

MERCEXCHANGE, L.L.C.,  
Plaintiff,  
v.  
eBAY INC. AND HALF.COM, INC.,  
Defendants.

**DEFENDANTS' MEMORANDUM IN SUPPORT OF THEIR MOTION TO STAY  
FURTHER PROCEEDINGS IN VIEW OF ONGOING  
PATENT OFFICE REEXAMINATION PROCEEDINGS**

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Defendants eBay Inc. and Half.com, Inc. (collectively “eBay”) respectfully submit this memorandum in support of their motion to stay further proceedings pending a final decision on the reexaminations of U.S. Patent Nos. 6,202,051 (“the ‘051 patent”) and 5,845,265 (“the ‘265 patent”), which are currently pending before the U.S. Patent and Trademark Office.

## I. INTRODUCTION.

Since trial and while the parties’ respective appeals were pending, the Patent Office has rejected every claim of the ‘265 and ‘051 patents as invalid over the prior art and denied MercExchange’s repeated petitions to halt their reexamination, finding that the none of the patent claims before this Court ever should have issued. Absent a complete reversal of position by the Patent Office, the entire basis for this action—including the jury’s verdict and any damages or injunction awarded thereon—will be voided *ab initio*. See *Standard Havens Prods., Inc. v. Gencor Indus., Inc.*, 27 U.S.P.Q.2d 1959 (Fed. Cir. 1993) (“*Standard Havens III*”) (attached as Exh. 1 to Declaration of Robert W. McFarland (“McFarland Decl.”)).<sup>1</sup> When faced with nearly identical circumstances in *Standard Havens III*, the Federal Circuit ordered all remand proceedings stayed. The same should happen here. This Court should follow the established policy favoring the liberal grant of stays, which is necessary to protect the interests of fundamental fairness and judicial economy to the benefit of the parties, the Court, and the public.

To the extent this Court must conduct further proceedings, they should be based on the Patent Office’s final decisions after reexamination. Neither justice nor judicial economy would be served by further litigation based on patent claims that stand rejected by the Patent Office or on speculation that the Patent Office or courts might reverse the repeated rejections. A stay is thus warranted for at least the following reasons:

- Unless the Patent Office withdraws or reverses its repeated rejections of all the ‘265 and ‘051 claims, both patents will be voided *ab initio*, precluding any damages award and rendering any potential injunction inoperative. Indeed, as the United States acknowledged before the Supreme Court in this case, “[t]here is no question that, if the

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<sup>1</sup> As discussed further *infra*, a number of district courts have relied upon *Standard Havens III* as highly persuasive authority despite the fact that it is unreported.

PTO reexamination proceedings culminate in a final order of invalidity, MercExchange would have no right to any remedy for infringement because there would be no valid patent to be infringed, and any injunction previously granted would be subject to vacatur.”<sup>2</sup> Thus, proceeding with this action—and potentially subjecting eBay to remedies for alleged infringement of patent rights that never should have existed—would result in a manifest injustice that only a stay can prevent.

- A stay is necessary to serve judicial economy, as proceeding with the action despite the Patent Office rejections would create a substantial risk that the Court’s and parties’ time, energy and resources would be wasted. Significant issues remain to be litigated if this case were allowed to proceed. For the ‘051 patent, expert discovery, summary judgment proceedings and the potential trial of all claims and defenses remain outstanding. For the ‘265 patent, the Court indicated that MercExchange’s requested accounting alone “has the potential to create a litigation onto itself.” The Court must also reconsider MercExchange’s request for a permanent injunction in view of the Supreme Court’s ruling, and if such an injunction is not again denied, contentious litigation is likely concerning its scope and enforcement. However, any such proceedings and the effort and expense they require of the Court and parties will be an *unnecessary and academic exercise* unless the Patent Office reverses its current position in the reexaminations.
- There is simply *no reason to rush* into further district court proceedings, as reexamination proceedings should conclude promptly despite MercExchange’s attempts to prolong them. The Patent Office handles all reexaminations with special dispatch, and the ‘265 and ‘051 patents receive heightened priority because they are in litigation. Nonetheless, *MercExchange has consistently and unilaterally slowed the reexamination process* by filing frivolous petitions and taking repeated extensions of time to respond to the Patent Office’s rejections, hoping to stall the reexaminations and recover a damages award *before* the Patent Office has concluded the reexaminations. Notwithstanding these tactics, the reexaminations should be completed promptly, and the Patent Office has indicated that its next action in each reexamination is *intended to be final*. The Federal Circuit has also established that stays pending reexamination *per se* are not sufficiently protracted to rise to the level of an appealable order. A stay is entirely appropriate at this point in the case—the Federal Circuit and other courts have ordered post-remand stays under strikingly similar circumstances.
- *Regardless of the duration of the stay, it will not harm MercExchange.* For the ‘265 patent, the Court held that interest will continue to compound on prior damages should the Patent Office reverse course and uphold any of the ‘265 claims. Because MercExchange admittedly does not practice the ‘265 patent’s claims and has never sought lost profits, a stay would not risk any intervening harm to MercExchange. For the ‘051 patent, MercExchange—like eBay and the Court—is far more likely to suffer harm by investing time and resources litigating claims that ultimately will, in all likelihood, be invalidated in their present form.

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<sup>2</sup> See McFarland Decl. Exh. 2 at 27 n. 27 (United States expressly noting the district court’s “discretion . . . to stay or condition the remedy pending the outcome of the reexamination”).



In sum, it would be imprudent—both in terms of fundamental fairness and judicial economy—to proceed with this action before the Patent Office’s reexamination proceedings have run their full course. A stay is, therefore, warranted and appropriate.

## II. FACTUAL BACKGROUND.

### A. The Original Proceedings.

In September 2001, MercExchange filed this action against eBay and Half.com, asserting infringement of the ‘051, ‘265, and ‘176 patents. Consistent with this district’s accelerated docket, trial was set for July 2002, with opening expert reports due in April and discovery closing in June. The Court later changed the July trial to a *Markman* hearing and rescheduled trial for April 2003.

In October 2002, eBay obtained two significant rulings in its favor. On October 18, 2002, the Court issued its *Markman* Order, construing the ‘265 claims to require, *inter alia*, that the patented system be a “trusted network” and concluding that “the patent teaches away from person-to-person auctions.” See Dkt. No. 207 (“*Markman* Order”) at 45-46, 12. eBay asserted that the *Markman* Order precluded a finding of infringement of the ‘265 patent because, for example, eBay’s systems are person-to-person systems and do not include a trusted network as defined by the *Markman* Order. See Dkt. No. 221 at 1. That same month, the Court also granted eBay’s motion for summary judgment that the ‘051 patent was invalid for lack of an adequate written description. *MercExchange, L.L.C. v. eBay, Inc.*, 271 F. Supp. 2d 789, 794 (E.D. Va. 2002). In light of its ruling, the Court declined to address any other issues concerning the ‘051 patent, including eBay’s pending motion for summary judgment of noninfringement and inequitable conduct. See Dkt No. 349 at 1 n.1.

