No. 13-477

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

BRIEF OF i4i LIMITED PARTNERSHIP AS AMICUS CURIAE IN SUPPORT OF PETITION FOR A WRIT OF CERTIORARI

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INTEREST OF AMICUS CURIAE[1]

i4i Limited Partnership supports reversal of the Federal Circuit's fact finding in this case. The decision reflects a serious legal error prevalent in Federal Circuit precedent and threatens to disrupt the expected risk and reward balance provided to industry by the U.S. Constitution and the U.S. patent laws.

i4i is a world leader in the development of structured content applications. Structured content refers to information that has been broken down and classified using metadata. Relying on our industry-leading technology for managing XML[2] content, i4i successfully delivers structure and compliance to a broad spectrum of companies around the world. i4i's diverse product applications apply to large financial institutions, trade associations, pharmaceutical companies, and regulatory environments, to name a few.

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[1] Pursuant to Supreme Court Rule 37.2(a), notice of i4i LP's intent to file this amicus curiae brief was received by counsel of record for all parties at least 10 days prior to the due date of this brief and all parties consent to the filing of this amicus curiae brief. The undersigned further affirms that no counsel for a party authored this brief in whole or in part, and no person or entity, other than i4i or its counsel, made a monetary contribution specifically for the preparation or submission of this brief.

[2] XML (Extensible Markup Language) defines a set of rules for encoding documents for use over the Internet in a format that is both human-readable and machine-readable. *See XML*, Wikipedia.com, https://en.wikipedia.org/wiki/Xml (last visited Nov. 15, 2013).

The U.S. patent system provides the protection our industry-leading technology requires, and permits i4i to continue to deliver top-notch products and to remain competitive in this ever-evolving market. The U.S. patent system is the most successful system in the world at promoting innovation, and one of the most consistent. This consistency also supports an investing environment that stimulates innovation.

Taking an idea from innovation to product and return on investment presents a challenge that requires assumption of a tremendous amount of risk. i4i is very much aware of the risks and rewards of the patent system. In 2011, this Court affirmed a finding of infringement by Microsoft Corporation of i4i's U.S. Patent No. 5,787,449 covering a system for the separate manipulation of the architecture (i.e., metadata) and the content of a document. In addition to drafting a patent portfolio sturdy enough to withstand attack, i4i had to raise capital to fund hard fought patent litigation, costing i4i millions of dollars. Shepherding that litigation for four years from the U.S. District Court, through the Federal Circuit and the U.S. Supreme Court, presented both a significant risk and a challenge.

In the end, taking the risk paid off for i4i, because the patent endured the multiple attacks: at the PTO, the district court, the Federal Circuit, and here. In addition, the Court affirmed the higher burden to prove a patent invalid—clear and convincing.

Today, however, contrary to the Court's decision in *Microsoft v. i4i*, the Federal Circuit decision in *Soverain v. Newegg* threatens the stability of our patent system. The Federal Circuit's decision allows *de*

novo review of perceived factual issues at the appellate level. Letting such a decision stand will throw the risk-reward equation for i4i and other companies into disarray. By violating the time-tested doctrine that trial courts are the factual arbiters, the Federal Circuit injects an unnecessary element of risk—its own opinion on technology—into the equation, likely making pursuit and enforcement of patents too risky for investors.

INTRODUCTION

In *Microsoft Corp. v. i4i Limited Partnership*, the Court affirmed the higher burden of proof for review of patent validity: clear and convincing. 131 S.Ct. 2238, 2242 (2011). That elevated burden reflects the understanding that, by the time a patent is litigated, it has gone through at least a strenuous review at the U.S. Patent and Trademark Office, and possibly additional reviews such as reexamination and now Post Grant Review. *See, id.* at 2252.

The Federal Circuit decision in *Soverain v. Newegg*, by contrast, eviscerates that elevated burden for obviousness appeals by allowing the Federal Circuit's own factual opinions to supplant findings of the Patent Office (PTO), district court and jury. In *Soverain*, the Federal Circuit substituted its own facts for the determinations of (1) the PTO during initial examination, (2) the PTO during reexamination, (3) the District Court at trial, and (4) the Jury verdict in a co-pending district court case. All four of these other tribunals held Soverain's intellectual property not invalid and worthy of protection. Not only did the Federal Circuit override them all, but it made its own determination on a record devoid of factual determinations by the district court because the obviousness issue was removed from jury consideration for lack of evidence.[3] Pet. 4a.

