of direct infringement of the '314 patent and '492 patents.

***SOVERAIN’S MOTION FOR JMOL & MNT—
DIRECT INFRINGEMENT OF CLAIM 79 of '639
PATENT***

Soverain moves for JMOL, or alternatively for a new trial, on the issue of direct infringement of claim 79 of the '639 patent. Claim 79 is directed to a “method of processing, in a server system, service requests from a client to the server system.” '639 patent, col. 14:43-44. Soverain contends that Newegg irrefutably meets every limitation of the claim, while Newegg contends that certain limitations of the claim can only be satisfied by the client or customer. If Newegg is correct that the claims require action by multiple parties, then the divided infringement standard set forth in *BMC* and

Muniauction would be applicable. Thus, the relevant inquiry is whether Newegg's customers perform any required steps of these method claims.

The parties dispute which actions are actually required by claim 79, which depends from claim 78. Claims 78 and 79 provide as follows:

78. A method of processing, in a server system, service requests from a client to the server system through a network, said method comprising the steps of:

receiving, from the client, a service request to which a *session identifier stored at the client has been appended by the client*, wherein communications between the client and server system are according to hypertext transfer protocol;

validating the session identifier appended to the service request; and servicing the service request if the appended session identifier is valid.

79. The method of claim 78, further comprising, in the server system:

receiving an initial *service request from the client*;

creating, responsive to the initial service request, the session identifier; and

returning the session identifier to the client for storage by the client for use in subsequent distinct requests to the server system.

'639 patent, col. 14:43-60 (emphasis added). The bold portions of the claims illustrate the steps Soverain contends the claims require. Newegg, on the other hand, contends that the italicized portions of the claim repre-

sent additional claim limitations requiring action on the part of the user. Soverain contends that Newegg is attempting to create multiple-actor issues by reading additional limitations into the claims.

Both parties cite to *SiRF Technology, Inc. v. International Trade Commission* to support their reading of the claims. 601 F.3d 1319 (Fed. Cir. 2010). In *SiRF*, the Federal Circuit did not even reach the question of divided infringement because it found the claims did not require any specified actions be taken by third parties. *Id.* at 1329. The claim language at issue in *SiRF* contained similar language as the claims at issue here: “receiving satellite ephemeris at a first location” and “receiving satellite signals from at least one satellite and at least one receiving station.” *Id.* The court found that “[t]his [was] not a situation where a method claim specifies performance of a step by a third party, or in which a third party actually performs some of the designated steps.” *Id.* As in *SiRF*, “the method claims at issue here are drawn to actions which can be performed and are performed by a single party.” *Id.* Moreover, in *BMC Resources, Inc. v. Paymentech, L.P.*, the Federal Circuit observed that “[a] patentee can usually structure a claim to capture infringement by a single party.” 498 F.3d at 1381. For example, a patentee might structure the claims so that the steps “feature[] references to a single party’s supplying or receiving each element of the claimed process.” *Id.* (emphasis added). Claims 78 and 79 are drafted in this manner, specifying the required action by Newegg (e.g., “receiving”), along with a limitation defining the action’s object (e.g., “service request from the client”).

Dr. Grimes testified that all of the steps contained in dependent claim 79 are performed by Newegg through its server system. Trial Tr. 4/26/10 P.M.,

158:21-165:18. During its cross-examination of Dr. Grimes, Newegg did not question Dr. Grimes on the steps recited by claim 79, but instead focused on actions not specifically required by the claim, such as whether the customer *sends* the service request to the server and whether the session identifier stored at the client has been *appended* by the client. Trial Tr. 4/27/10 A.M., 61:8-62:3. Dr. Grimes explained during direct examination that although a client must send a request for Newegg to receive and must append the session identifier to the request, claims 78 and 79 do not recite steps of sending and appending. Trial Tr. 4/26/10 P.M., 159:11-160:9.

In addition, Newegg's own technical expert, Edward Tittel, did not testify as to any of the steps actually included in claim 79 because Mr. Tittel failed to address claim 79 in his expert reports and was precluded from testifying outside the scope of his reports. To get around this, Newegg questioned Tittel about claim 1 of the '639 patent and attempted to equate claim 1 to claims 78 and 79. Claim 1 provides as follows:

1. A method of processing service requests from a client to a server system through a network, said method comprising the steps of forwarding a service request from the client to the server system, wherein communications between the client and server system are according to hypertext transfer protocol;
returning a session identifier from the server system to the client, *the client storing the session identifier* for use in subsequent distinct requests to the server system; and
appending the stored session identifier to each of the subsequent distinct requests from the client to the server system.

'639 patent, col. 10:26-38 (emphasis added). When questioning Mr. Tittel about the storing action, Newegg's counsel stated that "this limitation is also in Claim 78." Trial Tr. 4/29/10 A.M., 43:13-18. This is likely to have misled the jury into thinking that claim 60, which depends from claim 1, and claim 79, which depends from claim 78, were one in the same. The wording of the claims clearly demonstrates this is not the case. Unlike claims 78 and 79, claim 1, and therefore claim 60, expressly require the steps of "forwarding" the service request and "storing" and "appending" the session identifier, which are all customer actions. Although the phrases Newegg points to in claim 79 (e.g., "service request to which a *session identifier stored at the client has been appended by the client*") are limitations that must be satisfied, "appending" and "sending" are not separate steps requiring action in claim 79. Because Newegg did not refute Dr. Grime's testimony that Newegg performs each properly defined step of claim 79, and because no reasonable jury could have found that claim 79 was not infringed, the Court **GRANTS** Soverain's motion for JMOL of direct infringement of claim 79 of the '639 patent.

DAMAGES

SOVERAIN'S MNT—DAMAGES FOR '639 PATENT

Having granted Soverain's motion for JMOL on Newegg's direct infringement of claim 79 of the '639 patent, the Court **GRANTS** Soverain's motion for a new trial on damages for such infringement, to be held after all appeals have been exhausted.

NEWEGG'S MOTION FOR JMOL, MNT, OR REMITTITUR—DAMAGES FOR '314 AND '492 PATENTS

Newegg moves for JMOL that total damages in this case cannot exceed \$500,000. In the alternative, Newegg moves for a new trial on damages or a remittitur in the amount of \$500,000. In support of its motion for JMOL, Newegg argues that Soverain's damages demand was excessive, unsupported by the facts, and inconsistent with Federal Circuit precedent. Thus, Newegg contends it presented the only valid damages theory, which was a lump sum of \$500,000, representing a paid-up license for the life of the patent. Specifically, Newegg argues: (1) Soverain's damages expert, James Nawrocki, violated the Entire Market Value rule and Georgia Pacific factor 13; (2) Mr. Nawrocki failed to exclude or account for non-infringing uses; (3) Mr. Nawrocki conducted an improper "commercial success" analysis; and (4) Soverain had no evidentiary support for a use-based running royalty.