In November 2002 and February 2003, eBay moved for summary judgment of noninfringement of the ‘265 and ‘176 patents based on rulings in the *Markman* Order. Dkt Nos. 221, 279. Finding disputed issues of fact, the Court denied the motions in February and March 2003—both within weeks of trial. Dkt. Nos. 274, 332. In view of the denial of these motions, the case proceeded to trial on the ‘265 and ‘176 patents in April 2003. After a five-week trial,

the jury returned a verdict finding that eBay infringed the '265 patent, but not the '176 patent, and that Half.com infringed the '265 and '176 patents. Thereafter, the Court reduced the jury's damages award, denied MercExchange's motion for a permanent injunction and deferred ruling on MercExchange's motion for post-verdict and post-judgment accounting pending any appeal. *See MercExchange, L.L.C. v. eBay, Inc.*, 275 F. Supp. 2d 695, 722 (E.D. Va. 2003).

In August 2003, eBay appealed to the Federal Circuit. MercExchange cross-appealed and argument was heard on October 5, 2004. On March 16, 2005, the panel issued its decision. Among other rulings, the panel found every claim of the '176 patent invalid as anticipated as a matter of law, reversed the denial of a permanent injunction and vacated summary judgment on the '051 patent, remanding the case for further proceedings. *See MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1326-27 (Fed. Cir. 2005).

In July 2005, eBay petitioned for *certiorari*, which the Supreme Court granted on November 28, 2005. On March 29, 2006, the Supreme Court heard oral argument, at which several justices remarked upon the apparent simplicity and obviousness of MercExchange's purported invention.<sup>3</sup> On May 15, 2006, the Supreme Court issued its decision. In its decision, the Supreme Court held that the Federal Circuit erred in reversing this Court's denial of a permanent injunction on the '265 patent and remanded the issue for further proceedings consistent with its opinion. *See eBay, Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006).

This Court resumed its jurisdiction over the case after a certified copy of the Supreme Court's judgment was sent to the Federal Circuit on June 16, 2005, and the Federal Circuit issued its mandate on July 27, 2006.

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<sup>3</sup> *See* McFarland Decl., Exh 3 at 42:5-9 (Justice Breyer commenting that "if this [the MercExchange patent] could be patented, maybe A&P could patent their process for a supermarket."); *id.* at 47:18-22 (Chief Justice Roberts: "it's not like . . . [Woolston] invented the . . . internal combustion engine or anything"); *id.* at 48:23 - 49:2 (Chief Justice Roberts: "I may not be a software developer, but as I read the invention, it's displaying pictures of your wares on a computer network and, you know, picking which ones you want and buying them. I - I might have been able to do that.")

**B. The Patent Office's reexamination and rejection of the '265 and '051 Patents.**

After trial in March 2004, eBay requested that the Patent Office reexamine the '265, '176, and '051 patents. *See* McFarland Decl. Exhs. 4, 5 and 6. In April 2004, the Patent Office granted eBay's request as to the '051 patent, finding "[a] substantial new question of patentability" as to all the '051 claims. McFarland Decl. Exh. 7 at 2. In June 2004, the Patent Office made the same finding with respect to all claims of the '265 and '176 patents and granted eBay's requests as to those patents. McFarland Decl. Exhs. 8 and 9.

Having denied no fewer than *four* petitions by MercExchange to halt the reexaminations, McFarland Decl. Exhs. 10-13, the Patent Office issued official actions rejecting every claim of the '051 and '265 patents as invalid on January 31, 2005 ('051) and March 24, 2005 ('265). McFarland Decl. Exhs. 14 and 15. MercExchange initially responded to the '051 rejections on March 31, 2005, and then repeatedly thereafter through a series of supplemental responses on May 6, 2005, December 22, 2005, and August 11, 2006. McFarland Decl. Exhs. 16-19. After petitioning the Patent Office for an extension of time, MercExchange responded to the '265 rejections on June 24, 2005. McFarland Decl. Exh. 20. Despite MercExchange's responses and in-person interview with the Patent Office examiner (McFarland Decl. Exh. 21), the Patent Office *again* rejected all claims of both patents on December 23, 2005 ('051) and March 24, 2006 ('265). McFarland Decl. Exhs. 22 and 23. Indeed, the Patent Office initially made the second rejection in the '051 reexamination "Final"—a determination that MercExchange overcame only through an additional, eleventh-hour response and a petition to permit the reexamination proceeding to continue. McFarland Decl. Exhs. 18 and 24. After petitioning for yet another extension of time, MercExchange responded to the March 24, 2006 rejections in the '265 reexamination on June 26, 2006. McFarland Decl. Exh. 25.

Currently, MercExchange is waiting for the Patent Office to respond to MercExchange's August 11, 2006 supplemental response in the '051 reexamination and to MercExchange's June 26, 2006 response in the '265 reexamination. Unless the Patent Office reverses its repeated rejections of MercExchange's patent claims, the next rejections likely will be final. McFarland

Decl. Exh. 23 at 2 ('265); Exh. 15 at 10 ('265); Exh. 14 at 24 ('051) (stating, for both the '265 and '051 patents, that "the next Office action ... is *intended to be ... final*") (emphasis added).

### III. LEGAL BACKGROUND

#### A. Courts Liberally Grant Stays Pending Reexamination to Avoid Unnecessary Litigation Of Claims the Patent Office May Void *Ab Initio*.

The Patent Office reexamines patents only after it objectively "finds that a substantial new question of patentability" exists. 35 U.S.C. § 304. Such a finding is significant, as only one in four patents survives reexamination unamended. McFarland Decl. Exh. 26 at 2.

Because most patents do not emerge in their original form, courts recognize a "*liberal policy in favor of granting motions to stay proceedings pending the outcome of reexamination proceedings.*" See, e.g., *ASCII Corp. v. STD Entm't USA, Inc.*, 844 F. Supp. 1378, 1381 (N.D. Cal. 1994) (emphasis added); *Werre v. Battenfeld Techs., Inc.*, No. Civ. 03-1471-AA, 2004 WL 2554568, at \*1 (D. Or. Nov. 9, 2004) (same) (attached as McFarland Decl. Exh. 27). Indeed, "the sponsors of the patent reexamination legislation *clearly favored the liberal grant of stays* by the district courts ...." *Lentek Int'l, Inc. v. Sharper Image Corp.*, 169 F. Supp. 2d 1360, 1362 (M.D. Fla. 2001) (emphasis added). Thus, "[c]ourts have *routinely* stayed infringement actions pending the outcome of reexamination proceedings." *Softview Computer Prods. Corp. v. Haworth, Inc.*, 56 U.S.P.Q.2d 1633, 1635 (S.D.N.Y. 2000). (emphasis added, citing cases) (attached as McFarland Decl. Exh. 28).

Other courts have recognized three general considerations in assessing stays: whether a stay will simplify or eliminate issues in the litigation; whether a stay would unduly prejudice the non-moving party; and the stage of the litigation. See *Middleton, Inc. v. 3M Co.*, 4:03-CV-40493, 2004 WL 1968669, at\*3 (S.D. Iowa Aug. 24, 2004) (attached as McFarland Decl. Exh. 29). While these factors are relevant, "*the ultimate determination is within the Court's discretion based on a weighing of the benefits of issuing a stay versus any added expenses ....*" *Id.* at \*5 (emphasis added); *Ethicon, Inc. v. Quigg*, 849 F.2d 1422, 1426-27 (Fed. Cir. 1988). This balance heavily favors staying the proceedings here.

- B. In *Standard Havens*, the Federal Circuit reversed the district court and ordered entry of a stay pending final resolution of a reexamination under nearly identical circumstances.