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[3] Newegg did not ask the Federal Circuit to reverse the court's ruling that the issue of obviousness lacked evidence to go to the jury. Newegg properly asked the Federal Circuit to remand to the district court for consideration of the evidence in the first instance. Brief for Appellant at 60, *Soverain Software LLC v. Newegg Inc.*, 705 F.3d 1333 (Fed. Cir. 2013) (No. 2011-1009), 2010 WL 5586347 at *60.

On appeal of the obviousness issue, Newegg recognized that, if legal error existed, issues of fact remained in dispute, and Newegg requested a remand to the district court. *See* Pet. at 9 (citing Oral Arg. Recording 2:9–12 (Aug. 4, 2011)). However, the Federal Circuit saw the issue differently. Disregarding the prohibition against finding facts on appeal, and the presumption of validity recently reaffirmed by the Court in *Microsoft v. i4i*, the Federal Circuit reversed the district court, holding that the patents-at-issue were obvious.

By turning these settled principles on their heads, the Federal Circuit injected additional, substantial risk into the U.S. Patent System. That risk threatens to upset the inventing community's ability and motivation to invent as well as the financial community's desire to invest in innovation. i4i respectfully requests that the Court grant certiorari here to overturn the Federal Circuit's decision and maintain the risk/reward balance envisioned by the Constitution and the U.S. patent statute.

SUMMARY OF ARGUMENT

This country is built on innovation. Grounded in the constitutional mandate to promote the progress of the useful arts, the patent statute broadly embraces all manner of inventions. This straightforward standard is designed to ensure that the patent system provides both protection, where deserving, and certainty to the innovating community. However, the business of innovation remains both expensive and risky. To maintain the U.S.'s position as a world leader, we must continue to foster innovation by securing the appropriate protection for innovation.

Consistent with this mandate, the Court's decisions have reinforced the need for certainty in the patent system. From the determinations of the U.S. Patent Office, to the district courts, to the U.S. Court of Appeals for the Federal Circuit, and the Supreme Court, decisions on science and technology have harkened the need to provide innovators with the tools to protect invention and to obtain reward for creative toil and progress.

However, in order to achieve a suitable return from investing in innovation, the patentee also must defend the invention at every step. First, the inventor defines and defends the invention before the Patent Office. To be patentable, an invention must be useful, new, and nonobvious. In addition, the inventor must fully and clearly describe the invention to enable others to understand and practice it. The inventor also must claim the invention distinctly to inform the public of its reasonable metes and bounds. U.S. Patent examiners are trained to examine each of these requirements and to work with patent attorneys to determine the proper scope of the claims that later become part of issued patents. Enforcement of these requirements in the Patent Office ensures that, after examination, granted patents legitimately promote the useful arts and advance the frontiers of technology, as the nation's founders intended. Indeed, inventions that are worthy of patent protection make life better. Consider, for example, cellular phones, microwaves, computers, GPS, and life-saving pharmaceuticals, to name a few.

When it comes to enforcement, a patent owner must be vigilant about patent rights at every step. If a competitor is infringing, the patent owner asserts

the patent at the district court and defends its validity and enforceability against the accused infringer. This process alone costs between two and five million dollars, on average. Am. Intellectual Prop. Law Ass'n, *Report of the Economic Survey 2013*, at I-129–I-132. Almost certainly, the infringer will proceed on appeal to the Federal Circuit, where, once again, the patentee must defend the innovations disclosed in the patent. And, at each juncture, the patentee must win to keep the reward in sight. It only makes sense that the Federal Circuit, as an Article III appellate body, should take the record as determined at the district court and not render it anew.

Unfortunately, the Federal Circuit in *Soverain v. Newegg* misinterpreted this Court's precedent as allowing a fresh look at the evidence by the appellate panel and thereby improperly usurped the role of the fact-finder. By placing factual issues back into play in this case, the Federal Circuit made enforcing patent rights much less certain, and as a result injected more risk into the innovation process. Additional risk leads to reduced innovation because fewer people, including inventors, investors, and corporations, will be motivated to take inventions from idea to realization.

Innovation has driven this nation's economy for centuries, and continues to do so in part due to a strong patent system. In this age when the vitality of our economy increasingly depends on the creative and innovative use of information and services, it seems almost inconceivable that the Federal Circuit made the process of innovation even more risky.