First, Newegg contends that Mr. Nawrocki used Newegg's entire sales as the royalty base and a 25-33% Rule of Thumb as the royalty rate. Soverain counters that Mr. Nawrocki used the number of infringing transactions as the royalty base, and considered Newegg's gross sales in determining the royalty rate. Considering the foundation laid by Mr. Nawrocki's testimony, his application of the 25% Rule of Thumb was relevant and reliable. In addition, Newegg cross-examined Mr. Nawrocki on the application of the Rule of Thumb, Trial Tr. 4/27/10 P.M., 146:10-23, and presented contrary evidence on the issue of damages. Trial Tr. 4/29/10 P.M., 11:5-65:7. As for Newegg's entire market value rule argument, Mr. Nawrocki never relied on the entire market value rule in his expert re-

ports or at trial. Indeed, had Soverain been permitted to argue an “entire market value” theory, it would have been entitled to a substantially larger portion of Newegg’s operating profit than under Mr. Nawrocki’s theory of damages. *See i4i Ltd. P’ship v. Microsoft Corp.*, 670 F. Supp. 2d 568, 592 n.8 (E.D. Tex. 2009) (Davis, J.) (citing *DePuy Spine, Inc. v. Medtronic Sofamor Danek, Inc.*, 567 F.3d 1314, 1331 (Fed. Cir. 2009) (explaining that the entire market value rule “permits a patentee to recover the entire value of an apparatus that contains both patented and unpatented components”). Nawrocki conducted a proper *Georgia-Pacific*³ analysis to determine a reasonable royalty rate to apply to the number of infringing transactions royalty base, and his testimony in this regard was appropriately considered by the jury. Trial Tr. 4/27/10 P.M., 81:19-132:15.

Newegg next argues that Nawrocki failed to exclude single-item sales, which Newegg contends do not infringe, from his royalty. Although Newegg represents in its briefing that Dr. Grimes admitted that single-item sales do not infringe, Dr. Grimes admitted no such thing. Dr. Grimes testified that “the structure has to contain the ability for the user to make multiple requests” in order to infringe. Trial Tr. 4/26/10 P.M., 81:15-86:5. Thus, it was not improper for Nawrocki to include single-item sales in his reasonable royalty analysis. Furthermore, Newegg’s arguments regarding Nawrocki’s failure to account for transactions that do not meet the hypertext statement limitation are misplaced. As stated above in addressing infringement, “to infringe an apparatus claim, it is not necessary for

³ *Georgia-Pacific Corp. v. U.S. Plywood Co.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970).

an accused device actually to be performing the functions specified by the claim. All that is required is that the device have the claimed structure, and that this structure in the device have the capability of functioning as described by the claim.” *Mass Engineered Design, Inc. v. Ergotron, Inc.*, 633 F. Supp. 2d 361, 378. Mr. Nawrocki properly considered the capability of infringement in his analysis of reasonable royalty for the ’314 and ’492 patents.

Third, Newegg argues that Nawrocki improperly focused on Newegg’s commercial success, rather than the success of the patented invention. Although the Court “must carefully tie proof of damages to the claimed invention’s footprint in the market place,” *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 869 (Fed. Cir. 2010), this does not prevent the alleged infringer’s profits or revenues from being a relevant consideration in a *Georgia-Pacific* analysis. Indeed, the factors for calculating a reasonable royalty under *Georgia-Pacific* make the character of the commercial embodiment of the invention, the benefits to those who have used the invention, the extent to which the infringer has made use of the invention, and any evidence probative of the value of that use specifically relevant to the “reasonable royalty” analysis. *Georgia-Pacific*, 318 F. Supp. at 1120.

Finally, Newegg contends that there was no evidentiary support for Soverain’s use-based running royalty theory. Newegg’s argument ignores the fact that certain fully paid-up lump-sum licenses introduced into evidence were based on running components, representing a percentage of sales, profits, or a fee per transaction. *See* Trial Tr. 4/27/10 P.M., 100:8-105:9; Trial Tr. 4/29/10 P.M., 116:10-117:9. Mr. Nawrocki’s opinion that damages should be calculated on a running

royalty basis is supported by sufficient evidence. Furthermore, the Court instructed the jury that the damages period ran from November 2, 2007 to the present, without any objection from either party. Thus, there is no reason to assume the jury's verdict of \$2.5 million represented a paid-up license for the life of the patent.

The purpose of this Court's "gatekeeper" function under *Daubert v. Merrell Dow Pharmaceuticals, Inc.* is served by "ensuring that an expert's testimony both rests on a reliable foundation and is relevant to the task at hand." 509 U.S. 579 (1993). There is sufficient evidence that Mr. Nawrocki's damages opinion is both relevant and rests on a reliable foundation. Additionally, "[v]igorous cross-examination, presentation of contrary evidence, and careful instruction on the burden of proof are the traditional and appropriate means of attacking shaky but admissible evidence." *Id.* at 596. Newegg vigorously cross-examined Mr. Nawrocki concerning his damages opinion. Trial Tr. 4/27/10 P.M., 132:20-167:7; 171:15-21. Newegg also presented its own lump-sum damages theory, and the jury was free to weigh the parties' distinct theories and evidence. "[T]he factual determination of a reasonable royalty ... need not be supported, and indeed, frequently is not supported by the specific figures advanced by either party." *SmithKline Diagnostics, Inc. v. Helena Labs. Corp.*, 926 F.2d 1161, 1167 (Fed. Cir. 1991). The jury's verdict of \$2,500,000 is well within the amounts advocated by the parties' damages experts and is supported by sufficient evidence. Thus, the Court **DENIES** Newegg's motion for JMOL on damages.

