

No. 13-477

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IN THE  
**Supreme Court of the United States**

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SOVERAIN SOFTWARE LLC,  
*Petitioner,*

*v.*

NEWEGG INC.,  
*Respondent.*

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

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**REPLY BRIEF FOR PETITIONER**

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INTRODUCTION

The asserted claims of Soverain’s pioneering patents have been consistently found non-obvious—twice by the Patent and Trademark Office on reexamination, by a federal jury in another case, and by the district court here. Yet the Federal Circuit reviewed the record *de novo*, decided disputed issues of material fact, and invalidated the asserted claims on appeal, despite Newegg’s request only for a new trial. Only by effectively redefining obviousness as a pure question of law, in contravention of this Court’s precedent, was the Federal Circuit able to find the asserted claims obvious in the first instance.

Newegg’s principal response, remarkably, is that the type of fact-finding the Federal Circuit engaged in is perfectly acceptable. Newegg describes (at 11) the Federal Circuit’s opinion as “an unexceptional application” of *KSR International Co. v. Teleflex Inc.*, 550 U.S. 398 (2007)—a decision that, Newegg says (at 23), “encourages obviousness determinations by the court.” Newegg’s argument reflects the same misunderstanding of *KSR* that caused the Federal Circuit to overstep its appellate role in this case and others. Nothing in Newegg’s opposition casts any doubt on the fact that the Federal Circuit here treated *KSR* as a license to resolve genuine issues of fact under the guise of deciding the ultimate legal question.

Attempting to divert attention from the Federal Circuit’s significant overreach, Newegg disparages Soverain’s patented technology. Opp. 3-4, 5, 12. But Newegg’s argument from the perspective of 2013 relies on the same hindsight bias that infected the Federal Circuit’s decision. Soverain’s patents are revolutionary—the original applications were filed in 1994 and 1995, at the dawn of the Internet. Pet. 5-6.<sup>1</sup> That the patents disclosed now-familiar functionality for e-commerce websites is but a testament to their inventiveness and commercial success. Indeed, the technology was incorporated into Open Market’s “Transact” software product, which was quickly embraced by ma-

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<sup>1</sup> Gene Quinn, *Soverain v. Newegg: Not an Ordinary Obviousness Dispute*, IPWatchdog (Dec. 12, 2013), <http://www.ipwatchdog.com/2013/12/12/soverainv-newegg-not-an-ordinary-obviousness-dispute/id=46692/> (“[T]he technology involved in this case is *THE* original shopping cart technology. ... This is an example of a pioneering invention that came about at the dawn of Internet as we know it today.”).

jor companies, and, by the late 1990s, commanded about 30% of the market for such software. Pet. 6.

This Court’s review of the Federal Circuit’s decision is badly needed to reset the proper fact-law balance in obviousness jurisprudence and to rein in that court’s unpredictable approach, which has serious negative repercussions for patent law.

## ARGUMENT

### THE FEDERAL CIRCUIT HAS CONTRAVENED THIS COURT’S PRECEDENT AND EFFECTIVELY REDEFINED OBVIOUSNESS AS A PURE QUESTION OF LAW

Newegg rests heavily on the fact that the Federal Circuit cited *KSR International Co. v. Teleflex Inc.*, 550 U.S. 398 (2007), and *Graham v. John Deere Co. of Kansas City*, 383 U.S. 1 (1966), and stated that “[o]bviousness is a question of law based on underlying facts.” Opp. 14. But merely reciting a legal standard at the outset of an opinion does not give a court leave to eviscerate that very standard—precisely what happened here. Newegg cannot escape the genuine factual disputes squarely presented by the record, disputes that it previously relied upon in seeking a remand for a new trial. As Newegg urged below, all of its arguments “go to the weight, not the legal adequacy, of ... obviousness.” Newegg Reply Br. 1 (Apr. 14, 2011).

Indeed, this case is but the most extreme example of what Judge Mayer recently described as the Federal Circuit’s “appellate overreach[]” through its “increasing infatuation with de novo review of factual determinations.” *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, 687 F.3d 1300, 1320 (Fed. Cir. 2012) (Mayer, J., dissenting in part), *cert. granted*, No. 12-1163 (U.S. Oct. 1, 2013). Here, there were no factual findings on



obviousness to review, but the Federal Circuit nonetheless decided facts in the first instance on appeal. No recitation of a legal standard can excuse that court from such an egregious and unconstitutional “overreach[],” which, if left undisturbed, will cause serious disruption to the patent system. *See* i4i Ltd. P’ship Amicus Br. 12-16; MDB Capital Group Amicus Br. 3-4, 8-9; *see also* Law Professors Amicus Br. 11-12.