ARGUMENT

I. THE FEDERAL CIRCUIT'S DECISION IN *SOVERAIN* INCREASES UNCERTAINTY IN THE PATENT SYSTEM AND DISCOURAGES INNOVATION

The Federal Circuit's unpredictable fact-finding[4] of patent law will lower the value of patents and in turn the incentive to create. Uncertainty in the law "has been shown to have potentially serious economic consequences in discouraging certain socially desirable, but risky, activities." Jason Scott Johnston, *Uncertainty, Chaos and the Torts Process: An Economic Analysis of Legal Form*, 76 Cornell L. Rev. 341, 344 (1991).

Allowing the Federal Circuit independently to decide factual issues of obviousness under the guise that obviousness is a legal question will dramatically lower the value of patents and the resulting investment in innovation. *See* Brief of Amici Curie AmiCOUR IP Group LLC in Support of Respondents at 20–21, *Microsoft Corp. v. i4i Limited Partnership*, 131 S.Ct. 2238 (2011) (No. 10-290). Such an adverse effect cuts directly against the clear Constitutional mandate to "promote the progress of science and the useful arts." U.S. Const., Art. I, § 8, cl. 8. Yet, the increased risk from application of the de novo standard to an inherently factual inquiry, i.e., another bite at the apple, will likely influence patent protection, patent royalties, license agreements, litigation, cor-

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[4] *See, e.g.,* Petition for Certiorari *Soverain Software LLC v. Newegg Inc.* ("Pet.") at 16-19, listing Federal Circuit cases resolving obviousness factual issues on appeal.

porate acquisitions, the equity markets and the market value of business assets. *See* Brief for AmiCOUR at 21. While the effects cannot be precisely estimated, there is no doubt that if allowed to stand, the Federal Circuit's fact-finding in *Soverain* will decrease the value of U.S. innovation.

A. A Strong, Predicable Patent System Encourages High-Risk Investment In Innovation

As Abraham Lincoln understood over 150 years ago, the United States Patent System "added the fuel of interest to the fire of genius, in the discovery and production of new and useful things." Abraham Lincoln, *Second Lecture on Discoveries & Inventions* (February 11, 1859). That sentiment remains today, yet encouraging interest to fuel the fire of genius may be more expensive and risky in this economy than ever before. Certainty in patent law provides the proper environment for investors to take on the risk of such an investment.

Recently, in a White House document, the Executive Branch emphasized the need to invest in innovation:

> America's future economic growth and international competitiveness depend on our capacity to innovate. We can create the jobs and industries of the future by doing what America does best – investing in the creativity and imagination of our people. To win the future, we must out-innovate, out-educate, and out-build the rest of the world.

A Strategy for American Innovation: Securing Our Economic Growth and Prosperity, http://www.whitehouse.gov/innovation/strategy (Feb. 4, 2011).

In 2010 alone, investors staked $21.8 billion in venture capital to drive innovation of lifesaving and life-enriching products and services. *See* Peter Delevett, *Venture Capital Investment in 2010 Grew for First Time in Three Years*, Mercury News (Feb. 20, 2011), http://www.mercurynews.com/ci_17416341. This was in addition to the over $75 billion in venture capital that investors committed to commercialize innovative technologies in 2007 to 2009. Brief for San Diego Intellectual Property Law Assoc. and Connect et al. as Amici Curiae Supporting Respondents at 8, *Microsoft Corp.*, 131 S.Ct. 2238 (2011) (No. 10-290) (quoting CONNECT Innovation Report, 3Q 2010 at 8, http://www.connect.org/programs/connect-track/ docs/ Q3_2010_CIR_012411.pdf).

Yet, investment in innovation is risky. There is no guarantee that research and development will lead to a commercially viable product. Once successful, there is no guarantee that a new product will not be copied by others. More certainty in the patent system, not less, will promote investment in our innovation.

In a recent article in WIPO Magazine, Syngenta employees reflected on the difficulties of engineering new and better crops. Because of the risks in investing in innovation, protection is a necessity:

> Developing new crop varieties is a lengthy and costly process, with plant science companies investing approximately 15 percent of their annual turnover in seed-

> related research and development activities. The development of beneficial traits is expensive, time consuming and risky: even for non-genetically modified traits it can take 8–10 years and many millions of euros to bring them to market. Since the resulting seed products can be easily reproduced by farmers and "copied" by competitors, some form of enforceable commercial protection is required – otherwise there would be no incentive to make such investments.