Alternatively to JMOL, Newegg requests a new trial or remittitur. In addition to arguing that the jury's damages award was excessive and against the great weight of the evidence, Newegg sets forth a

number of alleged errors that it contends infected the jury's award. However, most of these errors derive from Soverain's damages theory, which the Court has already found reliable. In addition, Newegg made a tactical decision during trial not to offer evidence of the amount Soverain paid for the patents-in-suit at a bankruptcy court auction and thus, Newegg cannot now complain that the Court excluded such evidence. *See* Trial Tr. 4/27/10 P.M., 64:9-65:16. Furthermore, remittitur is within the sound discretion of the trial court and is only appropriate when the damages verdict is "clearly excessive." *See Thompson v. Connick*, 553 F.3d 836, 865 (5th Cir. 2008). Accordingly, the Court **DENIES** Newegg's MNT or remittitur for the same reasons outlined with regard to Newegg's motion for JMOL on damages and for the reasons set forth above.

NEWEGG'S MOTION FOR JMOL & MNT— INVALIDITY

Newegg moves for JMOL, or alternatively for a new trial, on the issue of invalidity of all the asserted patent claims based on anticipation and obviousness. Specifically, Newegg asserts that (1) claims 35 and 51 of the '314 patent were anticipated by the CompuServe Mall; (2) claims 35 and 51 of the '314 patent and claim 17 of the '492 patent were obvious based on the CompuServe Mall, alone or in combination with Gifford; (3) claims 41 and 61 of the '492 patent were obvious based on Gifford; and (4) claims 60 and 79 of the '639 patent were obvious based on Gifford and Johnson, either alone or in combination. In addition, Newegg reurges each of the invalidity grounds set forth in Newegg's Rule 50(a) motion for JMOL submitted at the close of evidence (Docket No. 368). Newegg finally argues that if the Court concludes JMOL is not warranted based on the foregoing grounds, the Court should grant a new

trial on anticipation and obviousness based on a number of errors regarding the admission and exclusion of evidence, charge error, and the Court's dismissal of Newegg's obviousness claims at the close of evidence.

In order to show that it is entitled to JMOL on its affirmative defense of invalidity, Newegg is required to prove the essential elements of that defense to a virtual certainty. *Bank of La. v. Aetna U.S. Healthcare Inc.*, 468 F.3d 237, 241 (5th Cir. 2006) ("For a defendant to obtain summary judgment on an affirmative defense, it must establish beyond dispute all of the defense's essential elements."). As for Newegg's motion for JMOL of anticipation based on claims 35 and 51 of the '314 patent, Newegg must prove that the CompuServe Mall discloses each and every limitations of the claimed invention arranged exactly as claimed, or that any missing element is necessarily present, or inherent, in the CompuServe Mall. See *Net MoneyIN, Inc. v. VeriSign, Inc.*, 545 F.3d 1359, 1369 (Fed. Cir. 2008); *Schering Corp. v. Geneva Pharms.*, 339 F.3d 1373, 1377 (Fed. Cir. 2003). Newegg argues that Alexandor Trevor's and Edward Tittel's testimony regarding the CompuServe Mall was sufficient to establish anticipation. However, Mr. Tittel did not testify regarding the limitation of "said buyer computer being programmed ... to send ... shopping cart messages ... each of which comprises a product identifier identifying one of said plurality of products," and Mr. Trevor admitted that the CompuServe Mall was not programmed to send such messages. Trial Tr. 4/28/10 P.M., 83:1-23. Mr. Tittel also failed to explain how the CompuServe Mall reference disclosed a "shopping cart database," as construed by the Court. Mr. Trevor recognized that the references did not disclose such a database. Trial Tr. 4/28/10 P.M., 79:19-80:2. Soverain's expert, Dr. Michael Shamos, re-

lying on Mr. Trevor's trial testimony regarding the CompuServe Mall, presented evidence that the CompuServe Mall did not have a shopping cart message with a product identifier because there was no need for a product identifier. Trial Tr. 4/29/10 P.M., 162:18-165:9. Dr. Shamos further testified that CompuServe Mall did not contain a "shopping cart database" because the personal holding files kept in the main memory failed to meet the Court's construction of "shopping cart database." Trial Tr. 4/29/10 P.M., 165:10-168:17. The jury was free to disbelieve Mr. Tittel's expert testimony, and the existence of contrary testimony by Dr. Shamos supports the jury's conclusion that the CompuServe Mall does not anticipate claims 35 and 51 of the '314 patent.

With regard to obviousness, the Court granted Soverain's motion for JMOL of no obviousness and did not send the obviousness issue to the jury. Newegg's expert, Mr. Tittel, did not express any opinions on obviousness or conduct a proper *Graham*⁴ analysis. Newegg contends that it need not present expert testimony on the ultimate legal issue of obviousness and thus it was error for the Court to deny Newegg the opportunity to argue obviousness to the jury and submit the issue for a jury finding. The Federal Circuit has made clear that "[t]here must be some articulated reasoning with some rational underpinning to support the legal conclusion of obviousness." *Innogenetics, N.V. v. Abbott Labs.*, 512 F.3d 1363, 1373 (Fed. Cir. 2008). In *Proveris Scientific Corp. v. Innovasystems, Inc.*, the Federal Circuit upheld the district court's decision to require defendants to present expert testimony in order to establish anticipation and obviousness. 536 F.3d

⁴ *Graham v. John Deere Co. of Kansas City*, 383 U.S. 1 (1966).

1256, 1267-68 (Fed. Cir. 2008). As in *Proveris*, the subject matter in this case “is sufficiently complex to fall beyond the grasp of an ordinary layperson.” *Id.* Accordingly, because Newegg did not meet its burden of establishing a prima facie case of obviousness of the asserted claims, the Court stands by its prior decision granting Soverain’s motion for JMOL on obviousness.

Lastly, Newegg asserted various grounds of alleged error in support of its MNT. First, the Court’s admission of evidence related to the existence of settlement licenses was not prejudicial to Newegg because neither the licenses themselves nor any evidence relating to the specific terms of the licenses were admitted. In fact, the Court only allowed Soverain to state the names of its well-known licensees to rebut Newegg’s offering of license agreements to smaller companies. Second, while the Court’s exclusion of the belatedly produced CompuServe Mall materials caused only minor prejudice to Newegg, admitting these materials on the eve of trial would have been highly prejudicial to Soverain. Furthermore, Newegg can hardly claim prejudice with regard to the Court’s exclusion of the belatedly produced documents given the Court’s admission of the CompuServe Manuals over Soverain’s strenuous objections. Third, although Newegg contends the Court failed to instruct the jury that a witness’s testimony only has to be corroborated if the witness is an interested party, Newegg’s allegation of charge error is without merit. “[C]orroboation is required of any witness whose testimony alone is asserted to invalidate a patent, regardless of his or her level of interest.” *Finnigan Corp. v. Int’l Trade Comm’n*, 180 F.3d 1354, 1369 (Fed. Cir. 1999); *see also Adenta GMBH v. Orthoarm, Inc.*, 501 F.3d 1364 (Fed. Cir. 2007). Lastly, as previously discussed, the Court’s dis-

missal of Newegg's obviousness claims at the close of evidence does not warrant a new trial.