Under remarkably similar facts, the Federal Circuit ordered remand proceedings stayed in *Standard Havens III*. Although the *Standard Havens III* decision is unreported, other courts have expressly found it “relevant ... to demonstrate the final result of issues similar to those in the present case.” See *Middleton*, 2004 WL 1968669, at\*5 (attached as McFarland Decl. Exh. 29).<sup>4</sup> eBay submits that, as in *Middleton*, the Federal Circuit’s resolution of nearly identical issues provides compelling guidance here.

1. The Federal Circuit found that a non-final reexamination rejection required a stay of post-trial injunction and damages proceedings notwithstanding that the jury’s infringement verdict had been affirmed on appeal.

Given the extraordinary identity between the issues in *Standard Havens III* and those before the Court, the relevance of its outcome is undeniable. In both *Standard Havens* and the present case:

- The “trial was completed and a verdict rendered prior to commencement of the reexamination proceeding” (see *Standard Havens Prods., Inc. v. Gencor Indus., Inc.*, 810 F. Supp. 1072, 1074 (W.D. Mo. 1993) (“*Standard Havens II*”));<sup>5</sup>
- The Patent Office rejected every asserted claim while the defendant’s appeal was pending (see *id.* at 1073 (“while this matter was on appeal, the [Patent Office] ... issued a reexamination decision determining that certain claims of the patent-in-suit ... are unpatentable.”));

<sup>4</sup> Federal Circuit Rule 47.6(b) provides that an unreported decision “is one determined by the panel issuing it as not adding significantly to the body of law.” Thus, the *Standard Havens III* panel determined its holdings did not significantly depart from the body of controlling law.

<sup>5</sup> Although the reexamination in *Standard Havens* was ostensibly requested by the Patent Office, the trial court noted: “counsel for defendant did have some contact with the PTO at or around the time the issue of reexamination was taken up. ... [A]t a minimum, Gencor’s contact with the PTO increased its interest in conducting the reexamination.” *Standard Havens II*, 810 F. Supp. at 1074 n.2. In any event, the distinction is academic at best, as both third-party and Office requested reexaminations are conducted under the same procedures once initiated.

- *The claim rejections were non-final when the Federal Circuit affirmed the jury's infringement verdict and remanded the case* (see *Standard Havens Prods., Inc. v. Gencor Indus., Inc.*, 953 F.2d 1360, 1366 n.2 (Fed. Cir. 1991) ("*Standard Havens I*") (the "reexamination decision ... is not a final adjudication of the matter"); *Standard Havens II*, 810 F. Supp. at 1074 ("the Court of Appeals was fully cognizant of the pendency of the reexamination proceedings")); and
- *The Federal Circuit affirmed the jury's infringement verdict and remanded for the limited purposes of computing final damages and consideration of a permanent injunction—the very proceedings that remain for the '265 patent* (see *Standard Havens II*, 810 F. Supp. at 1073 ("remanded ... for recalculation of the damages ... [and] to consider whether ... continuation of the injunction was appropriate")).

Thus, the issues facing the district court in *Standard Havens II* were nearly identical to those remaining for the '265 patent.<sup>6</sup> Moreover, the Federal Circuit's decision specifically rejected many arguments MercExchange has made to the patent office and press—and likely will here.

**2. The Federal Circuit's decision in *Standard Havens III* rejected many arguments MercExchange has advanced against a stay pending reexamination.**

In denying a stay in *Standard Havens II*, the district court, like MercExchange, initially refused to accept that if the reexamination "finally determined ... that the patent in question is invalid, the patent would be void *ab initio*, thereby effectively voiding this Court's earlier judgment." *Standard Havens II*, 810 F. Supp. at 1074 n.3. Thus, the district court urged that "[i]f that is the law or the intended result of the Reexamination Statute, this Court would encourage the appellate court to squarely address the issue and say so." *Id.* at 1076.

The Federal Circuit did just that, holding that, in reexamination, "a final decision of unpatentability means the patent was void *ab initio* ...." *Standard Havens III*, 27 U.S.P.Q.2d at 1960 (attached as McFarland Decl. Exh. 1). Thus, the Federal Circuit reversed the denial of a stay "as based on legal error" because, "contrary to the assumption of the trial court, the reexamination proceeding 'would control' the infringement suit." *Id.* The Federal Circuit further rejected the notion that because the verdict was "affirmed by ... the Federal Circuit ...

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<sup>6</sup> A stay is further warranted here by the significant proceedings left for the '051 patent.

plaintiff ... possesses the equivalent of a final judgment ... and is entitled to have defendant enjoined” and was unmoved by the district court’s fear that a post-appeal stay “squarely confronts the traditional concepts of *res judicata*, collateral estoppel, law of the case and finality ....” *Standard Havens II*, 810 F. Supp. at 1074, 1075. As the Federal Circuit explained:

[T]he injunction should have been stayed. ... To preserve the status quo pending finality of the [reexamination appeal], the damages proceeding should also have been stayed. The issues of damages and enjoinability in this suit still being unresolved, despite trial and proper appeal, we do not regard the issues of patent validity and infringement as having been incorporated into a final judgment ....

*Standard Havens III*, 27 U.S.P.Q.2d at 1960 (attached as McFarland Decl. Exh. 1). Thus, the Federal Circuit “remand[ed] with instructions to stay the imposition of the permanent injunction and to stay any further proceedings respecting damages until the reexamination decision becomes final.” *Id.*

Although *Standard Havens III* is unreported, it is difficult to imagine more analogous facts or more valuable guidance as to how the Federal Circuit would address the issues here. As in *Standard Havens*, a stay is the only reasonable result under the facts and relevant authority.<sup>7</sup>

#### **IV. THE COURT SHOULD STAY FURTHER PROCEEDINGS IN THIS CASE PENDING REEXAMINATION OF THE ‘265 AND ‘051 PATENTS.**

##### **A. Courts should not, and do not, deny stays and impose judgments against defendants while all asserted claims stand rejected by the Patent Office.**

eBay is unaware of, nor would one anticipate finding, a line of authority sanctioning the affirmative enforcement of a judgment that the court knew would likely be nullified within a matter of months. Here, all of MercExchange’s claims are predicated upon the Patent Office’s original issuance of the ‘265 and ‘051 patents. Now, that same Office has concluded it likely conferred those rights upon MercExchange in error and is pursuing with special dispatch the only process at its disposal to rescind its earlier grants. To deny a stay and proceed with an injunction and multi-million dollar award on claims the Patent Office presently intends to withdraw would

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<sup>7</sup> Indeed, this is a stronger case for a stay than *Standard Havens*, as even more significant, costly and time-consuming proceedings remain for the ‘051 patent. See Section IV.B.2, *infra*.

chart an unprecedented course and confound the principles of fairness the judiciary is empowered to protect.

