

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

MERCEXCHANGE, L.L.C.,

Plaintiff,

v.

Case No. 2:01-CV-736

EBAY, INC. and HALF.COM, INC.,

Defendants.

**PLAINTIFF MERCEXCHANGE, L.L.C.'S BRIEF IN OPPOSITION TO DEFENDANTS'
MOTION TO STAY THE MANDATE AND ALL FURTHER PROCEEDINGS**

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TABLE OF CONTENTS

	Page
I. INTRODUCTION	1
II. BACKGROUND	2
A. The Proceedings Before This Court.....	2
B. The Proceedings Before The Federal Circuit.....	3
C. Defendants’ Dilatory Request For Reexamination Of The Patents-In-Suit.....	4
D. The Proceedings Before The United States Supreme Court.....	4
III. ARGUMENT	5
A. The Higher Courts Did Not Remand This Case In Order For This Court To Stay It	5
B. Defendants Are Not Entitled To The Extraordinary Equitable Relief Of A Stay Of These Proceedings	6
1. Defendants Unduly Delayed in Requesting Reexamination.....	6
2. Defendants’ Unclean Hands as a Result of their Fraud on this Court Precludes the Equitable Relief of the Stay they Seek	11
3. As Willful Infringers, Defendants have no Claim for Equitable Relief	14
C. The Criteria Generally Evaluated For Granting Stays Pending Reexamination Proceedings All Weigh Against A Stay In This Case.....	15
1. Discovery and Trial are Concluded, and a Stay will not Simplify Triable Issues	15
2. A Stay would Unduly Prejudice and Present a Clear Tactical Disadvantage to MercExchange	24
D. Disastrous Public Policy Would Result From Allowing An Adjudicated Infringer To Forestall Enforcement Of A Judgment In Light Of Post-trial Reexamination Proceedings.....	27
E. Because eBay Already Represented To This Court That The ‘051 Case Was Ready For Trial, And eBay Unduly Delayed In Seeking Reexamination, The Court Should Also Deny A Stay With Respect To The ‘051 Case	29
IV. CONCLUSION.....	30

TABLE OF AUTHORITIES

	Page(s)
Cases	
<i>Allen Archery, Inc. v. Abbott Labs.</i> , 849 F.2d 1446 (Fed. Cir. 1987)	21
<i>Amstar Corp. v. Envirotech Corp.</i> , 1986 WL 734249 (Fed. Cir. Nov. 3, 1986).....	21, 22
<i>Appleton Toy & Furniture Co. v. Lehman Co. of Am.</i> , 165 F.2d 801 (7 th Cir. 1948)	20
<i>Aptix Corp. v. Quickturn Design Sys., Inc.</i> , 269 F.3d 1369 (Fed. Cir. 2001)	13
<i>ASCII Corp. v. STD Entertainment USA, Inc.</i> , 844 F. Supp. 1378 (N.D. Cal. 1994)	16
<i>Aventis Pharma v. Lupin Ltd.</i> , 403 F. Supp.2d 484 (E.D. Va. 2005)	11
<i>Cherokee Nation of Oklahoma v. United States</i> , 124 F.3d 1413 (Fed. Cir. 1997)	6
<i>Chicago & Southern Air Lines, Inc. v. Waterman S.S. Corp.</i> , 333 U.S. 103 (1948).....	23
<i>E.I. DuPont deNemours & Co. v. Phillips Petroleum Co.</i> , 711 F. Supp. 1205, n.9 (D. Del. 1989).....	19, 20
<i>eBay Inc. v. MercExchange, L.L.C.</i> , ___ U.S. ___, 126 S.Ct. 1837, 1841 (2006).....	4
<i>Emhart Indus., Inc. v. Sankyo Seiki Mfg. Co. Ltd.</i> , 1987 WL 6314 (N.D. Ill. Feb. 2, 1987)	16
<i>Gioello Enterp. Ltd. v. Mattel, Inc.</i> , 2001 WL 125340 (D. Del. Jan 29, 2001).....	16
<i>Gordon v. United States</i> , 117 U.S.Appx. 697 (1864).....	23
<i>Goss Int'l Corp. v. Tokyo Kikai Seisa Kusho, Ltd.</i> , 435 F. Supp.2d 932 (N.D. Iowa 2006).....	5
<i>Grayling Indus., Inc. v. GPAC, Inc.</i> , 1991 WL 236196 (N.D. Ga. Mar. 25, 1991)	16
<i>Hamilton v. Brown</i> , 39 F.3d 1574 (Fed. Cir. 1994)	17
<i>Hazel-Atlas Glass Co. v. Hartford-Empire Co.</i> , 322 U.S. 238 (1944).....	14