In sum, the jury's verdict on invalidity was not without support and certainly not against the great weight of the evidence. Thus, based on the foregoing reasons, the Court **DENIES** Newegg's motion for JMOL and MNT on invalidity of the patents-in-suit.

**SOVERAIN'S MOTION FOR PREJUDGMENT
INTEREST AND COSTS, POST-VERDICT DAM-
AGES, AND POST-JUDGMENT INTEREST**

Soverain moves for prejudgment interest and costs, post-verdict damages until the time of judgment, and post-judgment interest. Soverain's request for post-judgment interest is uncontested and is, accordingly, granted pursuant to the provisions of 28 U.S.C. § 1961.

Soverain is also entitled to an award of prejudgment costs. 35 U.S.C. § 284 ("Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court."). Soverain shall provide the clerk of this Court with a detailed bill of costs pursuant to Local Rule CV-54.

With regard to prejudgment interest, Soverain calculates prejudgment interest based on the jury's \$2,500,000 award using the prime interest rate, compounded quarterly. Newegg does not dispute that Soverain is entitled to prejudgment interest, but argues that prejudgment interest is properly calculated using the U.S. Treasury Bill rate, not prime rate, and that \$2,500,000 is not the proper amount from which

prejudgment interest should be calculated. As Newegg's arguments regarding the proper damages award have been previously addressed and rejected, and the Court has determined it will not alter the jury's award of \$2,500,000, prejudgment interest will be calculated on this amount.

The interest rate used to calculate prejudgment interest and the method and frequency of compounding is left to the discretion of the district court. *See Uniroyal, Inc. V. Rudkin-Wiley Corp.*, 939 F.2d 1540, 1545 (Fed. Cir. 1991); *Studiengesellschaft Kohle, m.b.H. v. Dart Indus., Inc.*, 862 F.2d 1564, 1579-80 (Fed. Cir. 1988) (citing *Bio-Rad Labs.*, 807 F.2d at 969). Interest should be awarded from the date of infringement to the date of final judgment. *Nickson Indus., Inc. v. Rol Mfg*, 847 F.2d 795, 800 (Fed. Cir. 1988). Accordingly, prejudgment interest shall be awarded to Soverain on the \$2,500,000 damages award at the prime rate as of August 11, 2010 compounded monthly through July 31, 2010 and compounded daily for the month of August 2010. Interest should be calculated from the date of infringement through the date of final judgment.

With regard to post-verdict damages, Soverain calculated a daily rate of \$2,900 for post-verdict damages by extrapolating the jury's award of \$2,500,000. *See* Nawrocki's Post-Verdict Declaration, Docket No. 403-2, at 2-3. Soverain's damages expert divided the number of Newegg online sales transactions from January 31, 2010 to April 30, 2010 by 120 days to yield a rate of 32,844 transactions per day. *Id.* Soverain then applied a per transaction royalty of \$0.088 to yield an ongoing royalty of \$2,900 per day of infringement until final judgment. *Id.* Newegg utilized Soverain's per transaction rate solely for purposes of calculating post-verdict damages, but maintains that the \$2,900 per day royalty

must be reduced to \$966.67 per day to account for Newegg's single-item sales transactions. The Court has previously addressed and rejected Newegg's argument regarding single-item sales. Accordingly, post-verdict damages shall be awarded to Sovereign in the amount of \$2,900 per day until final judgment.

SOVERAIN'S MOTION FOR PERMANENT INJUNCTION OR, IN THE ALTERNATIVE, ONGOING ROYALTIES

Permanent Injunction

Sovereign requests an order permanently enjoining Newegg from using the technology claimed in Sovereign's '314 and '492 patents to operate its infringing websites and any colorable variation thereof. Sovereign proposes the following language:

Newegg, its officers, agents, servants, employees and attorneys, and those persons in active concert or participation with them who receive actual notice hereof, are hereby restrained and enjoined, pursuant to 35 U.S.C. § 283 and Fed. R. Civ. P. 65(d), from:

1. infringing or inducing others to infringe U.S. Patent No. 5,715,314 (the '314 patent) through operation of the www.newegg.com, www.newegg.ca, or www.neweggmall.com websites, or any colorable variation thereof, including www.biz.newegg.com, through and including the expiration of the '314 patent, February 3, 2015; and
2. infringing or inducing others to infringe U.S. Patent No. 5,909,492 (the '492) patent through operation of the www.newegg.com, www.newegg.ca, or www.neweggmall.com

websites, or any colorable variation thereof, including www.biz.newegg.com, through and including the expiration of the '492 patent, October 24, 2014.

Soverain's Proposed Order Granting Injunctive Relief, Docket No. 403-12. Importantly, Soverain is seeking to enjoin www.biz.newegg.com, a website that is not part of any of the accused systems.

The decision to grant or deny injunctive relief is within the district court's discretion, which should be exercised consistent with traditional principles of equity. *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 394 (2006). A party is entitled to a permanent injunction only if: "1) [the party] has suffered an irreparable injury; 2) that remedies at law, such as monetary damages, are inadequate to compensate for that injury; 3) that, considering the balance of hardships between the [parties], a remedy in equity is warranted; and 4) that the public interest would not be disserved by a permanent injunction." *Id.* at 391.