#### **A. The Federal Circuit Resolved Genuinely Disputed Factual Issues**

In its effort to defend the Federal Circuit’s decision, Newegg walks back its concession below that there were factual disputes and now asserts (despite the record) that it requested a judgment of obviousness as a matter of law on appeal. Newegg also insists (again, despite the record) that the court did not resolve factual disputes, broadly invoking “common sense” to avoid any meaningful analysis of the evidence on obviousness. Newegg’s arguments fail at every turn.

1. Newegg conceded that there was “conflicting evidence” on obviousness “of exactly the kind that the jury should consider.” Oral Arg. Recording 2:9-12 (Aug. 4, 2011). Thus, as the Federal Circuit recognized (Pet. App. 5a), Newegg requested only “a new trial on obviousness” (Newegg Br. 43 (Dec. 7, 2010)). Newegg’s attempt (at 12-13) to recast its requested relief is both surprising and meritless.

Newegg’s vague “at a *minimum*” language, and its boilerplate prayer for miscellaneous relief (at 12)—one that is “highly disfavored” by courts, *WildEarth Guardians v. Public Serv. Co. of Colo.*, 690 F.3d 1174, 1191 (10th Cir. 2012)—cannot change the fact that

Newegg requested only “a new trial on obviousness” (Newegg Br. 43). The sole question Newegg presented on appeal regarding obviousness was whether “the district court err[ed] in refusing to allow the jury to decide whether the asserted patent claims were obvious.” *Id.* 2.

When asked directly at oral argument whether Newegg was “arguing [1] that as a matter of law this Court should review the JMOL that was ... decided by the district court, or [2] that the court simply made a mistake in relying on the absence of an expert conclusion—[that] you can’t give it to the jury,” Newegg’s counsel responded: “I think the latter[.] ... *[T]he jury should actually—a jury—should actually be able to consider obviousness.* I mean there’s a remand already on one of the patents ..., so it’s going back down anyway.” Oral Arg. Recording 5:6-56 (emphasis added). Newegg took that position because a jury verdict finding obviousness was only possible, not necessary. Newegg Br. 43 (“reasonable minds ... *could* readily accept [Newegg’s] evidence as *sufficient* to show obviousness” (emphases added)). As Newegg conceded, the record contains “conflicting evidence” on obviousness “of exactly the kind that the jury should consider.” Oral Arg. Recording 2:9-12.

2. Regardless, Newegg’s argument is irrelevant because its concession and request for a new trial merely underscore what is plain: The Federal Circuit resolved genuinely disputed issues of material fact and, in the process, changed the legal framework for reviewing obviousness. Despite Newegg’s claims to the contrary, this case involves technical and complicated issues of material fact, none of which this Court need decide and none of which the Federal Circuit should have decided. These are issues for a jury, not an appellate court.

*Shopping cart claims.* A key factual question was whether a closed pre-Internet system called CompuServe Mall satisfied two limitations of the “shopping cart” claims in the ’314 and the ’492 patents. In finding those claims obvious, the Federal Circuit discounted extensive evidence in the record distinguishing the CompuServe Mall. CompuServe’s own former Chief Technology Officer testified that it “did not contain an identification of the product” (A2192)—*i.e.*, a “product identifier,” one of the claimed limitations. Soverain’s expert, Dr. Michael Shamos, corroborated that testimony and explained that CompuServe Mall did not include a “product identifier” because it was unnecessary—and, in fact, incompatible with—CompuServe’s closed system. A2545-2548, A2551-2552.

Dr. Shamos further testified about the many flaws in Newegg’s obviousness evidence on the “shopping cart” claims, presented primarily through its expert, Edward Tittel. *See infra* pp. 8-9 (discussing Tittel). Among other things, Tittel failed to identify the “product identifier” in the prior art (A2547), and, at best, merely inferred the existence of another limitation, the “shopping cart database” (*see* A2557-2560).<sup>2</sup> Soverain further established that Newegg, primarily through

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<sup>2</sup> Newegg’s discussion (at 16) of the Federal Circuit’s construction of “product identifier” misses the mark. The Federal Circuit compounded its impermissible fact-finding by incorrectly construing the term “product identifier” favorably to Newegg, mistakenly assuming that this term “was not given a special meaning ... through claim construction.” Pet. App. 11a. But the parties had stipulated to a specific construction of the term “identifier.” Dkt. 191-3, at 7 (May 23, 2009); *see* Dkt. 191, at 1-2 (May 23, 2009). Correctly construed in accordance with that stipulation, the claimed “product identifier” is distinguishable from the prior art, as Soverain’s evidence established.