<i>Hoechst Celanese Corp. v. BP Chems., Ltd.</i> , 78 F.3d 1575 (Fed. Cir. 1996)	18
<i>In re Marshall W. Cronyn</i> , 890 F.2d 1158 (Fed. Cir. 1989)	12
<i>In re Recreative Tech. Corp.</i> , 83 F.3d 1394 (Fed. Cir. 1996)	7
<i>Keystone Driller Co. v. General Excavator Co.</i> , 290 U.S. 240 (1933)	14
<i>Lentek Int.'l, Inc. v. Sharper Image Corp.</i> , 169 F. Supp.2d 1360 (M.D. Fla. 2001)	16
<i>Magnesystems Inc. v. Nikken, Inc.</i> , 36 F.3d 1114, 1994 WL 492511 (Fed. Cir. Aug. 30, 1994)	17
<i>MercExchange, L.L.C. v. eBay, Inc.</i> , 401 F.3d 1323 (Fed. Cir. 2005)	3, 11, 25
<i>Microstrategy, Inc. v. Business Objects, S.A.</i> , Civil Action No. 2:01cv826 (E.D. Va. June 12, 2002)	15, 24
<i>Middleton, Inc. v. Minnesota Mining & Mfg. Co.</i> , 2004 WL 1968669 (S.D. Iowa Aug. 24, 2004)	16
<i>Minnesota Mining and Mfg Co. v. Chemque, Inc.</i> , 303 F.3d 1294 (Fed. Cir. 2002)	12
<i>Northern Telecom, Inc. v. Datapoint Corp.</i> , 908 F.2d 931 (Fed. Cir. 1990)	12
<i>NTP, Inc. v. Research in Motion, Ltd.</i> , 397 F. Supp.2d 785 (E.D. Va. 2005)	passim
<i>Pegasus Dev. Corp. v. DirecTV, Inc.</i> , 2003 WL 211050773 (D. Del. May 14, 2003)	16
<i>Perricone v. Unimed Nutritional Servs., Inc.</i> , 2002 WL 31075868 (D. Conn. July 18, 2002)	16
<i>Plaut v. Spendthrift Farm, Inc.</i> , 514 U.S. 211 (1995)	22
<i>Preemption Devices, Inc. v. Minnesota Mining & Mfg Co.</i> , 732 F.2d 903 (Fed. Cir. 1984)	12
<i>ScriptPro, L.L.C. v. Wal-Mart Stores, Inc.</i> , 2006 WL 2294859 (D. Kan. Aug. 8, 2006)	16
<i>Shockley v. Arcan, Inc.</i> , 248 F.3d 1349 (Fed. Cir. 2001)	11
<i>Softview Computer Prods. Corp. v. Haworth, Inc.</i> , 56 U.S.P.Q.2d 1633 (S.D. NY Aug. 9, 2000)	15, 16

<i>South Atlantic Ltd. Partnership v. Riese</i> , 356 F.3d 576 (4th Cir. 2004).....	5
<i>Standard Havens Prods., Inc. v. Gencor Indus., Inc.</i> , 27 U.S.P.Q.2d 1959, 1993 WL 172432 (Fed. Cir. May 21, 1993).....	16, 17, 18, 22
<i>Ultrak v. Radio Engineering Indus., Inc.</i> , 52 U.S.P.Q.2d 1530, 1999 WL 1020250, (N.D. Tex. May 17, 1999).....	20
<i>United States v. Lentz</i> , 352 F. Supp.2d 718 (E.D. Va. 2005)	6
<i>United States v. O'Grady</i> , 22 Wall. 641, 22 L.Ed. 772 (1875)	23
<i>Valmont Indus., Inc. v. Yuma Mfg. Co.</i> , 50 F.R.D. 408 (D. Col. 1970)	24
<i>Viskase Corp. v. American Nat'l Can Co.</i> , 261 F.3d 1316 (Fed. Cir. 2001)	18
<i>Vitronics Corp. v. Conceptoronic, Inc.</i> , 36 F. Supp.2d 440 (D. N.H. 1997).....	16
<i>W.L. Gore & Assoc., Inc. v. Garlock, Inc.</i> , 721 F.2d 1540 (Fed. Cir. 1983)	12
<i>Werre v. Batenfeld Technologies, Inc.</i> , 2004 WL 2554568 (D. Or. Nov. 9, 2004).....	16
<i>Williford v. Armstrong World Indus., Inc.</i> , 715 F.2d 124 (4 th Cir. 1983)	11
Statutes	
35 U.S.C. § 112.....	3
35 U.S.C. §§ 141-145	26
35 U.S.C. §§ 282, 306, 307.....	24
Other Authorities	
12 MOORE'S FEDERAL PRACTICE, § 60.44[1][a] (3d ed. 2006).....	22
Rules	
37 C.F.R. § 1.550.....	27
37 C.F.R. §§ 1.113, 1.116.....	25
Fed. R. Civ. P. 60(b)	22
Sup. Ct. R. 43(2)	4

I. INTRODUCTION

This case has been pending now for over five years. It has been all the way to the Supreme Court and back. Yet Defendants eBay, Inc. and Half.com, Inc. ("Defendants") — adjudicated willful infringers of MercExchange's patent — ask this Court to indefinitely stay the mandate and all further proceedings because eBay sought reexamination of United States Patent No. 5,845,265 ("the '265 Patent") long after the trial and adverse verdict in this action. Defendants contend such a request is "timely," as they supposedly lacked the resources to seek reexamination — as well as the relief they ask for here — earlier. Such an argument cannot even pass the "straight face" test.

It would be a grievous miscarriage of justice to tolerate such tactics and delay this case any further. Indeed, it would create disastrous consequences not only for this case, but would also promote perverse policy incentives for adjudicated infringers to force costly and time-consuming litigation on courts and litigants only to undermine that very system by seeking to undo the judgment long after the fact.

Defendants have now exhausted their appellate remedies. Despite this, Defendants ask this Court for the extraordinary relief of a stay of enforcement proceedings in order that an administrative agency supposedly may "void" a final decision of the federal courts. When faced with a similar request, the Honorable United States District Judge Spencer of this Court denied it, stating most eloquently:

The hallmark of sanity is that one remains firmly tethered to reality. And one unfortunate reality for [Defendants], and one that they would just as soon forget or ignore, is that in this very courtroom there was a trial, a jury was selected, a trial was carried out for a period of weeks, and evidence was received, and the jury heard arguments from some of the best legal talents that money can buy. And when all was said and done, they decided that [Defendants] had infringed [plaintiff's] patent, and that the infringement was willful.