First, Soverain argues that its licensing program will be irreparably harmed if Newegg is not enjoined from using Soverain's patented technology. Soverain contends that if Newegg is not enjoined after having been adjudged an infringer, other infringers will be encouraged to risk litigation, rather than take a license. Although a patent holder may in some cases establish irreparable harm by showing that an existing infringement precludes his ability to license, it is too speculative in this case to assume that third parties will choose to risk litigation rather than license Soverain's technology simply because Newegg has not been enjoined. *See 24 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437, 440 (E.D. Tex. 2006) ("There is no logical reason that a

potential consumer or licensee of z4's technology would have been dissuaded from purchasing or licensing z4's product activation technology for use in its own software due to Microsoft's infringement."); *but see Commonwealth Scientific & Indus. Research Org. v. Buffalo Tech. (USA), Inc.*, 492 F. Supp. 2d 600, 604 (E.D. Tex. 2007) ("*CSIRO*") (finding harm to a licensing program sufficient to establish irreparable harm where the patent holder research institution relied heavily on its ability to license to finance its research and development for frontier projects). In addition, Soverain and its predecessors have extensively licensed the patents-in-suit, and Soverain's patent licensing program has largely focused on obtaining monetary objectives, rather than non-monetary objectives (e.g., cross licensing for resolution of litigation). Soverain's focus on monetary objectives does not favor an injunction. *Cf. CSIRO*, 492 F. Supp. 2d at 604 (finding that CSIRO's harm was "not merely financial"). Furthermore, although Soverain contends that its Transact product is a direct competitor to the www.newegg.com website, any possible competition between Newegg Mall and Transact is too insubstantial to support an injunction. Soverain has not established any competition with respect to www.newegg.com and www.newegg.ca. Thus, this factor weighs against enjoining Newegg.

Second, Soverain contends that monetary remedies are inadequate to compensate Soverain because the injury to Soverain and the value of its technology are not quantifiable. Soverain argues the harm that will result from an inability to license its technology to its competitors without engaging in a full-fledged trial is both incalculable and irreparable. The Court rejects these arguments as purely speculative. Moreover, "[w]hen the patented invention is but a small component of the

product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest.” *eBay*, 547 U.S. at 396. Newegg argues that monetary damages would be adequate to compensate Soverain because the portions of its website relating to shopping cart functionality constitute less than 1% of the total lines of code that make up its system. While this may be true, Soverain has shown that its patented technology is “necessary” to Newegg’s e-commerce system. Trial Tr. 4/28/10 A.M., 98:3-14; Trial Tr. 4/29/10 P.M., 30:20-31:4. Although this case presents a unique situation where the infringing component of Newegg’s system is a small, yet necessary portion of the entire system, it is equivocal whether this is a situation where “the product is the invention.” *Compare CSIRO*, 492 F. Supp. 2d at 605-06 (finding monetary damages less adequate to compensate for infringement because the infringement related to “the essence of the technology”), *with* *z4*, 434 F. Supp. 2d at 440 (finding the infringing technology was “a small component of [Microsoft’s] software” because it “in no way related to the core functionality for which the software is purchased by consumers”). However, the jury’s \$2.5 million damages award, which represents only a fraction of the \$22.6 million advocated by Soverain, demonstrates that the infringed claims constitute a small part of the total value of Newegg’s system. Accordingly, this factor also weighs against enjoining Newegg.

The balance of hardships favors Newegg. Soverain only argues its licensing program will suffer if Newegg is not enjoined. It is clear from Soverain’s briefing that its licensing program has focused on obtaining purely

monetary objectives. While enjoining Newegg from operating its website would have a significant effect on Newegg and its e-commerce system, the absence of an injunction would not significantly harm Soverain because monetary remedies are adequate to compensate Soverain for Newegg's continued infringement. Thus, the balance of hardships weighs against enjoining Newegg.

Because Soverain has not shown irreparable harm in the absence of a permanent injunction, any harm Soverain might suffer can be adequately remedied through the recovery of monetary damages, and the balance of hardships weighs in favor of Newegg, an injunction would not serve the public interest and is improper in this instance. Thus, the Court **DENIES** Soverain's motion for a permanent injunction.

Ongoing Royalties

In the absence of an injunction, Soverain requests an award of ongoing royalties for the remaining life of the '314 and '492 patents. "Under some circumstances, awarding an ongoing royalty for patent infringement in lieu of an injunction may be appropriate." *Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293, 1314 (Fed. Cir. 2007) ("*Paice II*"). "Even though a permanent injunction may no longer be proper in many patent cases in light of *eBay*, an ongoing royalty rate must still adequately compensate a patentee for giving up his right under the law to exclude others from making, using, selling, offering for sale or importing his invention." *Paice LLC v. Toyota Motor Corp.*, 609 F. Supp. 2d 620, 630 (E.D. Tex. 2009) ("*Paice III*"). In addition, the Court must account for the change in the legal relationship between the parties. "Failing to consider the parties' changed legal status would create an incentive for

every defendant to fight each patent infringement case to the bitter end because without consideration of the changed legal status, there is essentially no downside to losing.” *Paice III*, 609 F. Supp. 2d at 628. Furthermore, an on-going post-verdict royalty is appropriately higher than the jury’s pre-verdict reasonable royalty. *See Amado v. Microsoft Corp.*, 517 F.3d 1353, 1362 n.2 (Fed. Cir. 2008); *Creative Internet Adver. Corp. v. Yahoo!, Inc.*, 674 F. Supp. 2d 847, 861 (E.D. Tex. 2009).

Moreover, the Federal Circuit has encouraged parties to negotiate a license amongst themselves regarding the future use of a patented technology before imposing an ongoing royalty. *See Paice III*, 609 F. Supp. 2d at 623 (citing *Paice II*, 504 F.3d at 1315). From the parties’ post-verdict briefing on the ongoing royalty issue, as well as the parties’ settlement negotiation history thus far, it is clear that further license negotiation would be fruitless. Thus, the Court is faced with the task of determining an appropriate ongoing royalty arising from a post-verdict hypothetical negotiation, taking into account the changed relationship between the parties. *See Creative*, 674 F. Supp. 2d at 860.

Newegg is now an adjudged infringer and Newegg’s continued infringement is both voluntary and intentional, making Newegg’s continued infringement willful. *See Paice III*, 609 F. Supp. 2d at 628. In addition, both Newegg and Soverain’s financial position has changed dramatically since the hypothetical negotiation. Newegg is now the second largest online-only retailer and has announced its plans for an initial public offering. Soverain’s licensing program has had recent success as Soverain has entered into seven agreements with large e-commerce retailers, including Amazon and TigerDirect. As expected, the parties have markedly different views of how these changes affect their re-

spective negotiating positions. The parties' changed financial positions appear to cancel each other out because each party is more successful today than they were at the time of the hypothetical negotiation. However, the Court cannot ignore Newegg's adjudged infringer status in determining an appropriate ongoing royalty.