Even in its Supreme Court brief supporting MercExchange's position, the United States expressly acknowledged "[t]here is no question that, if the PTO reexamination proceedings culminate in a final order of invalidity, MercExchange would have no right to any remedy for infringement because there would be no valid patent to be infringed, and any injunction previously granted would be subject to vacatur." McFarland Decl. Exh. 2 at 27 n. 27. Moreover, the United States emphasized this Court's "discretion ... to stay or condition the remedy pending the outcome of the reexamination" as a way to avoid imposing an injunction based on patents that very well may be invalidated through reexamination. *Id.* At oral argument, the Chief Justice of the Supreme Court went a step further, opining that "if [the fact that the MercExchange patent claims stand rejected in reexamination is] a basis for staying the injunction, it's a basis not to issue one in the first place." McFarland Decl. Exh. 30 at 30:3-5. Thus, the *United States' highest judicial authorities* recognize that it *makes no sense* whatsoever *to charge forward* with judicial proceedings to award and enforce infringement remedies while the underlying patent claims stand rejected in reexamination, and a stay is the most rational way to avoid that result.

Indeed, eBay has located only one case that condoned the unfair and illogical result of enforcing infringement remedies despite pending reexamination proceedings, and the court did so only after fundamentally misreading *Standard Havens III*. In *Ultrak, Inc. v. Radio Engineering Industries, Inc.*, a Texas district court refused to stay enforcement of an injunction and a \$220,000 damages award. *Ultrak, Inc. v. Radio Eng'g Indus., Inc.*, 52 U.S.P.Q.2d 1530, 1531 (N.D. Tex. 1999) (attached as McFarland Decl. Exh. 31). In doing so, the *Ultrak* court expressly based its decision on the mistaken belief that "the infringement litigation was then pending and the validity of the patents was directly in issue" in *Standard Havens III*. *Id.* However, the issues of infringement and validity in *Standard Havens* had been *finally resolved after trial and appeal*. *Standard Havens II*, 810 F. Supp. at 1075-76 ("the appellate court



affirmed this Court as to the issues of patent validity and infringement ... [t]he issues ... have been finally decided”). Given the *Ultrak* court’s confusion over the only issue before the Court in *Standard Havens III*, it is not surprising that it would also mistakenly view the holding in the concise opinion as “*dicta*.” See *Ultrak*, 52 U.S.P.Q.2d at 1531 (attached as McFarland Decl. Exh. 31).<sup>8</sup>

Two additional cases upon which MercExchange may attempt to rely—*Viskase Corp. v. American National Can Co.*, 261 F.3d 1316 (Fed. Cir. 2001), and *NTP, Inc. v. Research in Motion, Ltd.*, 397 F. Supp. 2d 785 (E.D. Va. 2005)—are similarly inapposite.

In *Viskase Corp.*, the Federal Circuit affirmed a district court’s denial of a stay pending reexamination. *Viskase Corp.*, 261 F.3d at 1328. In that case, as here, the defendant sought reexamination after trial, but that is where the similarity ends. See *id.* at 1327-28. First, while the judicial proceedings involved *four* patents in the “‘first family’” and *two* patents in the “‘second family,’” defendant ANC only sought reexamination “of *one* patent from each family.” See *id.* at 1320, 1327 (emphasis added). Thus, even if the reexaminations had resulted in rejections for invalidity, the majority of the judicial proceedings would not have been duplicative of or dependent upon the reexaminations before the Patent Office. Second, one of the reexaminations had already *confirmed* the patentability of the patent in the second family by the time the Federal Circuit affirmed the district court’s denial of a stay. *Id.* at 1328 n.2.

In affirming the district court’s denial of the stay, the Federal Circuit relied on both of those distinguishing facts. First, the Federal Circuit cited *Slip Track Systems, Inc. v. Metal Lite, Inc.*, 159 F.3d 1337, 1341 (Fed. Cir. 1998), for the proposition that “while [a] stay of patent litigation may be appropriate in certain circumstances, where the copending actions are ‘neither duplicative nor dependent on one another, there is neither any need nor any justification’ for a

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<sup>8</sup> Moreover, *Ultrak* did not involve any alleged delay by the defendant in requesting Patent Office action but utter inactivity, as the *Ultrak* defendant *never* submitted the patent for reexamination by the patent office, an unrelated party did. See *Ultrak*, 52 U.S.P.Q.2d at 1532 (“an alleged infringer cannot sit back and ... then reap the benefits of another party’s diligence”) (attached as McFarland Decl. Exh. 31).

stay.” *Id.* at 1328. Second, the Federal Circuit expressly took “judicial notice that patentability of the second family ‘784 patent has recently been confirmed.” *Id.* at 1328 n.2. Here, by contrast, any further judicial proceedings would be entirely duplicative of and dependent upon the copending reexamination proceedings. The only two patents remaining in suit—the ‘265 and ‘051 patents—are both in reexamination. In addition, unlike the *Viskase* case in which one of the reexamined patents had already been *confirmed* by the time the Federal Circuit affirmed the district court’s denial of a stay, both patents in this suit stand *rejected*. As discussed above, when faced with facts nearly identical to this case, the Federal Circuit found the district court erred in denying a stay. *See supra* section III.B.1 (discussing *Standard Havens III*).

The district court in *NTP, Inc. v. Research in Motion, Ltd.* also denied the defendant’s motion for a stay pending reexamination but again under quite different circumstances. *See NTP*, 397 F. Supp. 2d at 788-89. As an initial matter, the *NTP* court relied heavily on the *Viskase* decision (*see id.* at 787), which, as discussed above, cannot be applied to the instant case. The *NTP* decision is further distinguished by the relatively early stage of reexamination proceedings in that case. There, the Court was “not persuaded that the PTO will issue final actions ... ‘within the next few months,’ as RIM assert[ed],” because “[t]he PTO has not even finished issuing all of its first actions. Furthermore, NTP will have the opportunity ... to respond to the first actions.” *NTP*, 397 F. Supp. 2d at 787.<sup>9</sup> Here, by contrast, the PTO already has issued *multiple* rejections, and MercExchange already has had *multiple* opportunities to respond to office actions and otherwise argue its case through petitions—all to no avail. Finally, the *NTP* court based its decision in large part on a procedural history in which the defendant had sought and been denied stays on three separate occasions, including twice by the Federal Circuit. *Id.* at 788. Here, by contrast, eBay seeks a stay for the first time, based on: (1) reexaminations that have progressed well beyond those in the *NTP* case and resulted in repeated rejections of the

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<sup>9</sup> Moreover, the Court in *NTP* noted that the next office action “may or may not be ‘final.’” *NTP*, 397 F. Supp. 2d at 787-88. Here, the PTO has expressly stated that the next rejections are expected to be final in each of the MercExchange patent reexaminations.

MercExchange patent claims; and (2) judicial proceedings that, if not stayed, promise to far exceed those that remained in the *NTP* case.

Nor should this Court deny a stay based on the mere fact that MercExchange may appeal the rejections. Any additional delay resulting from MercExchange's appeals cannot justify proceeding with duplicative proceedings in this case—proceedings that would unnecessarily tax the resources of this Court and the parties and potentially subject eBay to unfair and prejudicial remedies for alleged infringement of patents the Patent Office now recognizes *never should have issued*.

**B. A stay furthers judicial economy, as the standing rejections of all '265 and '051 claims will eliminate any need for further proceedings once final.**

It cannot be questioned that judicial economy is served by a stay. The Patent Office has not only found that a "substantial question" exists as to the validity of all claims—a fact alone that generally warrants a stay—it has expressly found every claim invalid in not one, but two separate office actions for each patent. For all of MercExchange's hollow efforts to dismiss the rejections as "non-final," "standard Patent Office procedure" and to discredit the examiners and their analysis, it cannot deny the significant probability that the standing rejections of the '265 and '051 claims will persist throughout the reexamination process. Nor can MercExchange deny that the rejections, once final, would nullify the basis for the jury's verdict *ab initio* and eliminate the need for any further proceedings. See *Standard Havens III*, 27 U.S.P.Q.2d at 1960 (attached as McFarland Decl. Exh. 1).