The jury consisted of twelve men and women, tried and true citizens of this district, and I can assure that the citizens of this judicial district and the Commonwealth of Virginia are not foolish or frivolous when it comes to the matter of fixing legal

liability. After all of the appeals, the petitions, the politics, the lobbying, this central truth, this reality of the jury verdict has not changed in any essential or substantive way.

Declaration of Gregory N. Stillman, Esq. (“Stillman Dec.”) ¶ 2 (attaching Ex. 1) (Tr. of Feb. 24, 2006 Hearing in *NTP, Inc. v. Research in Motion, Ltd.*, CA. No. 3:01CV767)).

This Court should also deny these Defendants’ extraordinary request. First, this Court must comply with the appellate mandate to proceed with consideration of a permanent injunction and other enforcement proceedings. Second, none of the equities lie in Defendants’ favor, particularly in light of their knowing, intentional, and tactically-driven delay in waiting until well after the trial of this action before requesting that the PTO review the patentability of the patents-in-suit. Third, none of the criteria traditionally evaluated to determine whether to stay an action pending reexamination weigh in favor of a stay in this case. Moreover, the legal premise of Defendants’ motion — that a subsequent agency action could “void” a Federal district court decision — is incorrect, and therefore the basis for their motion evaporates. Fourth, a ruling that would allow an adjudicated infringer to delay enforcement proceedings by initiating a post-trial reexamination proceeding would create disastrous policy. Accordingly, this Court should deny Defendants’ motion and allow these proceedings to continue in accordance with the prior verdict, and the rulings of the Federal Circuit and the United States Supreme Court.

II. BACKGROUND

A. The Proceedings Before This Court

This Court is familiar with the background of this matter. Nevertheless, because it appears that Defendants wish to reargue many of the issues decided adversely to them at trial and on appeal, MercExchange briefly notes the following points:

- The jury rejected defendants’ arguments that they were “entrapped” into infringement, and defendants never appealed the jury’s finding of willfulness. And from October 1998 through February 2002, defendants repeatedly

acknowledged the '265 Patent's significance by filing twenty-four patent applications citing the '265 Patent as prior art. Stillman Dec. Ex. 2. The PTO rejected at least one of Half. com's patent application as completely anticipated by the '265 Patent. Stillman Dec., Ex. 3.

- Faced with a patent of such apparent significance to its future operations, eBay attempted to purchase MercExchange's '265 Patent in the Summer of 2000. eBay's counsel set the agenda for the meeting: "[b]elow is an outline description of where we are in this negotiation. . . . eBay is interested in acquiring the family of applications related to U.S. Patent No. 5,845,265." Stillman Dec., ¶5, Ex. 4.
- In February 2002, more than two years prior to their petition that the PTO reexamine the '265 Patent, defendants identified as allegedly invalidating prior art the Nahan patent in their first interrogatory answers. *Id.*, ¶6, Ex. 5.

B. The Proceedings Before The Federal Circuit

On appeal, the Federal Circuit largely affirmed this Court's claim construction rulings with respect to the '265 and the '051 Patents. *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323 (Fed. Cir. 2005). Applying these claim construction rulings to the evidence in the case, the Federal Circuit readily found substantial evidence that Defendants infringed the '265 Patent claims and that the claims were not invalid.¹ *Id.* at 1327-31.

The Federal Circuit reversed this Court's denial of a permanent injunction. The Federal Circuit analyzed each of the reasons articulated by this Court for denying injunctive relief, and held that none of them merited such denial. *Id.* at 1338-39. The Court denied Defendants' petition for rehearing and rehearing *en banc*.

The Federal Circuit was well aware of the pending reexamination proceedings when it ruled on this case. Stillman Dec., ¶¶7-8 (Exs. 6-7). Indeed, Defendants sought to brief the issue to the Federal Circuit of whether a stay was appropriate pending the outcome of the reexamination

¹ The appellate court also reversed the verdict of validity with the respect to the '176 Patent, holding that the asserted claims were anticipated in light of the Keller reference. The Federal Circuit further reversed this Court's grant of summary judgment to eBay that the asserted claims of the '051 Patent were invalid under the written description requirement of 35 U.S.C. § 112, ¶1. The Court held that this issue presented — at best for eBay — a factual issue that would have to be remanded for trial. 401 F.3d at 1337.

proceedings. Stillman Dec., ¶9 (Ex. 8). The Court *sub silentio* denied Defendants' request by issuing its opinion the following month, without comment on their request.

C. Defendants' Dilatory Request For Reexamination Of The Patents-In-Suit

eBay filed its first Request for Reexamination on March 8, 2004, almost a year after the trial concluded. *Id.*, ¶10 (Ex. 9). The Patent Office's Order granting eBay's Request for Reexamination on the '265 Patent issued on June 4, 2004. *Id.*, ¶11 (Ex. 10). The Patent Office Examiner did not issue his initial Office Action in the '265 Patent reexamination proceeding until March 24, 2005 — almost 10 months later. *Id.*, ¶12 (Ex. 11). Significantly, the only prior art reference relied upon by the Patent Office was the Nahan Patent, a reference which this Court and the Federal Circuit found to be lacking critical elements of the '265 Patent claims. *Id.*, ¶12 (Ex. 11).