Reducing the jury's verdict to a per-transaction rate results in an award equal to \$0.088 per Newegg transaction. Soverain contends that an appropriate ongoing royalty, taking into account the changed legal and factual circumstances, is at least \$0.20 per transaction. Newegg contends that Soverain's proposed ongoing royalty is unreasonable because Soverain has failed to take into account Newegg's proposed design-arounds for the shopping cart claims and hypertext statement claims. Newegg argues that these design-arounds should lower the parties' expectations regarding any ongoing royalty or eliminate the need for such royalty altogether. Newegg advocates for an ongoing royalty of 1.25 cents per \$100 transaction, or in the alternative, \$0.088 per transaction because the parties' various changed circumstances cancel each other out.

Newegg's 2009 profit rate of approximately 2.5% yields an operating profit of \$4.68 per transaction. *See* Nawrocki's Post-Verdict Declaration, Docket No. 403-2, at 13. Although Judge Folsom in *Paice III* applied a 25% Rule of Thumb to the profit rate as a starting point to determine an ongoing royalty, such an approach is not in line with the jury's verdict in this case because \$0.088 per Newegg transaction represents only 1.88% of Newegg's profits. Accordingly, the Court uses Soverain's proposal of \$0.20 as a starting point. Even taking into account Newegg's adjudged infringer status, the jury's award of only \$0.088 per transaction

(1.88% of Newegg’s profits) counsels against an ongoing royalty of \$0.20 per transaction (4.27% of Newegg’s profits). *See Paice III*, 609 F. Supp. 2d at 630 (“[T]he jury’s award for past damages ... counsels in favor of a reduction.”). If Newegg proves successful in designing-around the shopping cart claims and hypertext statement claims, it will be freed of the obligation to pay ongoing royalties. When the time comes, Soverain will have the burden of proving that Newegg’s design-arounds are not colorably different and thus still infringing. *See Creative*, 674 F. Supp. 2d at 855. Although Newegg’s proposed re-designs do not preclude the post-verdict relief Soverain is entitled to given Newegg’s adjudged infringement, the Court does consider Newegg’s proposed design-arounds because “the costs of switching to an alternative design is a factor that the parties would consider in arriving at an appropriate ongoing royalty rate.” *Paice III*, 609 F. Supp. 2d at 627. Based on the foregoing reasons, and the fact that Soverain did not account for Newegg’s proposed design-arounds in its \$0.20 proposal, the Court finds it is reasonable to reduce Soverain’s proposal by 25%.

Thus, taking into account the changed legal and factual circumstances occurring since the first hypothetical negotiation, the Court **GRANTS** Soverain’s motion for ongoing royalties and concludes that \$0.15 per transaction is an appropriate ongoing royalty to adequately compensate Soverain for Newegg’s continued infringement.

NEWEGG’S MOTION TO STRIKE EVIDENCE

Newegg moves to strike Mr. Nawrocki’s entire declaration and portions of Katharine Wolanyk’s declaration as unreliable, irrelevant, and inadmissible. Both declarations were submitted by Soverain in support of

its post-verdict motions. The Court overrules Newegg's objections to these declarations and **DENIES** Newegg's motion to strike.

CONCLUSION

For the aforementioned reasons, the Court **GRANTS** in part Soverain's motion for JMOL on infringement and MNT on damages (Docket No. 402), **GRANTS** in part Soverain's motion for permanent injunction or, in the alternative, ongoing royalties (Docket No. 403), **GRANTS** in part Soverain's motion for pre-judgment interest, post-verdict damages, and post-judgment interest (Docket No. 404), and **DENIES** all other motions.

So **ORDERED** and **SIGNED** this 11th day of August, 2010.

/s/ Leonard Davis

LEONARD DAVIS
UNITED STATES DISTRICT JUDGE

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APPENDIX E

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

SOVERAIN SOFTWARE LLC,
Plaintiff-Appellee,

v.

NEWEGG INC.
Defendant-Appellant.

2011-1009

Appeal from the United States District Court for
the Eastern District of Texas in No. 07-CV-0511, Judge
Leonard Davis.

ON PETITION FOR REHEARING

Before NEWMAN, PROST, AND REYNA, *Circuit
Judges.*

PER CURIAM.

The court grants rehearing for the purpose of clarification of the status of claims 34 and 35 of Patent No. 5,715,314.

This court's opinion, reported at 705 F.3d 1333 (Fed. Cir. 2013), discussed claim 34 as representative of the "shopping cart" claims, and held claim 34 invalid on the ground of obviousness. The parties state, on peti-

tion for rehearing, that our ruling should have been for claim 35, to conform to the judgment entered on the jury verdict. Soverain requests further proceedings, and Newegg proposes that we correct the “typographical error.” We now order additional briefing.

DISCUSSION

Claim 34 is reproduced in the court’s opinion, at 705 F.3d at 1337-38. Claim 35 depends from claim 34, and includes an additional limitation:

35. A network-based sales system in accordance with claim 34, wherein said shopping cart computer is programmed to cause said payment message to be created before said buyer computer causes said payment message to be activated.

The district court, on motion for post-verdict JMOL, discussed the shopping cart claims in terms of claim 34, as had the parties at the trial and in the motion for JMOL; *see, e.g.*, 836 F. Supp. 2d 462, 468 (“Newegg first argues that there was no legally sufficient evidence from which a reasonable jury could conclude that the accused Newegg system meets all the limitations of independent claim 34 of the ’314 patent ...”); *id.* at 478 (discussing expert testimony on the limitations of claim 34). The district court did not mention the limitation in claim 35 in its JMOL discussion of either infringement or invalidity. This was commensurate with the trial proceedings and record, which were primarily to claim 34. However, the jury verdict form, on which judgment was entered, referred to claim 35, not claim 34.

On the appeal to this court, the parties again focused on claim 34. Newegg’s opening brief stated that

Soverain “asserted” claim 34, and that claim 34 is “representative of the shopping cart claims.” Newegg Br. 6. Soverain’s brief on this appeal mentioned that claim 35 was in suit, but did not discuss the limitation in that claim or otherwise differentiate it from claim 34. Soverain focused on the limitations of claim 34, as did Newegg. *E.g.*, Soverain Br. 45-46. Soverain’s brief did not dispute or correct Newegg’s characterization of claim 34 as asserted and representative.

On January 22, 2013, the court issued its opinion on this appeal. The court’s opinion treated claim 34 as representative of the shopping cart claims, and gave particular attention to the claim limitations of claim 34, in order to determine whether there were material disputes warranting remand, 705 F.3d at 1337 (citing *KSR International Co., v. Teleflex, Inc.*, 550 U.S. 398, 427 (2007)).