Tittel, impermissibly used hindsight to pick and choose elements from three separate CompuServe references directed to different systems in operation at different times—in 1989, 1993, and 1994. *See* A2309-2311, A2548-2549.

Newegg appears to concede (at 16) that the Federal Circuit resolved “divergent views” on the “shopping cart” claims, but says that is permitted by *KSR*. Not so. A “conclusory affidavit” addressing a *Graham* factor does not preclude summary judgment. *KSR*, 550 U.S. at 426 (emphasis added). Resolving genuinely disputed testimony is an entirely different matter that is barred by this Court’s precedent and the Seventh Amendment. Pet. 14-16.

*Hypertext statement claims.* Newegg now dismisses (at 18-19) the hypertext claims of the ’492 patent as obvious based on “common sense” and brushes aside Dr. Shamos’s extensive testimony distinguishing the claims from the prior art. First, “the mere recitation of the words “common sense” without any support adds nothing to the obviousness equation.” *Plantronics, Inc. v. Aliph, Inc.*, 724 F.3d 1343, 1354 (Fed. Cir. 2013).

Second, Dr. Shamos explained that the functionality of the prior art CompuServe Mall was “not close” to that of the “hypertext statement” claims, which disclose a completely automated system for providing customers with (1) information about past purchases and (2) hyperlinks to detailed information about specific transactions. A2562-2565. As he testified, CompuServe did not provide online access to customer information, nor did it suggest automatically linking statement documents to transaction records or making those links available to customers. A2565, A2567-2568.

“Common sense” cannot turn a dispute about what the prior art disclosed into a finding of invalidity.

*Session identifier claims.* Newegg acknowledges (at 19) that Dr. Shamos testified that the prior art did not disclose the ’639 patent’s 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). But Newegg contends (at 19) that this expert testimony “carries no probative value.” Even if that were true, it is a jury’s decision to make—not Newegg’s, nor the Federal Circuit’s.<sup>3</sup> Newegg also has no explanation for the Federal Circuit’s reliance on testimony from Newegg’s expert that was excluded at trial (*see* Pet. 20), and it, like the Federal Circuit, only briefly addresses Soverain’s substantial evidence of secondary indicia of non-obviousness, including commercial success and accolades (*see id.* n.9).

*Expert witness credibility.* Perhaps most telling is the Federal Circuit’s treatment of the parties’ experts. Newegg’s expert, Tittel, was critical to Newegg’s obviousness defense. Pet. 21-23. The Federal Circuit repeatedly credited Tittel over other testimony, including that of Dr. Shamos. *E.g.*, Pet. App. 14a, 20a, 24a. But the court ignored that Tittel was thoroughly discredited on cross-examination, and that a jury could have dis-

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<sup>3</sup> Newegg does not dispute (at 19) that the Federal Circuit “overlook[ed]” this testimony, but blames Soverain for failing to cite it “during the original appellate proceedings.” Had Newegg requested a judgment of obviousness in the “original appellate proceedings”—and not simply a remand for a jury trial—Soverain, of course, would have briefed and argued the issue differently. Pet. 18 n.8. Moreover, this testimony was included in the joint appendix, and Soverain cited it as soon as the court decided, *sua sponte*, to invalidate the asserted claims on appeal. *See* Soverain Combined Pet. for Reh’g & Reh’g En Banc 10 (Mar. 1, 2013).

regarded his testimony entirely, even if it had not already been rebutted. Pet. 22-23.

Newegg says nothing in response. It avoids *any* specific reference to Tittel by name, instead referring only to an undifferentiated “Newegg witness[]” who offered allegedly “unrefuted testimony” that “the Federal Circuit recited.” Opp. 20-21 (citing Pet. App. 13a). This circumvention of the jury’s role in determining credibility through reliance on disputed expert testimony exemplifies Newegg’s and the Federal Circuit’s disregard for the Seventh Amendment and effective transformation of obviousness from a question based on underlying facts into a question decided *de novo* on appeal based on a court’s own impressions of the record.

**B. Newegg Does Not Meaningfully Dispute That The Federal Circuit’s Decision Will Have Serious Negative Repercussions For Patent Law**

With little analysis, Newegg responds only briefly (at 23-24) to the serious negative consequences that the Federal Circuit’s decision will have for the patent system.