D. The Proceedings Before The United States Supreme Court

Following the Federal Circuit's decision, Defendants obtained a stay of the mandate from the Federal Circuit pending the outcome of their petition for certiorari with respect to the permanent injunction issue. The Supreme Court reversed the Federal Circuit's injunction ruling, but just as importantly the Supreme Court also stated that this Court's ruling was in error and that neither this Court nor the appellate court had correctly applied the standards for the issuance of an injunction. *eBay Inc. v. MercExchange, L.L.C.*, ___ U.S. ___, 126 S. Ct. 1837, 1841 (2006).

Subsequent to the Supreme Court's decision, and under the guise of a dispute regarding the costs of the Supreme Court proceedings, Defendants asked the Federal Circuit to stay the issuance of its mandate until MercExchange paid Defendants nearly \$50,000 in costs relating to the Supreme Court proceedings.² Stillman Dec., ¶13, Ex. 12. The Federal Circuit refused.

² Of course, Defendants have not paid so much as a dime to MercExchange notwithstanding a \$25 million judgment plus interest that they owe. Yet when the Supreme Court issued an order pursuant to Sup. Ct. R. 43(2) that

After this Court ordered a scheduling conference, Defendants indicated that they contemplated filing a motion before the Federal Circuit to further forestall additional proceedings. Defendants failed to file any such motion.

III. ARGUMENT

A. The Higher Courts Did Not Remand This Case In Order For This Court To Stay It

Trial and appeal have been concluded for the '265 Patent, and the Supreme Court and the Federal Circuit have remanded this case and issued a mandate requiring this Court to reconsider the issue of injunctive relief. Nothing in the orders of the Supreme Court or the Federal Circuit suggest in the slightest that these Courts remanded the case in order for this Court to stay the matter.

The “mandate rule” provides that a lower court may not consider questions that the mandate has laid to rest, and “forecloses relitigation of issues expressly or impliedly decided by the appellate court.” *South Atlantic Ltd. Partnership v. Riese*, 356 F.3d 576, 584 (4th Cir. 2004). “Under the mandate rule, a district court cannot reconsider issues the parties failed to raise on appeal; the court must attempt to implement the spirit of the mandate; and the court may not alter rulings impliedly made by the appellate court.” *Id.*

In *NTP*, Chief Judge Spencer similarly observed that the Federal Circuit had issued a mandate directing the Court to begin proceedings on the remanded issues. *NTP, Inc. v. Research in Motion, Ltd.*, 397 F. Supp.2d 785, 786-88 (E.D. Va. 2005). As in *NTP*, Defendants have already attempted to have the Federal Circuit stay the action, and the Federal Circuit declined the request. *See also Goss Int’l Corp. v. Tokyo Kikai Seisa Kusho, Ltd.*, 435 F. Supp.2d 932, 935-36 (N.D. Iowa 2006) (continuation of stay following appeal would violate appellate mandate); *United States v.*

MercExchange would owe costs because the Court had reversed the Federal Circuit, eBay demanded that MercExchange pay within one day. Stillman Dec., ¶14 (Ex. 13).

Lentz, 352 F. Supp.2d 718, 727-28 (E.D. Va. 2005) (Ellis, D.J.) (stay of proceedings after appellate court had declined to do so would, at a minimum, “clearly violate” the spirit of the mandate, and would “plainly fall within the proscriptions of the mandate rule by revisiting an implied ruling of the circuit court on appeal”).

B. Defendants Are Not Entitled To The Extraordinary Equitable Relief Of A Stay Of These Proceedings

A request for a stay of proceedings is an extraordinary remedy, governed by traditional equitable principles. *NTP*, 397 F. Supp.2d at 788. “In deciding to stay proceedings indefinitely, a trial court must first identify a pressing need for the stay. The court must then balance interests favoring a stay against interests frustrated by the action. Overarching this balancing is the court’s paramount obligation to exercise jurisdiction timely in cases properly before it.” *Cherokee Nation of Oklahoma v. United States*, 124 F.3d 1413, 1416 (Fed. Cir. 1997). Thus, a “trial court abuses its discretion by issuing ‘a stay of indefinite duration in the absence of a pressing need.’” *Id.* (quoting *Landis v. North Am. Co.*, 299 U.S. 248, 255 (1936)).

Defendants are undeserving of equitable relief, among other reasons because they unduly and intentionally delayed in seeking reexamination of the patents-in-suit, because of their effort to deceive this Court at trial with respect to the alleged public use of the “Nahan system,” and because of the willful nature of their infringement.

1. Defendants Unduly Delayed in Requesting Reexamination

For tactical reasons, Defendants knowingly and intentionally delayed until nearly a year after the trial of this action before seeking reexamination. The reexamination proceedings initiated by Defendants have as their centerpiece the very same Nahan Patent that Defendants asserted at trial. Defendants first disclosed the Nahan Patent as an allegedly invalidating prior art reference in

February 2002 in their first interrogatory answers in this case, more than a year before the trial and more than two years before they requested reexamination. Stillman Dec., Ex. 5.³

Defendants now blame their delay upon MercExchange and this Court, but they have no one to blame but themselves. Moreover, Defendants' delay was no accident. By electing to proceed to trial while holding reexamination in reserve, Defendants ensured that the PTO's decision could not have been used against them during trial had the PTO made a positive determination of patentability. Defendants further used the contentious litigation as an attempt to exhaust MercExchange's resources.⁴

Defendants' excuses for their delay are meritless. eBay is an enormously successful company with extensive financial and legal resources. Its legal counsel in the patent field include not only its trial counsel here, but also major intellectual property firms such as Finnegan, Henderson and Blakely Sokoloff. Stillman Dec., ¶16 (Ex. 15). During the appellate process Defendants enlisted the help of at least three major law firms. eBay lists more than a dozen in-house patent lawyers in its employ. Stillman Dec., ¶17 (Ex. 16). The notion that Defendants lacked the resources to initiate a reexamination proceeding before 2004 is nothing short of specious.⁵

Certainly, Defendants could have attempted to do what all the accused infringers did in the cases they rely upon, specifically, they could have sought reexamination early in the litigation, and

³ The verification for eBay's interrogatory answers was signed by Jay Monahan, eBay's in-house counsel, who is the requestor of the ongoing reexamination proceedings.