After release of the court’s ruling, Newegg wrote the court stating that claim 34 was not the subject of the district court’s judgment, and suggested that the court correct its “clerical error” by substituting claim 35. Soverain responded, stating that the error was “substantive, not clerical.” Soverain then submitted a petition for rehearing, stating that “the panel’s decision analyzed the wrong claim” and “claim 35 contains additional limitations.” Soverain’s petition did not discuss the limitation of claim 35, but re-argued several limitations in claim 34 such as “product identifier” and “shopping cart database.”

Newegg responded that Soverain failed to rely on claim 35 “as a basis for its panel or en banc rehearing request” and pointed out that Soverain mentioned claim 35 “only in a footnote to its background section” of its appeal brief. Newegg then addressed the sub-

stantive arguments Soverain raised, which did not include the differences between claims 34 and 35.

On this record, we do not have enough information to determine whether there is a “genuine” dispute as to whether the prior art taught the limitation of claim 35, or the role of such limitation in the shopping cart teachings of the prior art. *See Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248 (1986) (“A factual dispute is only ‘genuine’ if the evidence is such that a reasonable jury could return a verdict for the nonmoving party.”).

It is also unclear on this record, because it has not been briefed, whether Soverain agreed that claim 34 is representative of the shopping cart claims, or whether Soverain’s silence constituted a waiver of this aspect.

Although the confusion concerning the posture of claims 34 and 35 is a result of the parties’ arguments at trial and appeal, we conclude that the matter warrants supplemental briefing on the following aspects:

1. The treatment at trial of the additional limitation in claim 35; and
2. Whether claim 34 was treated as, or is properly deemed “representative” of the shopping cart claims including claim 35.

The supplemental briefs shall be filed simultaneously, no later than ten days following the date of this order. Responsive briefs may be filed no later than ten days thereafter. The briefs shall not exceed 10 pages double-spaced for each party. The parties are instructed to attach copies of any materials relied upon in their briefs that are not in the existing appendices.

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IT IS SO ORDERED.

June 13, 2013

Date

cc: Edward R. Reines, Esq.
Robert B. Wilson, Esq.

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APPENDIX F

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

SOVERAIN SOFTWARE LLC,
Plaintiff-Appellee,

v.

NEWEGG INC.
Defendant-Appellant.

2011-1009

Appeal from the United States District Court for
the Eastern District of Texas in case no. 07-CV-0511,
Judge Leonard Davis.

Decided: September 4, 2013

* * *

ON PETITION FOR REHEARING

Before NEWMAN, PROST, AND REYNA, *Circuit
Judges.*

PER CURIAM.

Rehearing is granted for the purpose of clarification of the court's rulings with respect to claims 34 and

35 of Patent No. 5,715,314. At *Soverain Software LLC v. Newegg, Inc.*, 705 F.3d 1333, 1337 (Fed. Cir. 2013), the court held that claim 34 was representative of the “shopping cart” claims in litigation. The parties requested rehearing, pointing out that although claim 34 was the subject of litigation of the shopping cart claims, the district court’s judgment referred to claim 35, not claim 34. This court granted rehearing, to assure that the claims at issue in this litigation were adequately and fairly assessed at trial and on appeal. Since claim 35 had not been briefed or argued on the appeal, we requested supplemental briefing on the following two aspects:

1. The treatment at trial of the additional limitation in claim 35.
2. Whether claim 34 was treated as, or is properly deemed “representative” of the shopping cart claims including claim 35.

Soverain Software LLC v. Newegg Inc., 2011-1009, 2013 WL 2631445 (Fed. Cir. June 13, 2013). The court received briefs from each of Soverain and Newegg on June 24, 2013, and responses on July 9, 2013. We have considered the issues with respect to claim 35, based on the parties’ initial briefing and arguments and in light of the supplemental briefing.

DISCUSSION

The claims at issue are as follows:

34. A network-based sales system, comprising:
at least one buyer computer for operation by a
user desiring to buy products;
at least one shopping cart computer; and

a shopping cart database connected to said shopping cart computer;

said buyer computer and said shopping cart computer being interconnected by a computer network;

said buyer computer being programmed to receive a plurality of requests from a user to add a plurality of respective products to a shopping cart in said shopping cart database, and, in response to said requests to add said products, to send a plurality of respective shopping cart messages to said shopping cart computer each of which comprises a product identifier identifying one of said plurality of products;

said shopping cart computer being programmed to receive said plurality of shopping cart messages, to modify said shopping cart in said shopping cart database to reflect said plurality of requests to add said plurality of products to said shopping cart, and to cause a payment message associated with said shopping cart to be created; and

said buyer computer being programmed to receive a request from said user to purchase said plurality of products added to said shopping cart and to cause said payment message to be activated to initiate a payment transaction for said plurality of products added to said shopping cart;

said shopping cart database being a database of stored representations of collections of products, and said shopping cart computer

being a computer that modifies said stored representations of collections of products in said database.

35. A network-based sales system in accordance with claim 34, wherein said shopping cart computer is programmed to cause said payment message to be created before said buyer computer causes said payment message to be activated.

The district court, criticizing Newegg's evidence on the issue of obviousness, removed that issue from the jury and decided it as a matter of law. The district court directed its substantive analysis to limitations in claim 34; *e.g.*, *Soverain Software LLC v. Newegg Inc.*, 836 F. Supp. 2d 463, 478-79 (E.D. Tex. 2010) (discussing expert testimony on limitations of claim 34); and discussed the issue of infringement with respect to limitations in claim 34, *e.g.*, *id.* at 468 ("Newegg first argues that there was no legally sufficient evidence from which a reasonable jury could conclude that the accused Newegg system meets all the limitations of independent claim 34 of the '314 patent"). The district court did not mention any limitation of claim 35 in its discussion of either validity or infringement.

On the appeal, the parties again focused their presentations and argument solely on claim 34. Newegg's brief stated that Soverain "asserted" claim 34, and also that claim 34 is "representative of the shopping cart claims." Newegg Br. 6. Soverain neither objected to nor corrected this recitation. The parties cited the evidentiary record, discussed the prior art (primarily the CompuServe Mall system) and argued the district court's decision to remove the question of obviousness from the jury. Claim 35 was not briefed on

this appeal, and was not mentioned in the argument of the appeal. Soverain's brief stated that claim 35 was in suit, but did not discuss the specific limitation in that claim, while extensively discussing the limitations of claim 34. At oral argument the parties argued claim 34, and did not mention claim 35. This court treated claim 34 as "representative" of the shopping cart claims in suit, and held claim 34 invalid on the ground of obviousness.