Michael A. Kock, *Adapting to an Evolving Agricultural Innovation Landscape*, WIPO MAGAZINE, (Apr. 2013), http://www. wipo.int/wipo_magazine/en/2013/02/article_0007.html.

Corning Incorporated, a leading innovator, agrees:

> There's no doubt about it—innovation is difficult, risky, and expensive. We need to encourage more companies to take these risks by creating incentives to innovation.

Corning Inc., *Creating the Next Generation of American Innovators,* (Sep. 2010), http://www.corning.com/news_center/features/creating_innovators.aspx.

Strong patents attract investment. According to the Federal Trade Commission, "one of a start-up's most valuable assets may be its patent estate." U.S. Fed. Trade Comm'n, *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition* 43 (2011).

The strength of a country's patent rights has a very positive relationship with the willingness of pri-

vate firms to invest in innovation. Brent B. Allred & Walter G. Park, *The Influence of Patent Protection on Firm Innovation Investment in Manufacturing Industries,* 13(2) J. Int'l Management 91-109, 96, 106 (June 2007). Strong patent rights impact economic growth by encouraging investors to take risk by investing in research and development and physical facilities, which can have positive effects on economic growth. Walter G. Park & Juan C. Ginarte, *Intellectual Property Rights and Economic Growth*, 15 Contemporary Econ. Policy 51 (July 1997).

Increasing uncertainty in patent law by allowing the Federal Circuit to decide facts on appeal will weaken patents, increase the risk in investment in innovation, and hence decrease invention.

B. The Federal Circuit's Fact-Finding in *Soverain* Suppresses Investment In Innovation And Weakens Patent Protection

The Federal Circuit's appellate fact-finding in *Soverain* under the guise of *KSR* causes uncertainty in patent law, decreasing confidence in our patent system and increasing the risk to investors in innovation. In this ever more competitive global marketplace where innovation maintains a country's leadership, *see A Strategy for American Innovation: Securing Our Economic Growth and Prosperity*, http://www.whitehouse.gov/innovation/strategy (Feb. 4, 2011), rather than further decrease our competitiveness, the Court should grant certiorari to maintain and enhance the value of innovation.

1. The *Soverain* Decision Will Decrease The Investments Required To Take An Idea To Fruition

Venture capitalists consider patent strength a critical risk factor, and it is often of major influence in whether an investment is made. Indeed, the perceived strength of a patent often "is a determining factor in [a venture capitalist's] investment decision." Press Release, Nat'l Venture Capital Ass'n, *National Venture Capital Association Encourages Congress to Support Innovators in Patent Reform Legislation* 1 (Oct. 25, 2007).

In the life sciences sector, the innovations of venture-backed companies have saved millions of lives. *Supporting Innovation in the 21st Century Economy: Hearing Before the Subcomm. on Tech. and Innovation of the H. Comm. on Sci. and Tech.*, 111th Cong. 68 (2010) (testimony of Paul Holland, General Partner, Foundation Capital) ("Holland Testimony") ("[Venture-backed] companies have brought to market thousands of innovations that have improved and, in the case of the life sciences sector, actually saved millions of lives.").

Venture capital may represent the only source capable of supplying the funds necessary for innovative start-up companies to succeed, Nat'l Venture Capital Ass'n, *Venture Impact: The Economic Importance of Venture Capital-Backed Companies to the U.S. Economy* 19 (5th ed. 2009), and only one in six such start-up companies will ever be taken public, Nat'l Venture Capital Ass'n, *Yearbook 2010*, at 8 (2010). "In our current financial system, venture capital is the only source of long-term, institutional funding for [new] companies." *Venture Impact* at 22.

S*ee* Holland Testimony 67 ("Many…ideas would never see the light of day were it not for venture investment.").

In technology transfer circles, the transition from an idea to an early-stage company worth investing in has been referred to as "the valley of death." *See* Gerry S. Ford, Thomas M. Koutsky, & Lawrence J. Spiwak, *A Valley of Death in the Innovation Sequence: An Economic Investigation* (Sept. 2007) (prepared for the U.S. Commerce Department, Technology Administration). Finding investors willing to cross that valley is the most difficult part of innovation. *Id*. Early stage companies must demonstrate their advantages to potential investors over other competing investments. Patent portfolios offer just such an advantage, and are used to show venture capitalists that their investments will be protected against any potential unlicensed competitors once the product is brought to market.