⁴ In fact, one of the central purposes of the reexamination statute was to "eliminate or simplify a significant amount of patent litigation." S. Rep. No. 617, 96th Cong., 2d Sess. 11 (1980) (testimony of Sidney Diamond, Commissioner of Patents and Trademarks). Moreover, two of the stated reasons for enacting the statute were that validity disputes could be more quickly and less expensively resolved than litigation and that Courts could benefit from the expertise of the PTO if reexamination proceedings were brought early in the litigation. *See In re Recreative Tech. Corp.*, 83 F.3d 1394, 1396 (Fed. Cir. 1996). Obviously, eBay's belated request for reexamination frustrates those two statutory goals.

⁵ Over the last three years, eBay has realized in excess of \$9 Billion in net revenues and was able to purchase a company known as Skype for \$2.6 Billion. It certainly had the resources to prepare and file an administrative request to a government agency at any time.

then immediately moved for a stay in order to avoid prolonged, costly, and contentious litigation. Because Defendants did not take this course, literally months of this Court's time were consumed with the proceedings in this case, including a two-day *Markman* hearing, a two and one-half day pretrial conference, a five-week jury trial, and numerous post-trial motions. If Defendants are correct in their unwarranted speculation that the reexamination proceedings will culminate in a finding of unpatentability, then they could have saved five weeks of the jurors' time, and they could have avoided millions of dollars in attorneys' fees for the parties, but instead they purposefully and deliberately delayed in seeking reexamination.

a. Defendants' "entrapment defense" fails

Defendants first attempt to excuse their delay by rearguing the willfulness of their conduct, contending that they were entrapped into infringement. But the jurors heard all of these arguments, and determined that Defendants' infringement was willful. Defendants elected not to even appeal this issue to the Federal Circuit, and thus their willfulness stands conclusively adjudged. And that is as it should be. Defendants omit that in 1998, long before the 2000 meeting between MercExchange and eBay, Defendants became aware of the MercExchange '265 Patent while they were attempting to obtain their own patents in the field. After learning of MercExchange's patents, Defendants were forced to cite the '265 Patent as relevant prior art in numerous patent applications. Half.com had one of its patent applications rejected as anticipated by the '265 Patent. Accordingly, it was clear to Defendants that the '265 Patent was going to present a significant obstacle to their future operations.

When the parties agreed to meet in the Summer of 2000, eBay set the agenda and stated that it was interested in acquiring MercExchange's entire patent portfolio, including the '265 Patent. Stillman Dec., Ex. 4. When negotiations broke down, Defendants proceeded to knowingly infringe

the '265 Patent claims. That fact now stands established after appeal. Defendants' arguments at this late date to the contrary are simply unavailing.⁶

b. Defendants' belief that they would prevail at trial provides no excuse for failing to timely request reexamination

Defendants further attempt to deflect blame from themselves by faulting this Court and MercExchange in arguments reminiscent of those presented in their rejected appeal. Defendants argue that the Court rendered favorable claim construction rulings that it failed to apply at trial. On appeal, Defendants argued that this Court had "failed to perform its most critical function" and engaged in an "abdication of duty." Stillman Dec., ¶¶19-20, Exs. 18-19. Defendants presented this argument notwithstanding that this Court actually provided the jury with the very "trusted network" claim construction that they advocated at the *Markman* hearing.

Defendants now again rehash their failed appellate argument — that the Court permitted MercExchange to present jury arguments inconsistent with the Court's *Markman* ruling, and that Defendants could not fathom before trial that they might not prevail. This argument, however, stands as a concession that their untimely request for reexamination was a knowing and deliberate decision on their part, apparently owing to their mistaken belief that they could not lose this case.

Clearly, this is not a legitimate excuse for Defendants' delay. One must ask rhetorically, did all the other accused infringers that timely moved for stays in the cases these Defendants rely upon believe that they were going to lose at trial? Certainly, Defendants were on notice that they might

⁶ Defendants suggest there was something untoward about the fact that MercExchange did not accuse them of infringement prior to the 2000 meeting, but it was Defendants themselves that also introduced evidence that MercExchange did not believe Defendants were engaged in infringement prior to that time. Stillman Dec., ¶18, Ex. 17. Certainly, Defendants cannot complain that MercExchange would not accuse them of infringement when MercExchange did not yet believe them to be guilty of that offense. Moreover, Defendants' own expert testified that eBay did not introduce its fixed-price sales format until 2000, nor did it launch a transaction processor feature until subsequent to the MercExchange meeting. See Evans Dec. at ¶¶49-51 and Exs. A, D-F thereto (submitted with MercExchange's Renewed Motion for Entry of a Permanent Injunction Order.)

not prevail. With respect to the '265 Patent, the Court denied all of Defendants' summary judgment motions. And Defendants never sought summary judgment of invalidity of the '265 Patent based on the Nahan reference.

c. Defendants were not "too busy" to seek a timely request for reexamination

Finally, Defendants contend — absurdly — that their delay should be excused because they were too busy litigating this case. This argument is simply astounding. Defendants could have forestalled all of the proceedings they complain of had they timely petitioned for reexamination and moved this Court for a stay. They chose not to do so for tactical reasons. They cannot now be heard to complain that they were "too busy" to deal with a reexamination. A reexamination proceeding would have consumed very little of Defendants' time because it is an *ex parte* proceeding.⁷ Other than filing the initial request for reexamination, Defendants could have sat back and awaited the results. And supposedly it is not these Defendants or their outside counsel, but rather eBay's in-house counsel, Jay Monahan, Esq., who purports to be the requestor in the reexamination proceedings.