1. “[T]he Federal Circuit has taken it upon itself to decide many questions of fact *de novo*.” Rai, *Specialized Trial Courts: Concentrating Expertise on Fact*, 17 Berkeley Tech. L.J. 877, 879 (2002). “In some cases,” that court “has done so directly, by declaring that there can be no dispute as to a particular factual question. In other cases, it has done so indirectly, by denominating questions that have factual foundations ... as pure questions of law.” *Id.* (footnote omitted); see Rooklidge & Weil, *Judicial Hyperactivity: The Federal Circuit’s Discomfort with Its Appellate Role*, 15 Berkeley Tech. L.J. 725, 739-748 (2000). The Federal Circuit is well known for “shap[ing] patent law’s standards of appel-

late review to give itself plenary power to resolve many important substantive issues” by “cast[ing]” those “issues as questions of law, rather than questions of fact.” Gugliuzza, *The Federal Circuit as a Federal Court*, 54 Wm. & Mary L. Rev. 1791, 1831 (2013).

The Federal Circuit has no “license to invade the ... province” of the fact-finder. *Highmark*, 687 F.3d at 1320 (Mayer, J., dissenting in part). Yet this case reveals that the Federal Circuit’s “increasing infatuation with de novo review of factual determinations,” *id.*, has infected yet another area of patent law. At trial, 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. As a result, the jury did not decide any of the predicate factual questions relating to obviousness. The Federal Circuit therefore did not even “review” any “factual determinations” (*id.*); instead, it weighed competing evidence and made credibility determinations in the first instance.

That is not the proper role of an appellate court, which is ill-equipped to weigh testimony and find facts on cold records. *See, e.g., Anderson v. City of Bessemer City*, 470 U.S. 564, 575 (1985). Appellate fact-finding is “particularly dangerous” where, as here, “the court relies on its own findings of fact to avoid remand.” Rooklidge & Weil 740. And such fact-finding is all the more troubling in the context of obviousness because it undermines the role that the jury and procedural safeguards play in ensuring that hindsight bias does not skew the analysis of obviousness, which is exactly what occurred here.

The Federal Circuit viewed the asserted claims from a 2013 perspective—not a 1994 and 1995 perspec-

tive—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* Pet. App. 12a, 20a. Newegg attempts (at 3) to defend that approach by disparaging Soverain’s patents and claiming, falsely, that the patents merely apply “shopping conventions to the internet.” This hindsight-based argument is meritless.

Soverain’s pioneering patents were revolutionary when the original applications were filed at the dawn of the Internet. *See* Pet. 5-6. Claims cannot be invalidated simply because they involve inventive features that *later* become commonplace. That would distort the obviousness analysis through hindsight in exactly the way this Court cautioned against in *Graham* and *KSR*. *See Graham*, 383 U.S. at 36; *KSR*, 550 U.S. at 421; *accord In re Kotzab*, 217 F.3d 1365, 1369 (Fed. Cir. 2000) (noting “insidious effect of a hindsight syndrome wherein that which only the invention taught is used against its teacher”).

2. Newegg argues (at 23) that any increased “judicial involvement in the obviousness area” is no ground for concern because “[t]here is no reason to believe” that judges “will somehow be less predictable” than juries. This argument misses the point.

With its tendency toward “appellate overreaching,” the Federal Circuit has created a patent framework in which “litigation before the district court has become a mere dress rehearsal for the command performance [on appeal].” *Highmark*, 687 F.3d at 1320 (Mayer, J., dissenting in part). “Encouraging relitigation of factual disputes on appeal is an enormous waste of the litigants’ resources and vitiates the critically important



fact-finding role of the district courts,” *id.*, and juries. It also leads to the “widely shared perception,” if not reality, “that Federal Circuit appeals are abnormally unpredictable.” Gugliuzza 1834.

The Federal Circuit’s decision increases unpredictability by making it significantly more likely that patent claims will be invalidated on a *de novo* appeal based on an incomplete review and subjective interpretation of the record—even claims like Soverain’s that have received intense scrutiny from another federal jury and the PTO and consistently been upheld as non-obvious. The decision also erodes the clear and convincing evidence burden recently reaffirmed in *Microsoft Corp. v. i4i Ltd. Partnership*, 131 S. Ct. 2238 (2011), by downplaying the factual component of obviousness. See *i4i Ltd. P’ship* Amicus Br. 4-5, 17-19; *MDB Capital Group* Amicus Br. 3-4. In sum, the Federal Circuit’s decision increases uncertainty, circumvents procedural protections, and significantly expands the window during which a patent may be invalidated as a matter of law—presenting a broad threat to all who rely on the stability and predictability of the patent system.

## CONCLUSION

The petition for a writ of certiorari should be granted. This case should be set for plenary review, or, in the alternative, the Federal Circuit’s decision should be summarily reversed.

Respectfully submitted.

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