As a result, any change in the precedent—even an additional fresh look at the facts by the Federal Circuit—threatens investment capital because it increases the uncertainty surrounding a patent's enforceability and its ability to protect the underlying innovation. Such a change from legal review to fact-finding as in *Soverain* will have far reaching consequences for the flow of venture capital to innovative industries. *See* Adam B. Jaffee & Josh Lerner, *Innovation and Its Discontents* 193–194 (2004).

2. The *Soverain* Decision Increases Uncertainty Around Patent Validity Thus Weakening Patent Protection

"Creating uncertainty around the validity of a patent adds another investment risk to the overall equation which venture capitalists use to make investment decisions. If the process becomes too uncertain, VCs *will stop investing*." Nat'l Venture Capital Ass'n, *Patent Reform Position Paper* 3 (Oct. 2007) (emphasis added) (available at http://www.nvca.org/index.php?option=com_docman&task=doc_download&gid=223&Itemid=93). When patents are perceived to be too risky to enforce, innovation and large segments of the economy stagnate or decline. *See, e.g.*, Andrew Beckerman-Rodau, *Patents Are Property: a Fundamental but Important Concept*, 4 J. Bus. & Tech. L. 87, 93 (2009) ("Absent the ability to assert patent property rights, fewer inventions will be patented and the public storehouse of knowledge will decrease without the public disclosure from those patents"). On the other hand, incentivizing innovators with the grant of a patent and the accompanying vision of limited exclusivity should provide some degree of comfort that the invention will be protected. *See, e.g.,* Stephen Elkind, *Secrets Are No Fun! Balancing Patent Law & Trade Secret Law Under the American Invents Act*, 22 Fed. Cir. B.J. 431 (2013).

As former Chief Judge Paul Michel, U.S. Court of Appeals for the Federal Circuit, noted, "no one can be expected to invest without confidence in a return." Former Chief Judge Paul R. Michel, U.S. Court of Appeals for the Federal Circuit, *Congress Needs to Act*, Address Prepared for the Global Intellectual

Property Center of the U.S. Chamber of Commerce (July 21, 2010) (transcript available at http://www.theglobalipcenter.com/sites/default/files/documents/CJ_Michel_Remarks_7.21.2010.pdf).
"Clarity is essential to promote progress, because it enables efficient investment in innovation." *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.,* 535 U.S. 722, 730–731 (2002). The Federal Circuit's decision in *Soverain v. Newegg* accomplishes the opposite: it injects uncertainty into the patent system, discouraging investment in innovation and harming the progress of the useful arts, American innovation, and competition.

II. APPELLATE COURTS, INCLUDING THE FEDERAL CIRCUIT, ARE CONFINED TO THE FACTS AS DOCUMENTED BY THE LOWER COURT RECORD

Ample precedent clarifies and explains the impropriety of appellate fact-finding, both generally and more specifically in patent law. *See, e.g.,* Pet. 14-23, 29-30.

A. Precedent Recognizes The District Court As Arbiter of Facts

As in *Soverain*, if the district court finds the factual evidence to be insufficient "to present an obviousness case to the jury," Pet. 29a, then the court properly may grant JMOL, removing the issue from the province of the jury. Pet. 29a. By removing the decision on an issue from the jury, the district court determined that the movant did not prevail in presenting facts capable of sustaining its burden. Pet. 55a–56a. If the appellate court disagreed, the proper course of action would be to remand to the district

court, identifying the facts in dispute and instructing the court to schedule a jury trial on the issue. *Icicle Seafoods, Inc. v. Worthington*, 475 U.S. 709, 713–14 (1986) ("If the Court of Appeals believed that the District Court failed to make findings of fact essential to a proper resolution of the legal question, it should have remanded to the District Court to make those findings.").