Moreover, it was Defendants that elected to scorch the earth in this case. Defendants filed an extraordinary eight motions for summary judgment in this case, including three based on prior art they had withheld from discovery until the day they filed their motions. Only one such motion was granted, and that ruling was subsequently reversed by the Federal Circuit. MercExchange was forced to file nine motions to compel, nearly all of which were granted. When the Magistrate Judge most closely involved with the discovery proceedings in this case saw one of the deposition transcripts, he *sua sponte* admonished Defendants' lead trial counsel for his obstructive conduct in

⁷ As discussed *infra*, however, eBay has improperly sought to turn the reexamination into adversarial proceeding.

depositions. Stillman Dec., ¶21, Ex. 20. The Magistrate Judge further characterized Defendants' arguments resisting MercExchange's discovery motions as "nonsense." *Id.*, ¶22, Ex. 21.

2. Defendants' Unclean Hands as a Result of their Fraud on this Court Precludes the Equitable Relief of the Stay they Seek

a. One who seeks equity must do equity

eBay's request for a stay is without question an entreaty to this Court's equitable powers. *Williford v. Armstrong World Indus., Inc.*, 715 F.2d 124, 127 (4th Cir. 1983) (recognizing the request for a stay as an "inherent power in courts under their general equity powers ..."); *Aventis Pharma v. Lupin Ltd.*, 403 F. Supp.2d 484, 489 (E.D. Va. 2005) ("a Motion to Stay Proceedings is not expressly provided for by the Federal Rules or by statute, although a district court has the inherent discretion to recognize such a motion under its general equity powers."). But "he who seeks equity must do equity." *Shockley v. Arcan, Inc.*, 248 F.3d 1349, 1361 (Fed. Cir. 2001) ("equity's 'unclean hands' doctrine demands that '[one] who seeks equity must do equity.'"). Defendants, however, have not done equity. Indeed, the Defendants have committed a fraud on this Court by introducing false evidence which they sought to have this Court and the jury rely upon. This conduct alone warrants denial of the relief Defendants now seek — an unjustified stay of these proceedings at this late date.

b. Defendants knowingly submitted false evidence as prior art

As noted above, the Nahan Patent was the centerpiece of Defendants' invalidity defense. Of course, the Federal Circuit has now rejected that defense in its entirety. *MercExchange*, 401 F.3d at 1330-31. Nevertheless, in addition to the Nahan Patent, Defendants proffered into evidence what they characterized as the Edwin Newman "Infomercial," which purported to demonstrate the functionality of the "Nahan System." *See* DX269. That videotape was prominently featured during the trial of this action. Moreover, it was Defendants that designated it an "Infomercial," thereby

attempting to emphasize its “public” nature.⁸ Defendants counsel, however, was aware that the Edwin Newman videotape was not a “Infomercial,” as represented.

In fact, unbeknownst to the Court or MercExchange, Defendants’ counsel was told that this videotape was *not* in the public domain, and indeed, was subject to strict confidentiality requirements, thereby precluding any “public” nature which could render it eligible as “prior art.” Anticipation by an alleged prior “public use” requires a use of the claimed invention by a person who is under no limitation, restriction or obligation of secrecy, *i.e.*, it must be accessible to the public. A use under conditions of secrecy is not sufficient. *See, e.g., Minnesota Mining and Mfg Co. v. Chemque, Inc.*, 303 F.3d 1294, 1301, 1306-07 (Fed. Cir. 2002); *W.L. Gore & Assoc., Inc. v. Garlock, Inc.*, 721 F.2d 1540, 1549-50 (Fed. Cir. 1983) (use of allegedly anticipatory machine and process by company’s employees who signed confidentiality agreements prohibiting their disclosure of details of machine and its operation was not a “public use;” that activity was secret, not public).⁹

The confidential nature of the Edwin Newman videotape has now been confirmed by the inventor himself, Kenneth Nahan. In a sworn declaration, Mr. Nahan has testified that he informed Defendants’ counsel that the Edwin Newman videotape was never disseminated to the public nor displayed on national television prior to 1996. Stillman Dec., Ex. 22 (Declaration of Kenneth Nahan (“Nahan Dec.”) ¶6). In fact, the videotape “was prepared in conjunction with a ‘Private

⁸ An “Infomercial” undeniably conjures up images of widespread public dissemination over the airwaves through repetitive commercial presentation. Accordingly, it was no mere happenstance that Defendants invoked the term with regard to the videotape. *See* Stillman Dec. (Ex. 34) (Expert Report of Dr. Wellman at 9, 10, referencing the video as an “Infomercial”).

⁹ Moreover, in order for a document to constitute a “printed publication” for use as “prior art,” there must be evidence that the document was *publicly distributed* and *accessible to the public* interested in the relevant art. *See In re Marshall W. Cronyn*, 890 F.2d 1158, 1159-60 (Fed. Cir. 1989); *Preemption Devices, Inc. v. Minnesota Mining & Mfg Co.*, 732 F.2d 903, 906 (Fed. Cir. 1984); *Northern Telecom, Inc. v. Datapoint Corp.*, 908 F.2d 931, 936-37 (Fed. Cir. 1990) (military documents which included the legend “reproduction or further dissemination is not authorized ... not for public release” could not constitute “printed publications” for use as prior art).