Both Congress and the Federal Circuit have made clear that patent claims that do not survive reexamination in an "identical" form are treated as if they never existed and no person can be liable for having infringed those claims. See 35 U.S.C. § 307(b); *Kaufman Co., Inc. v. Lantech, Inc.*, 807 F.2d 970, 976 (Fed. Cir. 1986) ("the patentee has *no* rights to enforce before the date of [reexamination] because the original patent was surrendered and is dead") (emphasis in original).

As the Federal Circuit has explained:

Sections 307 and 252 [of Title 35] shield those who deem an adversely held patent to be invalid; if the patentee later cures the infirmity by reissue or reexamination, the making of substantive changes in the claims is treated as an irrebutable presumption that the original claims were materially flawed. *Thus the statute relieves those who may have infringed the original claims from liability during the period before the claims are validated.*

*Bloom Eng'g Co., Inc. v. N. American Mfg. Co., Inc.*, 129 F.3d 1247, 1249 (Fed. Cir. 1997) (emphasis added). The legislative history for section 307 is in accord: “*Thus, a person practicing a patented invention would not be considered an infringer for the period between issuance of an invalid patent and its conversion through reexamination ....*” *Fortel Corp. v. Phone-Mate, Inc.*, 825 F.2d 1577, 1579 (Fed. Cir. 1987) (emphasis in original).

In sum, in the likely event that the Patent Office rejections extinguish MercExchange's patent claims *or* simply cause MercExchange to amend them, any further judicial proceedings concerning the original, defunct patent claims will have been a pointless exercise—and potentially highly prejudicial to eBay.<sup>10</sup> A stay is the only means by which the Court and the parties may avoid engaging in significant litigation over issues that the Patent Office has indicated it will likely moot.<sup>11</sup>

<sup>10</sup> Here, all pending claims of *both* the '051 and '265 patents stand rejected in reexamination. With respect to the '051 patent, the Patent Office's repeated rejections during reexamination compelled MercExchange to amend every pending claim, relinquishing the originally-issued claims and leaving none in existence. MercExchange has, however, attempted to change its position, in an apparent attempt to defeat this motion. In fact, upon learning of eBay's desire to file this motion, MercExchange sought to re-amend the '051 claims and return them to their original form. MercExchange's about-face is untimely and improper, and it has not been accepted by the Patent Office. The original '051 claims were rejected by the Patent Office during the reexamination proceedings, and MercExchange's voluntary amendment of those claims relinquished them and they now cease to exist. Even if MercExchange's abrupt change in position were procedurally acceptable (which it is not), MercExchange's attempt to return the amended '051 claims to their original, unamended form would undoubtedly be met with the same rejections, which prompted MercExchange to amend those claims earlier in the reexamination process. MercExchange should not be permitted to benefit from such a tactic, which is nothing more than a transparent attempt to defeat this motion.

<sup>11</sup> In addition to the present action, a stay will avoid the need for a subsequent suit by eBay against MercExchange to recover damages from any remedy imposed as a result of MercExchange's reckless enforcement of claims it knew stood rejected.

**1. Judicial economy favors a stay of further proceedings on the ‘265 patent.**

With respect to the ‘265 patent, MercExchange has requested an accounting of post-verdict damages—a proceeding this Court has correctly acknowledged “has the potential to create a litigation onto itself.” Dkt. No. 598 at 36. Indeed, as the Court has indicated, the accounting alone will require: (1) the determination of an effective royalty rate from the jury’s verdict; (2) an assessment of whether eBay’s modified operations infringe the ‘265 patent; and (3) the total amount, if any, of damages to award. *Id.* at 35-36. MercExchange has promised these issues will be vigorously contested and will require a substantial investment of time and resources by the Court and the parties. Moreover, determining the propriety and scope of an injunction promises to be no less contentious, as MercExchange has proclaimed to the press that it will seek to enjoin all of eBay’s fixed-price sales, not just those found to infringe.

A stay is the only means by which the Court may avoid the significant risk that such efforts will have been unjustified. Indeed, as discussed above, the Federal Circuit found in *Standard Havens III* that the district court abused its discretion by denying a stay of nearly identical remand proceedings.

**2. Judicial economy favors a stay of further proceedings on the ‘051 patent.**

Concerning the ‘051 patent, there is even greater cause for a stay than in *Standard Havens*. In *Standard Havens*, all that remained for the court on remand was a re-computation of damages and a determination of the propriety and scope of a permanent injunction—*i.e.*, the issues remaining for the ‘265 patent. The ‘051 patent, by contrast, was not tried before a jury because summary judgment initially was granted. In light of the Federal Circuit’s remand of the ‘051 patent, however, extensive additional proceedings remain here, including: additional expert discovery; resolution of summary judgment motions; a possible bench trial on MercExchange’s inequitable conduct; and a possible jury trial on any remaining issues.

Given that the Court has not heard argument on pending summary judgment motions and no trial date has been set for the ‘051 patent, there is no reason to further burden the parties, the Court, and a potential panel of jurors with litigation of claims that the Patent Office has indicated

are highly unlikely to survive in their present form. *See, e.g., ScriptPro LLC v. Wal-Mart Stores, Inc.*, No. 05-2244-CM, 2006 WL 2294859 (D. Kan. Aug. 8, 2006) (following liberal policy of staying litigation pending reexamination because, *inter alia*, reexamination allows validity to be tested efficiently and relatively inexpensively, and may eliminate the need for a trial altogether or at least facilitate trial of the invalidity issue) (attached as McFarland Decl. Exh. 32).

**3. The expense of this litigation to date does not warrant devoting further resources to issues the Patent Office has indicated it will likely moot.**

While eBay acknowledges the significant resources this case has demanded thus far, such costs do not justify moving forward on issues the parties and the Court know may likely be mooted by the Patent Office. “[T]hese costs will not be recouped by denying a stay and proceeding to a trial.” *Middleton*, 2004 WL 1968669, at \*6 (attached as McFarland Decl. Exh. 29). Moreover, “the cost ... of the litigation to date will not be affected by the grant or denial of a stay.” *Softview*, 56 U.S.P.Q.2d at 1636 (attached as McFarland Decl. Exh. 28).

Indeed, a stay would provide a far better return on the effort invested to date, since denying a stay “may actually compound the parties’ expenses if some or all of the issues need to be retried later as a result of the reexamination.” *Middleton*, 2004 WL 1968669, at \*6 (attached as McFarland Decl. Exh. 29). “[A]lthough the denial of a stay can have no effect whatsoever on past events, the grant of a stay will maximize the likelihood that neither the Court nor the parties expend their assets addressing invalid claims.” *Softview*, 56 U.S.P.Q.2d at 1636 (attached as McFarland Decl. Exh. 28). Given the significant, potentially dispositive impact the reexaminations may have on these proceedings, a stay would save the litigants and the Court from devoting further resources to potentially pointless or duplicative litigation.

**C. After unilaterally prolonging the reexamination proceedings and never successfully commercializing its purported inventions, MercExchange cannot credibly argue it would be unduly prejudiced by a stay.**

Any minimal costs associated with a stay are vastly outweighed by its benefits.