On appeal in this case, Newegg recognized this division of labor between the district court and the appellate court, asking only for a remand for a new trial on obviousness to allow the district court to fix the perceived error, rather than asking for an outright reversal. Brief for Appellant at 60, *Soverain Software LLC v. Newegg Inc.*, 705 F.3d 1333 (Fed. Cir. 2013) (No. 2011-1009), 2010 WL 5586347 at *60; *see also* Pet. at 9 (quoting Oral Arg. Recording 2:9–12 (Aug. 4, 2011) (Newegg responding to questioning that there exists "conflicting evidence of exactly the kind that the jury should consider")).

B. Allowing The Federal Circuit To Continue To Find Facts Is Contrary To *Microsoft v. i4i*

Determining facts for the first time on appeal under the guise of making a legal determination also runs afoul of the heightened burden for proving a patent invalid, i.e., the presumption of validity, reaffirmed in *Microsoft Corp. v. i4i Limited Partnership*, 131 S. Ct. at 2242. Like the heightened burden of proof, appellate deference to the fact-finder "is an essential component of the patent 'bargain.'" *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 150–151 (1989). The incentive for innovators to

disclose their innovations to the public relies on the exchange of patent protection; similarly, the incentives for investors to invest in those innovations relies on reliable patent protection. *Id.* at 150.

"[T]he heightened standard of proof 'serves to protect the patent holder's reliance interests' in disclosing an invention to the public in exchange for patent protection." *Microsoft*, 131 S.Ct. at 2249 (quoting Brief for United States as *Amici Curiae* Supporting Respondents at 33, *Microsoft Corp. v. i4i Limited Partnership*, 131 S.Ct. 2238 (2011) (No. 10-290)). Similarly, the prohibition on finding facts on appeal provides the inventing community with some certainty about where and when the facts of a case will be determined. *Festo,* 535 U.S. at 730–731.

The Court in *Microsoft* also recognized the high hurdle the elevated burden combined with the underlying factual issues creates. "'While the ultimate question of patent validity is one of law,' the same factual questions underlying the PTO's original examination of a patent application will also bear on an invalidity defense in an infringement action." *Microsoft*, 131 S.Ct. at 2242–43 (quoting *Graham v. John Deere Co. of Kansas City*, 383 U.S. 1, 17 (1966)); *see Graham*, 383 U. S., at 17 (describing the "basic factual inquiries" that form the "background" for evaluating obviousness); *Pfaff v. Wells Elec., Inc.*, 525 U.S. 55, 67–69 (1998).

In *Soverain v. Newegg*, the court's disregard for this heightened standard cannot be more apparent. The district court held that there lacked "sufficient testimony to present an obviousness case to the jury." Pet. 29a. However, the Federal Circuit, neglecting both the heightened burden and standard of re-

view for obviousness determinations, weighed facts that the district court had not, and found the claims at issue obvious on appeal, even when four other tribunals had found otherwise.[5] And it did all of this under the guise of a legal determination. *KSR Int'l Co. v. Teleflex, Inc.*, 550 U.S. 398, 427 (2007) ("The ultimate judgment of obviousness is a legal determination.") (citing *Graham*, 383 U.S. at 17).

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[5] (1) The PTO originally examined the patent applications and issued all of the patents-in-suit;

(2) The PTO reaffirmed all of the asserted claims without amendment, (Reexam Ctrl. Nos. 90/011,937 and 90/011,444, U.S. Patent No. 7,272,639, Certs. Issued, Feb. 1, 2013 & Oct. 4, 2011; Reexam Ctrl. No. 90/011,442, U.S. Patent No. 5,909,492, Cert. Issued, Nov. 28, 2012; Reexam Ctrl. No. 90/011,443, U.S. Patent No. 5,715,314, Cert. Issued, Sept. 11, 2012; Reexam Ctrl. No. 90/007,287, U.S. Patent No. 5,715,314, Cert. Issued, Oct. 9, 2007; Reexam Ctrl. No. 90/007,286, U.S. Patent No. 5,909,492, Cert. Issued, Aug. 7, 2007; Reexam Ctrl. No. 90/007,183, U.S. Patent No. 5,708,780, Cert. Issued, Apr. 4, 2006 (parent of the '639 patent);

(3) The district court here found that "Newegg did not meet its burden of establishing a prima facie case of obviousness." Pet. 55a–56a; and

(4) Soverain commenced a separate trial against Avon and Victoria's Secret for infringement of claims 34 and 51 of U.S. Patent No. 5,715,314, and claims 15, 17, and 39 of U.S. Patent No. 5,909,492, where the jury found no obviousness. Verdict, Dkt. 505, No. 09-cv-0274, *Soverain Software LLC v. J.C. Penney Corp., Inc.* (E.D. Tex. Nov. 18, 2011); Final Judgment, Dkt. 559, No. 09-cv- 0274, *Soverain Software LLC v. J.C. Penney Corp. Inc.* (E.D. Tex. Aug. 22, 2012).