Placement Memorandum' for Mr. Nahan's company, Honicorp." *Id.* ¶7. Indeed, Honicorp considered the information on the videotape to be non-public, confidential and proprietary in nature. *Id.*, ¶9. Honicorp required anyone who received a copy of or reviewed the videotape to sign a "Confidentiality Agreement" and maintain it in strict confidence. *Id.*

Moreover, this was explained to Defendants' counsel during a face-to-face meeting on March 11, 2003, just five weeks before the trial of this action began. *Id.*, ¶12. At that meeting, Defendants' counsel asked Mr. Nahan for any materials describing the Honicorp system that would have been publicly available at the time. *Id.* In fact, Defendants' chief counsel, Mr. Jeffrey Randall, specifically identified the Edwin Newman videotape and asserted it to be a publicly available "Infomercial." *Id.* Mr. Nahan informed Mr. Randall that the videotape was not public, was subject to a confidentiality agreement, and had been used only with a confidential Private Placement Memorandum to raise capital for his company. Only later, did Mr. Nahan learn that Defendants' counsel had obtained a copy of the non-public videotape from another source in violation of the Honicorp Confidentiality Agreement. *Id.*, ¶¶16-17.

At no time, however, did Defendants ever inform this Court or MercExchange that the Edwin Newman videotape was, in fact, not public, was subject to a confidentiality agreement, and most certainly, was not an "Infomercial," as represented.

c. The Court should look with serious disfavor upon such affirmative misrepresentations which promote the miscarriage of justice

When a party knowingly proffers evidence it knows to be false, it has committed a fraud on the Court. *Aptix Corp. v. Quickturn Design Sys., Inc.*, 269 F.3d 1369 (Fed. Cir. 2001). "The governing principle is 'that whenever a party who, as an actor, seeks to set the judicial machinery in motion and obtains some remedy, has violated conscience, or good faith, or other equitable principle, in his prior conduct, then the doors of the court will be shut against him...the court will

refuse to interfere on his behalf, to acknowledge his right, or to award him any remedy.’” *Keystone Driller Co. v. General Excavator Co.*, 290 U.S. 240, 244-45 (1933).

Thus, “[a] court of equity acts only when and as conscience commands; and, if the conduct of the [party] be offensive to the dictates of nature justice, then, whatever may be the rights he possess, and whatever use he may make of them in a court of law, he will be held remediless in a court of equity.” *Id.* at 245 (quoting *Deweese v. Reinhard*, 165 U.S. 386, 390 (1897)).

Accordingly, “tampering with the administration of justice in the manner indisputably shown here involves far more than an injury to a single litigant. It is a wrong against the institutions set up to protect and safeguard the public, institutions in which fraud cannot complacently be tolerated consistently with the good order of society....The public welfare demands that the agencies of public justice be not so impotent that they must always be mute and helpless victims of deception and fraud.” *Hazel-Atlas Glass Co. v. Hartford-Empire Co.*, 322 U.S. 238, 246 (1944). As a result of Defendants’ fraud on this Court, they are undeserving of the equitable relief they seek.

3. As Willful Infringers, Defendants have no Claim for Equitable Relief

Defendants have been adjudicated as *willful* infringers; as such, they have no claim on the Chancellor’s conscience. The jury necessarily found clear and convincing evidence that Defendants failed to exercise due care and investigate whether or not their activities infringed a valid and enforceable claim of MercExchange’s ‘265 Patent, and that they proceeded with infringing activities without a good faith belief that the patent was either invalid, not infringed or both. Stillman Dec. Ex. 23. Defendants did not even appeal the jury’s willfulness finding. Under these circumstances, Defendants have no persuasive claim for the extraordinary equitable remedy they seek.

C. The Criteria Generally Evaluated For Granting Stays Pending Reexamination Proceedings All Weigh Against A Stay In This Case

District courts have considered the following factors in determining whether to grant a *pretrial* stay pending reexamination proceedings: “(1) whether a stay would unduly prejudice or present a clear tactical disadvantage to the nonmoving party; (2) whether a stay will simplify the issues in question in trial of the case; and (3) whether discovery is complete and whether a trial date has been set.” See *Microstrategy, Inc. v. Business Objects, S.A.*, Civil Action No. 2:01cv826 (E.D. Va. June 12, 2002) (Stillman Dec., Ex. 24) (citing *Softview Computer Prods. Corp. v. Haworth, Inc.*, 56 U.S.P.Q.2d 1633, 1636, 2000 WL 1134471 (S.D. N.Y. Aug. 9, 2000)). Each of these considerations weighs heavily against a stay in this case.

Most significantly, these considerations presume that the accused infringer has timely moved for reexamination *before trial* and that no final adjudication of infringement or validity has yet been reached. Thus, when this Court considered a stay in *Microstrategy*, the Court opined:

Well, I can tell you one thing, and this is—you never say never or you never say always, but if this court had held a *Markman* hearing already and went through the agony of holding a *Markman* hearing, and then someone comes in and files a petition for reexamination, I can tell you that unless there was extremely—if there were circumstances that I can’t even fathom at this point, there would never be a stay in my Court if we had gone that far.

Stillman Dec., ¶26, Ex. 25 (Tr. of June 3, 2002 Proceedings, at 31 (*Microstrategy, Inc. v. Business Objects, S.A.*, Civil Action No. 2:01-CV-826). Of course, this case has indeed gone much further.