Both sides requested rehearing to resolve any confusion as to the status of these claims. We invited the parties to provide information beyond that which they had previously presented. In their supplemental briefs the parties discuss the testimony of Newegg's expert witness Mr. Tittel on the CompuServe Mall prior art with respect to the "payment" limitation of claim 35:

Q. Was this screen [summarizing the customer's payment selections] created by the server before it was displayed?

A. Of course it was.

Q. After it was displayed, could it be accepted or activated?

A. Yes.

Trial Tr. 66 ll.7-12, ECF No. 394 (brackets in Soverain's Br.).

Soverain states that this evidence is inadequate to impart invalidity to claim 35. Newegg responds that there was no cross-examination on this aspect, and points out that in its supplemental briefing Soverain does not provide additional relevant citations or argument. Newegg states that no issue distinguishing the obviousness of claim 35 from that of claim 34 was presented at the district court or on this appeal, citing

SIBIA Neurosciences, Inc. v. Cadus Pharm. Corp., 225 F.3d 1349, 1359 (Fed. Cir. 2000) (issues not raised with respect to dependent claims are deemed waived).

On the question of whether the payment step of claim 35 was embodied in the prior art CompuServe Mall, no contrary argument is here proffered. Soverain devotes most of its supplemental briefing to reargument of issues resolved in the court's prior opinion, especially relating to the terms "product identifier" and "shopping cart database." We discern no basis for departing from the court's analysis in its prior opinion. *See, e.g.*, 705 F.3d at 1339 ("The distinction proposed by Dr. Shamos and advanced by Soverain is not embodied in the claims and not reflected in the claim construction.").

In its supplemental briefing Soverain does not direct attention to any evidence in contradiction to the testimony of Newegg's expert as to the content of claim 35. There was no genuine factual dispute that the payment element, set forth in claim 35, is present in the prior art CompuServe Mall. *See Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248 (1986) (factual dispute only "genuine" if the evidence is such that a reasonable jury could return a verdict for the nonmoving party).

Claim 35 was not separately argued to the district court. When a dependent claim and the independent claim it incorporates are not separately argued, precedent guides that absent some effort at distinction, the claims rise or fall together. *See, Gardner v. TEC Sys., Inc.*, 725 F.2d 1338, 1350 (Fed. Cir. 1984) (en banc) ("Gardner has not argued the validity of the remaining claims in suit, claims 3, 4, and 8, apart from the validity of claim 1, from which they depend. We cannot discern for ourselves any independent basis for their validity.

We therefore affirm the holding of invalidity of these claims as well.”); *see also SIBIA Neurosciences*, 225 F.3d at 1359 (“in this appeal, SIBIA has failed to argue the validity of the dependent claims separately from the validity of claim 1. Thus, these claims do not stand on their own, and given our determination that claim 1 is invalid, the remaining dependent claims must fall as well.”).

On this rehearing, Soverain has not provided any new information concerning the specific limitation of claim 35. The inclusion of an additional known element from a similar system, as set forth in claim 35, is subject to review on established principles, as summarized in *KSR International Co. v. Teleflex Inc.*, 550 U.S. 398, 417 (2007) (an unobvious combination must be “more than the predictable use of prior art elements according to their established functions”). The supplemental briefing reinforces the absence of dispute that the element in claim 35 is in the CompuServe Mall prior art.

On consideration of the additional briefing and arguments, we confirm that claim 34 is representative of the “shopping cart” claims, including claim 35, and conclude that dependent claim 35 is invalid on the ground of obviousness. The court’s judgment is amended accordingly.

**REHEARING GRANTED; JUDGMENT
AMENDED**

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APPENDIX G

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

SOVERAIN SOFTWARE LLC,
Plaintiff-Appellee,

v.

NEWEGG INC.
Defendant-Appellant.

2011-1009

Appeal from the United States District Court for
the Eastern District of Texas in case no. 07-CV-0511,
Judge Leonard Davis.

ORDER

A combined petition for rehearing and rehearing en banc having been filed by the Appellee, and the matter having first been referred as a petition for rehearing to the panel that heard the appeal, and the panel having granted rehearing for the purpose of clarifying the status of certain patent claims, and thereafter the matter having been referred as a petition for rehearing en banc to the circuit judges who are in regular active service,

UPON CONSIDERATION THEREOF, it is

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ORDERED that the petition for rehearing en banc be, and the same hereby is, DENIED.

The mandate of the court will issue on September 11, 2013.

FOR THE COURT

September 4, 2013

Date

/s/ Daniel E. O'Toole

Daniel E. O'Toole

Clerk

cc: Edward Reines
Robert B. Wilson

SOVERAIN SOFTWARE V NEWEGG, 2011-1009
(DCT—07-CV-0511)

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APPENDIX H

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
TYLER DIVISION

SOVERAIN SOFTWARE

-vs-

NEWEGG INC.

DOCKET NO. 6:07cv511

Tyler, Texas

8:24 a.m.

April 29, 2010

**TRANSCRIPT OF TRIAL
MORNING SESSION
BEFORE THE HONORABLE LEONARD DAVIS,
UNITED STATES DISTRICT JUDGE, AND A JURY**

**EXCERPTS OF THE TESTIMONY OF
EDWARD TITTEL**

[A2346]

Q * * * did you prepare an element-by-element
comparison—

A No.

Q —of the claims to the prior art?

A No, sir, I did not.

Q You didn't do that, right?

A No, sir.

* * *

Q And, in fact, you couldn't even recall if you saw the Court's claim constructions before you wrote your first report; isn't that right?

A Yes, sir, that is correct.

[A2350]

Q Okay. Now, another thing that you didn't do—and I think you mentioned this in your direct examination—is that when you prepared your report in this case and formed—and appeared for your first deposition, you didn't review the Patent Office file, the prosecution history for the patents involved in this case, did you?

A No, sir, I did not.

Q And that's something you would certainly do if you did this job again, wouldn't you?

A Yes, sir, it certainly is.

[A2352-A2353]

Q In fact, just to expand that a bit, the whole subject of validity, that's not something that you've come here prepared with an opinion to express; is that true?

A No, that's not true, sir.

Q So you're an expert—you believe you're an expert on patent law and validity?

A No. I believe that my expert opinions can shed light on matters of validity. I don't think I can decide matters of validity.