C. The Federal Circuit Found Facts Not Previously Determined By The Jury

The Federal Circuit gave Newegg an unrequested windfall. No request to reverse and find the patents obvious was made. Brief for Appellant at 60, *Soverain Software LLC v. Newegg Inc.*, 705 F.3d 1333 (Fed. Cir. 2013) (No. 2011-1009), 2010 WL 5586347 at *60; *see also* Pet. at 9. Yet, that is precisely what the Federal Circuit did. The contrast between the district court's actions and the Federal Circuit's decision is striking. The district court judge, who took all of the evidence live, felt there was not enough evidence to send the issue of obviousness to the jury.

> 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 for them.

Pet. 29a. The Federal Circuit, by contrast, concluded that:

> [T]he prior art CompuServe Mall system, *by clear and convincing evidence*, rendered obvious the "shopping cart" claims ….

Pet. 15a (emphasis added); *see also* Pet. 20a. ("hypertext claims"); Pet. 23a-22a (resolving disputed testimony about "session identifier and "credential identifier"). Yet, an appellate court cannot step-in and decide facts. *See Graver Tank & Mfg. Co. v. Linde Air Prods. Co.*, 336 U.S. 271 274–75 (1949). Certainly, the appellate court is not to weigh those facts for the first time on appeal and determine that the claims

are obvious "by clear and convincing evidence." Pet. 15a, Pet. 17a-25a.

The Federal Circuit, however, relied on *KSR*, to support reversal instead of remand finding that "the obviousness of the claim is apparent ...." Pet. 5a–6a (quoting *KSR*, 550 U.S. at 427). Yet, in rendering its decision, and contrary to the mandate of *KSR*, the Federal Circuit analyzed the scope and content of the prior art, evaluated conflicting expert testimony, and accepted one version of the parties' story over the other. Pet. 9a-11a.

For the "shopping cart claims," the Federal Circuit determined on its own that the distinction proposed by Soverain's expert that two claim limitations were missing from the prior art was unsupported, and the court credited Newegg's expert instead. Pet. 11a–12a. The Federal Circuit did this despite the fact that Newegg's expert did no element-by-element comparison of the prior art to the claims at issue, did not review the court's claim construction, and did not review the file history of the patents in suit prior to determining obviousness. Pet. 85a–86a.

For the "shopping cart database," the Federal Circuit interpreted a user guide from 1994, Pet. 13a, conclusing that 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." Pet. 14a–15a. And the court analyzed that testimony in coming to its own conclusion on the merits of the 1994 prior art without considering its own hindsight bias. Pet. 15a.

For the "hypertext statement" claims, the court likewise concluded for the first time on appeal that

"Newegg presented clear and convincing evidence of obviousness" of the asserted claims. Pet. 20a. And finally, for the "session identifier" claims, the Federal Circuit "discerned no distinction" from the prior art. Pet. 25a. It made this finding in the face of Soverain's expert testimony that one of the references relied upon was not analogous, i.e., "pre-dated the World Wide Web." Pet. 24a.

D. By Usurping The Role Of Fact-Finder, The Federal Circuit Improperly Reversed Instead of Remanded

On this record, without the benefit of live witnesses, without considering whether hindsight could affect its view, and without allowing the district court to be the first arbiter of the facts, the Federal Circuit improperly decided the underlying factual issues of obviousness for the first time on its own. Pet. 15a, 20a, 25a. *See also, Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 857–58 (1982) ("An appellate court, however, cannot substitute its interpretation of the evidence for that of the trial court simply because the reviewing court 'might give the facts another construction, resolve the ambiguities differently, and find a more sinister cast to actions which the District Court apparently deemed innocent.'") (citing *United States v. Real Estate Boards*, 339 U.S. 485, 495 (1950)).

While fact-finding on appeal of the issue of obviousness has become more prevalent since *KSR*,[6] the obviousness issue certainly is not the first issue to garner the factual interest of the Federal Circuit.

[6] *See, e.g.,* Pet. 16–19 (listing cases).