**1. MercExchange cannot complain of the brief delay a stay would cause when it has made every effort to delay the reexaminations.**

While all stays necessarily result in some delay, the patent laws are structured to minimize the delay resulting from a stay pending reexamination. The Patent Office is required to expedite all reexaminations with “special dispatch” and must give greater priority to reexaminations involving patents in litigation. 35 U.S.C. § 305; M.P.E.P. § 2261 (attached as McFarland Decl. Exh. 33).

Based on these provisions for expedited review, the Federal Circuit has rejected the argument that stays pending “reexamination ... including any appeal” are “protracted” or “indefinite,” and held that the grant of such a stay therefore *cannot* be directly appealed. *See Gould v. Control Laser Corp.*, 705 F.2d 1340, 1341 (Fed. Cir. 1983).

Indeed, considering the modest duration of reexamination proceedings, it would make no sense to press forward with proceedings in trial court *or* to burden appellate courts with appeals of stay orders. On average, reexaminations are completed within 22.6 months of initial filing, with a median pendency of 17.5 months. McFarland Decl. Exh. 26. The ‘051 and ‘265 reexaminations have been pending for approximately two years already, and repeated Patent Office actions have issued on the merits in both cases, finding all ‘051 and ‘265 claims to be *unpatentable*. McFarland Decl. Exhs. 14, 15, 22 and 23. Thus, the reexaminations should conclude within a reasonable time—particularly when compared to MercExchange’s delay of more than two years to assert the ‘265 patent.

In this case, the reexaminations might be complete today but for MercExchange’s repeated efforts to delay their conclusion. In total, MercExchange submitted *five* petitions urging the Patent Office to stop reexamination—one of which was prohibited by Patent Office regulations, three of which were denied on all grounds, and the last of which is pending before the Patent Office. *See* McFarland Decl. Exh. 10-13. In addition, MercExchange has taken *extensions* of time to respond to nearly every rejection issued by the Patent Office, thereby

undermining the “special dispatch” with which the reexaminations otherwise would proceed.<sup>12</sup> McFarland Decl. Exhs. 35-37. Thus, only by delaying the proceedings at virtually every opportunity—through multiple petitions and requests for extensions of time—has MercExchange forestalled final rejections that appear inevitable.<sup>13</sup>

Particularly where, as here, MercExchange has intentionally prolonged the reexamination proceedings, it should not be heard to complain of a delay occasioned by reexaminations permitted under the very patent laws MercExchange invoked against eBay:

The court recognizes that a stay will cause further delay in a case that has suffered several delays already, as well as considerable distress to the plaintiffs. ... [T]he court reminds the plaintiffs that they affirmatively invoked the rights of the patent statute; they can hardly be heard now to complain of the rights afforded others by that same statutory framework. Thomson is legally entitled to invoke the reexamination mechanism and the PTO has determined that reexamination is warranted. There is nothing facially untoward in that.

*Pegasus Dev. Corp. v. DirecTV, Inc.*, Civ.A. 00-1020-GMS, 2003 WL 21105073, at\*2 (D. Del. May 14, 2003) (granting stay after two and a half years of litigation and “copious briefing”) (attached as McFarland Decl. Exh. 38).

**2. The stay will impose no undue economic prejudice on MercExchange, which has no competing business and will continue to receive interest on any post-judgment damages to which it is entitled.**

MercExchange cannot credibly argue that it will be prejudiced by eBay’s continued operations—regardless of whether eBay has ceased the infringing conduct—during a stay. eBay’s success had nothing to do with MercExchange’s failure to commercialize its patents, and there is nothing in the record to suggest otherwise. In fact, MercExchange admitted eBay had nothing to do with its failure to commercialize its inventions. McFarland Decl. Exhs. 39 and 40 (Tr. 553:5-8 and 537:8-538:15). MercExchange’s delay of two years to file suit against eBay,

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<sup>12</sup> Publicly, MercExchange has vowed to take its time with its response to the ‘265 rejections: “This is normal PTO procedure, we’ll respond as we always have, in the ordinary course.” McFarland Decl. Exh. 34 (MercExchange press release quoting T. Woolston).

<sup>13</sup> The Patent Office has indicated in both cases that “the next Office action ... is intended to be final.” McFarland Decl. Exh. 23 at 2 (‘265); Exh. 15 at 10 (‘265); Exh. 14 at 24 (‘051).



and its failure to seek a preliminary injunction after filing, further illustrate that eBay's continuing operations did nothing to prejudice MercExchange. McFarland Decl. Exhs. 41-43 (Tr. 578:20-579:6 (Mr. Woolston admitting that, as of January 2000, MercExchange had a written agreement with Aden Enterprises to sue eBay); 583:3-584:2 (Mr. Woolston admitting that MercExchange contacted eBay under the guise of offering assistance in another patent matter); 597:8-598:11 (Mr. Woolston admitting that he never informed eBay of MercExchange's plans to sue eBay prior to filing suit)); *MercExchange*, 275 F. Supp. 2d at 712 (noting MercExchange's failure to seek a preliminary injunction); see *Emhart Indus., Inc. v. Sankyo Seiki Mfg. Co.*, No. 85-C-7595, 1987 WL 6314, at \*2-3 (N.D. Ill. Feb. 2, 1987) (citing plaintiff's failure to seek a preliminary injunction in granting defendant's request for a stay pending reexamination) (attached as McFarland Decl. Exh. 44).

In similar circumstances, courts have found no undue prejudice to plaintiffs and ordered stays. See, e.g., *Gioello Enters. Ltd. v. Mattel, Inc.*, No. C.A. 99-375 GMS, 2001 WL 125340, at \*2 (D. Del. Jan. 29, 2001) (in granting stay, finding no undue prejudice against a plaintiff that was "not selling or actively licensing goods or services related to the ... patent [in suit]; money damages is an adequate remedy for any delay in redress") (attached as McFarland Decl. Exh. 45). Even if MercExchange had customers or business to lose, that has been found insufficient to deny a stay even where a patentee actually sought a preliminary injunction:

in light of the plaintiff's motion for preliminary injunction, a stay may continue to deprive the plaintiff, during the pendency of the reexamination, of the right to exclude others .... The Court finds, however, that the harm indicated by the plaintiff—the loss of customers and sales ... and the erosion of plaintiff's position in the market—while serious, does not amount to undue prejudice.

*Perricone v. Unimed Nutritional Servs., Inc.*, 301-CV-512, 2002 WL 31075868 (D. Conn. July 18, 2002) (attached as McFarland Decl. Exh. 46).

Moreover, because the Court has granted MercExchange's motion for post-judgment interest on any damages to which it may ultimately be entitled, MercExchange will suffer no prejudice during the pendency of the stay. See *Middleton* 2004 WL 1968669, at \*9 ("Middleton is not currently selling products related to the patent in issue and would be entitled to any money

damages ... the Court finds this sufficient to protect Middleton from suffering any undue prejudice or a clear tactical disadvantage. Should the action proceed ... the Court may still order appropriate injunctive relief.”) (attached as McFarland Decl. Exh. 29).

