

IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

MERCEXCHANGE, L.L.C.,

Plaintiff,

v.

eBAY INC. AND HALF.COM, INC.,

Defendants.

Case No. 2:01-CV-736

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

TABLE OF CONTENTS

	PAGE(S)
I. INTRODUCTION	1
II. FACTUAL BACKGROUND.....	3
A. The Original Proceedings.	3
B. The Patent Office’s reexamination and rejection of the ‘265 and ‘051 Patents.....	5
III. LEGAL BACKGROUND	6
A. Courts Liberally Grant Stays Pending Reexamination to Avoid Unnecessary Litigation Of Claims the Patent Office May Void <i>Ab Initio</i>	6
B. In <i>Standard Havens</i> , the Federal Circuit reversed the district court and ordered entry of a stay pending final resolution of a reexamination under nearly identical circumstances.	7
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.	7
2. The Federal Circuit’s decision in <i>Standard Havens III</i> rejected many arguments MercExchange has advanced against a stay pending reexamination.....	8
IV. THE COURT SHOULD STAY FURTHER PROCEEDINGS IN THIS CASE PENDING REEXAMINATION OF THE ‘265 AND ‘051 PATENTS.....	9
A. Courts should not, and do not, deny stays and impose judgments against defendants while all asserted claims stand rejected by the Patent Office.....	9
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.....	13
1. Judicial economy favors a stay of further proceedings on the ‘265 patent.....	15
2. Judicial economy favors a stay of further proceedings on the ‘051 patent.....	15
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.	16

**TABLE OF CONTENTS
(CONTINUED)**

	PAGE(S)
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.....16
1.	MercExchange cannot complain of the brief delay a stay would cause when it has made every effort to delay the reexaminations.....17
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.....18
D.	Particularly in view of the advanced stage of the reexamination proceedings, a stay is entirely appropriate at this stage of the judicial proceedings.20
1.	The Federal Circuit and other district courts have ordered stays in later stages of litigation than the present case.....21
2.	The timing of eBay’s requests for reexamination was perfectly reasonable given the case’s history.....22
V.	CONCLUSION.....26

TABLE OF AUTHORITIES

	PAGE(S)
CASES	
<i>ASCII Corp. v. STD Entm't USA, Inc.</i> , 844 F. Supp. 1378 (N.D. Cal. 1994)	6
<i>Bloom Eng'g Co., Inc. v. N. American Mfg. Co., Inc.</i> , 129 F.3d 1247 (Fed. Cir. 1997).....	14
<i>eBay, Inc. v. MercExchange, L.L.C.</i> , 126 S. Ct. 1837 (2006).....	4
<i>Emhart Indus., Inc. v. Sankyo Seiki Mfg. Co.</i> , No. 85-C-7595, 1987 WL 6314 (N.D. Ill. Feb. 2, 1987)	19, 20
<i>Ethicon, Inc. v. Quigg</i> , 849 F.2d 1422 (Fed. Cir. 1988).....	6
<i>Fortel Corp. v. Phone-Mate, Inc.</i> , 825 F.2d 1577 (Fed. Cir. 1987).....	14
<i>Gioello Enters. Ltd v. Mattel, Inc.</i> , No. C.A. 99-375 GMS, 2001 WL 125340 (D. Del. Jan. 29, 2001)	19
<i>Gould v. Control Laser Corp.</i> , 705 F.2d 1340 (Fed. Cir. 1983).....	17, 21
<i>Grayling Indus., Inc. v. GPAC, Inc.</i> , No. 1:89-CV-451-ODE, 1991 WL 236196 (N.D. Ga. Mar. 25, 1991).....	22
<i>Kaufman Co., Inc. v. Lantech, Inc.</i> , 807 F.2d 970 (Fed. Cir. 1986).....	13
<i>Lentek Int'l, Inc. v. Sharper Image Corp.</i> , 169 F. Supp. 2d 1360 (M.D. Fla. 2001)	6
<i>MercExchange, L.L.C. v. eBay, Inc.</i> , 271 F. Supp. 2d 789 (E.D. Va. 2002)	3, 23
<i>MercExchange, L.L.C. v. eBay, Inc.</i> , 275 F. Supp. 2d 695 (E.D. Va. 2003)	4, 19, 22-24
<i>MercExchange, L.L.C. v. eBay, Inc.</i> , 401 F.3d 1323 (Fed. Cir. 2005).....	4, 24

**TABLE OF AUTHORITIES
(CONTINUED)**

	PAGE(S)
<i>Middleton, Inc. v. 3M Co.</i> , No. 4:03-CV-40493, 2004 WL 1968669 (S.D. Iowa Aug. 24, 2004)	6, 7, 16, 19-22, 25
<i>NTP, Inc. v. Research in Motion, Ltd.</i> , 397 F. Supp. 2d 785 (E.D. Va. 2005)	11, 12
<i>Pagagus Dev. Corp. v. DirecTV, Inc.</i> , No. Civ. A. 00-1020-GMS, 2003 WL 21105073 (D. Del. May 14, 2003).....	18, 21, 26
<i>Perricone v. Unimed Nutritional Servs., Inc.</i> , No. 301-CV-512, 2002 WL 31075868 (D. Conn. July 18, 2002)	19
<i>Slip Track Sys., Inc. v. Metal Lite, Inc.</i> , 159 F.3d 1337 (Fed. Cir. 1998).....	11
<i>Softview Computer Prods. Corp. v. Haworth, Inc.</i> , 56 U.S.P.Q.2d 1633 (S.D.N.Y. 2000).....	6, 16
<i>Standard Havens Prods., Inc. v. Gencor Indus., Inc.</i> , 953 F.2d 1360 (Fed. Cir. 1991).....	8
<i>Standard Havens Prods., Inc. v. Gencor Indus., Inc.</i> , 810 F. Supp. 1072 (W.D. Mo. 1993)	7-10
<i>Standard Havens Prods., Inc. v. Gencor Indus., Inc.</i> , 27 U.S.P.Q.2d 1959 (Fed. Cir. 1993).....	7-9
<i>Ultrak, Inc. v. Radio Eng'g Indus., Inc.</i> , 52 U.S.P.Q.2d 1530 (N.D. Tex. 1999).....	10, 11
<i>Viskase Corp. v. Am. Nat'l Can Co.</i> , 261 F.3d 1316 (Fed. Cir. 2001).....	11
<i>Vitronics Corp. v. Conceptronc, Inc.</i> , 36 F. Supp. 2d 440 (D.N.H. 1997).....	21
<i>ScriptPro LLC v. Wal-Mart Stores, Inc.</i> , No. 05-2244-CM, 2006 WL 2294859 (D. Kan. Aug. 8, 2006)	16
<i>Werre v. Battenfeld Techs., Inc.</i> , No. Civ. 03-1471-AA, 2004 WL 2554568 (D. Or. Nov. 9,2004).....	6

**TABLE OF AUTHORITIES
(CONTINUED)**

	PAGE(S)
STATUTES	
35 U.S.C. § 304.....	6
35 U.S.C. § 305.....	17
35 U.S.C. § 307.....	13
MISCELLANEOUS	
M.P.E.P. § 2261.....	17

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.”)).¹ 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

¹ 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.”² 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.

² 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.³ 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.

³ *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).⁴ 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*”));⁵
- 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.”));

⁴ 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.

⁵ 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.⁶ 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 ...

⁶ 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.⁷

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

⁷ 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).⁸

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

⁸ 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 787.⁹ 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

⁹ 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.