Rather, the reweighing of evidence on appeal has been going on for years. As early as 1986, this Court remanded to the Federal Circuit to address the issue of appellate fact-finding:

> Petitioner contends that the Federal Circuit ignored Federal Rule of Civil Procedure 52(a) in substituting its view of factual issues for that of the District Court. . . . Petitioner's claims are not insubstantial. . . . The Federal Circuit . . . did not mention Rule 52(a), did not explicitly apply the clearly-erroneous standard to any of the District Court's findings on obviousness, and did not explain why, if it was of that view, Rule 52(a) had no applicability to this issue.

Dennison Mfg. Co. v. Panduit Corp., 475 U.S. 809, 810–11 (1986). Fairness to the litigant weighs against reconsideration of the facts on appeal.

> Appellate fact-finding would undermine the lower tribunal's legitimacy, increase the number of appeals by encouraging litigants to retry cases at the appellate level, and needlessly reallocate judicial authority.

William C. Rooklidge & Matthew F. Weil, *Judicial Hyperactivity: The Federal Circuit's Discomfort with Its Appellate Role*, 15 Berkeley Tech. L.J. 725, 739 (2000).

> Chastened by this public rebuke [in *Dennison*], the Federal Circuit studiously avoided at least overt fact-finding for years. It would appear, however, that

> the court might now be backsliding, most often by reaching out to make factual findings as an alternative to remanding a case to be considered anew in the district court.

Id. at 739–40.

Over the past twenty years, the Federal Circuit has acted as a fact-finder in at least two ways: (1) by finding facts instead of remanding after reversing a district court's judgment; and (2) after reversing a grant of summary judgment in favor of one party, by granting summary judgment in favor of the other party, even in the absence of a cross-motion for summary judgment.[7] *See, e.g.,* Ted L. Field, "*Judicial Hyperactivity" In the Federal Circuit: An Empirical Study*, 46 U.S.F. L. Rev. 721 (2012); Rooklidge & Weil, at 740, 743; *SmithKline Diagnostics, Inc. v. Helena Lab. Corp.*, 859 F.2d 878, 886 n.4 (Fed Cir. 1988) (stating that the Federal Circuit feels free to decide the case when "the court could only make one finding of fact or decide the fact in only one way."); *Pall Corp. v. Hemasure, Inc.*, 181 F.3d 1305 (Fed. Cir. 1999) (reversing the district court's grant of summary judgment of literal infringement and entering judgment of noninfringement even though the district court had not reached that issue); *Baginsky v. United States*, 697 F.2d 1070, 1074 (Fed. Cir. 1983), cert. denied, 464 U.S. 981 (1983) (avoiding remand because "the record is relatively short and

[7] In *Soverain*, the court reversed the district court's determination on JMOL that there was not enough evidence to send the issue of obviousness to the jury and found on appeal that the patent claims were obvious. Pet. 15a, 20a, 29a.

the legal and factual issues are uncomplicated and not difficult to resolve."); *Chiuminatta Concrete Concepts, Inc. v. Cardinal Indus., Inc.*, 145 F.3d 1303, 1310–11 (Fed. Cir. 1998) (reversing the district court's summary judgment of literal infringement and directing the district court to enter summary judgment of noninfringement).

Yet, even when the facts seem easy to resolve, such appellate fact-finding is inappropriate because a fact-finder could nonetheless decide such facts in more than one way. Rooklidge & Weil, at 742. *See also* § 2577 *Requirement of Findings-Enforcement by Appellate Court*, 9C Fed. Prac. & Proc. Civ. § 2577 (3d ed.) The developed record here, including the contrary decisions by other tribunals on the same patents, make this case a good vehicle to review the Federal Circuit's increasing use of *KSR* to determine factual issues on appeal and thereby remove the underlying factual component of obviousness from the jury. Also, because of the importance of innovation to our economy and the damage that appellate fact-finding does to the risk/reward balance, *Soverain* provides a good vehicle to bring back the traditional notions review of factual and legal issues.

CONCLUSION

For the foregoing reasons, i4i Limited Partnership respectfully requests the Court preserve the necessary level of predictability in patent law and the level of risk in innovation by reaffirming the doctrines of *Graham* and *KSR* that the underlying obviousness considerations are factual issues to be decided on the first instance by the fact-finder.

Respectfully submitted.

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