In these circumstances, the greatest economic prejudice would result from denying a stay, which “may actually compound the parties’ expenses if some or all of the issues need to be retried later as a result of the reexamination.” *Id.* at \*6. Here, the repeated rejections in each of the reexaminations create a high likelihood that any proceedings on the original claims would be either mooted entirely (if the rejections stand) or duplicated (if MercExchange amends its claims and thereby abandons the original claims). Any such unnecessary or duplicative proceedings would be far more economically prejudicial—to all parties—than merely waiting until the reexaminations run their full course. Moreover, eBay would need to recover any damages paid to MercExchange and its attorneys if a stay is denied and the Patent Office, as expected, finalizes its claim rejections. To the extent full recovery proved difficult or impossible, further economic prejudice would result.

**D. Particularly in view of the advanced stage of the reexamination proceedings, a stay is entirely appropriate at this stage of the judicial proceedings.**

While the stage of the litigation is a relevant consideration, “if ‘the Court finds that the benefits of granting a stay in the present proceedings outweigh the burdens, *it need not decide whether the defendant could actually have filed its request at an earlier date.*’” *Middleton*, 2004 WL 1968669, at \*7 (emphasis added), *quoting Emhart Indus., Inc. v. Sankyo Seiki Mfg. Co.*, No. 85-C-7595, 1987 WL 6314, at \*3 (N.D. Ill. Feb. 2, 1987) (attached as McFarland Decl. Exh. 29). As explained above, the benefits of a stay here—particularly given that all claims stand rejected on the merits—vastly outweigh any potential costs. Indeed, any argument that the Court should abandon the prospective benefits of a stay based on the resources *already* invested ignores the fundamental truth that “these costs will not be recouped by denying a stay,” *id.* at \*6, because “the cost ... of the litigation to date will not be affected by the grant or denial of a stay.” *Softview*, 56 U.S.P.Q.2d at 1636 (attached as McFarland Decl. Exh. 28). As numerous cases

confirm, a stay is entirely appropriate and warranted given the stage of the reexaminations and the significant proceedings remaining in this case.

**1. The Federal Circuit and other district courts have ordered stays in later stages of litigation than the present case.**

Because “the ultimate determination is ... based on a weighing of the benefits of issuing a stay versus any added expense resulting from the stay,” *Middleton*, 2004 WL 1968669, at \*5 (attached as McFarland Decl. Exh. 29), the stage of a case does not control whether a stay should be granted. Indeed, numerous courts have ordered stays after more extensive litigation and with fewer unresolved issues than in this case. *See, e.g., Standard Havens III*, 27 U.S.P.Q.2d at 1960 (staying post-appeal damages and injunction proceedings) (attached as McFarland Decl. Exh. 1).

In *Middleton*, the case had “proceeded ... to the Federal Circuit and back multiple times” before the defendant requested a stay “after eight years of litigation and with just over two months remaining before trial.” 2004 WL 1968669, at \*1 (attached as McFarland Decl. Exh. 29). In addition, the defendant “did not seek reexamination ... until well after the commencement of the litigation.” *Id.* at \*6. Despite the patentee’s challenges to the motion based on “the short time left before trial and the delay in seeking reexamination,” the court ordered a stay because of the “high likelihood that results of the PTO’s reexamination would have a dramatic effect ... up to and including dismissal of the entire action if the claims are found to be unpatentable.” *Id.* at \*1, \*10.

In *Vitronics Corp. v. Conceptronic, Inc.*, the court ordered a stay because “the probability exists that unnecessary litigation may be avoided and the issues remaining in the case simplified” even *after five years of litigation*, including a trial and a decision from the Federal Circuit. *Vitronics Corp. v. Conceptronic, Inc.*, 36 F. Supp. 2d 440, 442 (D.N.H. 1997). Similarly, in *Pegasus*, the court ordered a stay after two years of litigation and “copious briefing,” even though it would “cause further delay in a case that has suffered several delays already ....” *Pegasus*, 2003 WL 21105073, at \*1-2 (attached as McFarland Decl. Exh. 38); *see also Gould*, 705 F.2d at 1342 (dismissing appeal of stay entered after five years of litigation and 20 days

before trial).

As demonstrated by these and other cases, the stage of a case—regardless of whether it is after trial, multiple appeals, or nearly a decade of litigation—does not warrant departing from the liberal policy favoring stays if reexamination has the potential to clarify or eliminate outstanding issues in the litigation. A stay is particularly appropriate given the record of this case.

**2. The timing of eBay's requests for reexamination was perfectly reasonable given the case's history.**

Although MercExchange—ignoring the above-cited cases and others—has decried eBay's requesting reexamination after trial, the Court “need not decide whether the defendant could actually have filed its request at an earlier date” given the benefits of granting a stay here. *Middleton*, 2004 WL 1968669, at \*7 (attached as McFarland Decl. Exh. 29). Nevertheless, the timing of eBay's requests was entirely reasonable and hardly “such egregiously dilatory conduct as would justify short-circuiting the reexamination procedure.” *Grayling Indus., Inc. v. GPAC, Inc.*, No. 1:89-CV-451-ODE, 1991 WL 236196, at \*3 (N.D. Ga. Mar. 25, 1991)(attached as McFarland Decl. Exh. 47).

As an initial matter, eBay was blind-sided by this lawsuit and did not receive notice of the alleged infringement until MercExchange filed its complaint for patent infringement in September 2001, even though MercExchange had been planning for nearly two years to sue eBay. McFarland Decl. Exh. 43 (Tr. 597:8-598:11 (Mr. Woolston admitting that prior to September 2001, MercExchange never informed eBay of the alleged infringement); Exh. 41 (Tr. 578:20-579:6 (Mr. Woolston admitting that he entered into an agreement with Aden Enterprises in January 2000 to jointly fund and share the proceeds of a lawsuit against eBay)). With its litigation plan in place, MercExchange contacted eBay in Spring 2000, under the guise of offering eBay assistance in an unrelated patent dispute. McFarland Decl. Exh. 42 (Tr. 583:3-584:2). The parties met, and MercExchange carefully avoided any suggestion of infringement,

again while secretly planning to sue eBay.<sup>14</sup> McFarland Decl. Exh. 48 (Phillips Depo Tr. 199:7-202:14). eBay took MercExchange at its word and simply had no idea that it needed to prepare a defense until it was sued.

Once this litigation began, eBay had its hands full defending itself against MercExchange, in what this Court recognized as a very contentious case. *MercExchange*, 275 F. Supp. 2d at 714 (“This case has been one of the more, if not the most, contentious cases that this court has ever presided over.”) eBay devoted significant resources and effort to developing its defenses in response to more than a hundred asserted claims, while fending off: relentless discovery motions filed without any attempt to meet and confer (Dkt No. 581 at 19); repeated motions to reconsider the same ruling (Dkt. Nos. 214-16, 250, 258, 266, 278); a “purely tactical” attempt to disbar its expert—a former commissioner of the Patent Office—over the holidays (Dkt. No. 240 at 11); threats to sue witnesses if they complied with subpoenas (Dkt. No. 524 at 106:2-18; Dkt. No. 512 at 91:2-92:8); and “bad faith” changes of position up until trial (Dkt. No. 349 at 7). It was difficult enough to litigate this case even without devoting additional resources to co-pending reexamination proceedings. eBay focused itself accordingly.

Meanwhile, eBay believed all along that it would prevail, and many of the Court’s rulings throughout the case appeared dispositive in eBay’s favor. During the two-day *Markman* hearing, eBay argued for and received what it asserted and believed to be case-dispositive claim constructions regarding all claims. Indeed, three days later, the Court granted eBay’s motion for summary judgment that the ‘051 patent was invalid. *MercExchange*, 271 F. Supp. 2d at 794. While preparing its *Markman* papers, eBay also discovered MercExchange’s inequitable conduct in prosecuting the ‘051 patent, the core of which was a basis for eBay’s ‘051 reexamination request. Compare Dkt. No. 219 at 5-15 (eBay’s ‘051 motion for summary judgment based on MercExchange’s inequitable conduct, based in part on MercExchange’s deception about the

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<sup>14</sup> While MercExchange has pointed to eBay’s acquisition of and integration of PayPal—eBay’s online payment processor—as bringing eBay into “infringement mode,” eBay had been using payment processors like Billpoint long before then, as the Court found. *MercExchange*, 275 F.Supp.2d at 720.

Salmon and *Internet Providers* prior art references) with McFarland Decl. Exh. 7 (Decision granting reexamination of '051 patent based on Salmon and *Internet Providers*). eBay later filed motions for summary judgment on the '265 and '176 patents that were denied shortly before the five-week jury trial.

With the '051 patent invalidated, eBay remained confident that the '265 patent would suffer the same fate. eBay believed that the '265 patent—which *did not get the benefit of the Patent Office's second level of review*—was also invalid based on numerous prior art references, including the Nahan prior art patent. McFarland Decl. Exh. 49 (Tr. 1209:19-1210:11). MercExchange nonetheless asked the jury to ignore Nahan, arguing that the Patent Office must have considered Nahan in the original examination, because the Patent Examiner searched the prior art classification in which Nahan was classified. McFarland Decl. Exhs. 50 and 51 (Tr. 3609:9-3610:18 and 2821:25-2824:12). The jury apparently accepted MercExchange's argument even though the Patent Office had *not* actually considered Nahan during the original examination of the '265 patent, and the jury's finding withstood JMOL based on the highly-deferential substantial evidence standard. *MercExchange*, 275 F. Supp. 2d at 704-05.

With the appeal pending, eBay requested reexamination not only of the '265 patent, but of the '051 and '176 patents as well. In each instance, the Patent Office agreed with eBay, rejected MercExchange's procedural arguments, and found several *substantial new questions of patentability*. See McFarland Decl. Exhs. 7, 8 and 9. Eventually, the Federal Circuit invalidated the '176 patent as a matter of law on appeal, and all claims of the '265 and '051 patents currently stand rejected in the reexamination proceedings—outcomes that validate eBay's consistent confidence in the patents' invalidity and demonstrate the jury's inability to make accurate invalidity determinations, which were apparently swayed by MercExchange's misleading arguments of what prior art could be considered. *MercExchange*, 401 F.3d at 1333-35.

Finally, eBay did not know and could not have discovered the full basis for its reexamination requests until the litigation and trial had run their course. In addition to the discovery process, which illuminated the vast prior art relevant to the MercExchange patents,

MercExchange's experts made admissions during trial that were essential to preparing eBay's reexamination requests. As this Court observed, MercExchange's expert witnesses artfully avoided taking any solid positions concerning the scope of the patents or the prior art before trial. To the extent they ever appeared to take a stand, their positions later shifted like sand in the wind to suit MercExchange's purpose. Dkt. No. 250 at 3, 6-7 (Order addressing MercExchange's experts' failure to use correct claim construction); Dkt. No. 349 at 2-7 (Order admonishing MercExchange's experts for their "bad faith" change in position on the '265 patent's scope). Only when the experts were cross-examined during trial did they finally make relatively unequivocal admissions concerning the scope of the patents and the prior art. A number of those admissions became centerpieces of eBay's reexamination requests, and the Patent Office has seized upon them to interpret the patents' otherwise ambiguous scope and conclude the claims are invalidated by the prior art. *See, e.g.,* McFarland Decl. Exh. 4 at 16-30. In sum, eBay could not reasonably have prepared effective reexamination requests until after trial, due in large part to MercExchange's evasive discovery conduct.

It was, therefore, quite reasonable and not dilatory in the least for eBay to seek reexamination after the original trial. *See Middleton*, 2004 WL 1968669, at \*8 (granting stay after eight years of litigation where defendant "had won a judgment of non-infringement on two different occasions") (attached as McFarland Decl. Exh. 29).

It is also unclear when, if ever, MercExchange would have had eBay prepare and submit its reexamination requests.<sup>15</sup> Indeed, when considering whether eBay reasonably should have prepared its reexamination requests earlier—after MercExchange's surprise suit and during contentious litigation in this Court's accelerated docket—it must be understood that preparing such requests is a significant undertaking, due in part to the fact that third-party requestors have no involvement in an *ex parte* reexamination once initiated.

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<sup>15</sup> Had eBay sought reexamination and a stay during the original proceedings, MercExchange undoubtedly would have cried "foul" and argued that eBay was simply trying to derail the litigation.

Other courts have recognized this very fact:

It is presumed that such an effort requires an enormous expenditure of time and other resources; thus the timing of Thomson's reexamination requests does not, necessarily, reflect undue delay. Furthermore, as noted above, Thomson was legally entitled to invoke the reexamination procedure when it did. ... Although the court regrets a further delay in the present case, it is confident that the advantages of a stay outweigh the costs.

*Pegasus*, 2003 WL 21105073, at \*3 (attached as McFarland Decl. Exh. 38).

eBay's requests, like those in the *Pegasus* case, represented an enormous and time-consuming effort. The requests comprised thousands of pages of materials, including more than three-hundred pages of substantive briefing and the collective knowledge eBay gained from its lengthy investigation and discovery of the prior art after being surprised with MercExchange's infringement suit. Given the "enormous expenditure of time and other resources" the requests required, the demands of the original proceedings, and the favorable rulings eBay received throughout the case, the timing of eBay's requests was entirely appropriate and presents no reason to depart from the liberal policy favoring stays. Here, where all claims stand rejected and significant issues remain to be litigated, the benefits of a stay vastly outweigh any costs.

#### V. CONCLUSION.

The Patent Office has expressly found that the reexaminations of the '265 and '051 patents have merit and repeatedly rejected the patents' original claims over the prior art. Unless the Patent Office reverses itself, any further proceedings before this Court likely would be mooted after the Patent Office finishes its job. The advantages of a stay include preventing the enforcement of invalid patents, ensuring consistent rulings, avoiding economic prejudice to the parties, and facilitating the fair, efficient and cost-effective adjudication of this case. Against those substantial considerations, MercExchange's only real argument is that it should not have to wait to reap economic benefit from dubious patent claims that currently stand rejected by the Patent Office. Accordingly, the Court should stay this case pending the outcomes of the '051 and '265 reexaminations.



Dated: August 28, 2006

Respectfully submitted,

By Counsel

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CERTIFICATE OF SERVICE

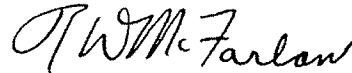
I hereby certify that I caused a true and correct copy of the foregoing DEFENDANTS' MEMORANDUM IN SUPPORT OF THEIR MOTION TO STAY FURTHER PROCEEDINGS IN VIEW OF ONGOING PATENT OFFICE REEXAMINATION PROCEEDINGS to be served as follows this 28th day of August, 2006:

VIA HAND DELIVERY:

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