1. Discovery and Trial are Concluded, and a Stay will not Simplify Triable Issues

It is readily evident that the second and third criteria emphatically weigh against a stay. For the ‘265 Patent the trial and appeal have already been concluded, and no further issues of infringement or validity remain. Likewise, it is impossible for the reexamination to “simplify” any

issues pertaining to the '265 Patent because those issues have already been concluded adversely to Defendants.

With the sole exception of the non-precedential *Standard Havens* case, Defendants do not cite to a single case in which a stay of district court enforcement proceedings has been granted after the infringement and validity issues have been fully tried and affirmed on appeal. For this reason every single district court decision cited by Defendants is readily distinguishable.¹⁰ No "liberal policy" of granting stays exists after an appeal to the Supreme Court has been heard and remanded.

And the Federal Circuit has made abundantly clear, the nonprecedential *Standard Havens* case cannot be relied upon:

We note with disapproval that the [lower court] places considerable weight upon, and discusses at length, the nonprecedential order issued by this Court....The matter is also extensively discussed by the parties. We remind counsel and the Court that nonprecedential opinions and orders are not citable to this Court, *they do not represent the considered view of the Federal Circuit regarding aspects of a particular case beyond the decision itself, and they are not intended to convey this Court's view of law applicable in other cases. . . .They are nonprecedential for a reason - while the decision itself receives due care, as do all cases before us, the*

¹⁰ See *ScriptPro, L.L.C. v. Wal-Mart Stores, Inc.*, 2006 WL 2294859, **1-2 (D. Kan. Aug. 8, 2006) (still in discovery phase); *Werre v. Batenfeld Technologies, Inc.*, 2004 WL 2554568, *1 (D. Or. Nov. 9, 2004) (discovery in early stages and Markman hearing not scheduled); *Middleton, Inc. v. Minnesota Mining & Mfg. Co.*, 2004 WL 1968669, *4 (S.D. Iowa Aug. 24, 2004) (although parties had been litigating for years, patent validity issue in question had only been explored by parties for a little over a year, Court had not yet ruled on summary judgment motions, and validity issue had not yet been tried); *Pegasus Dev. Corp. v. DirectTV, Inc.*, 2003 WL 211050773, *1 (D. Del. May 14, 2003) (discovery not closed and trial nine months away); *Perricone v. Unimed Nutritional Servs., Inc.*, 2002 WL 31075868, *3 (D. Conn. July 18, 2002) (substantial discovery remained and trial date not assigned); *Lentek Int'l, Inc. v. Sharper Image Corp.*, 169 F. Supp.2d 1360, 1362-63 (M.D. Fla. 2001) (case not yet tried and patentee requested stay promptly after requesting reexamination); *Gioello Enterp. Ltd. v. Mattel, Inc.*, 2001 WL 125340, **1-2 (D. Del. Jan 29, 2001) (case had yet to be tried, motions for summary judgment were yet to be ruled upon, and stay motion filed within two months of reexamination request); *Softview Computer Prods. Corp. v. Haworth, Inc.*, 56 U.S.P.Q.2d 1633, 2000 WL 1134471, *1636 (S.D. NY Aug. 9, 2000) (discovery not complete, summary judgment motions not yet decided, no Markman ruling, and no pretrial order prepared); *Vitronics Corp. v. Conceptronic, Inc.*, 36 F. Supp.2d 440 (D. N.H. 1997) (case would have to be retried after initial verdict for Defendant was reversed, and accused infringer filed for reexamination immediately after Federal Circuit granted new trial); *ASCII Corp. v. STD Entertainment USA, Inc.*, 844 F. Supp. 1378, 1381 (N.D. Cal. 1994) (case in initial stages with little or no discovery taken); *Grayling Indus., Inc. v. GPAC, Inc.*, 1991 WL 236196, **2-3 (N.D. Ga. Mar. 25, 1991) (additional discovery yet to be taken, trial yet to be conducted and accused infringer moved for stay less than two weeks after petitioning for reexamination); *Emhart Indus., Inc. v. Sankyo Seiki Mfg. Co. Ltd.*, 1987 WL 6314, **3-4 (N.D. Ill. Feb. 2, 1987) (no pretrial order or trial date, and reexamination petition was filed within same month that accused infringer learned of prior art status of reference on which it was based).

explanation given in the summary disposition does not necessarily contain a full recitation of all the relevant facts and legal authorities. The opinion or order is primarily for the benefit of the parties. It is error to assume that a nonprecedential order or opinion provides support for a particular position or reflects a new or changed view held by this court.

Hamilton v. Brown, 39 F.3d 1574, 1581 (Fed. Cir. 1994) (emphasis added).

Therefore, a court should “disregard entirely” any discussion of a nonprecedential order or its possible meanings. *Id.*¹¹ As if to underscore the point, the following year a different Federal Circuit panel came to a contrary conclusion in a nonprecedential opinion, denying an infringer’s request for a stay pending reexamination. *Magnesystems Inc. v. Nikken, Inc.*, 36 F.3d 1114, 1994 WL 492511 (Fed. Cir. Aug. 30, 1994) (noting that the infringer had not requested reexamination until “after the district court’s adverse rulings on infringement and validity”).

Importantly, the statement in *Standard Havens* that Defendants rely upon with respect to a patent possibly being held “void *ab initio*” is *dicta*. See *Standard Havens Prods., Inc. v. Gencor Indus., Inc.*, 27 U.S.P.Q.2d 1959, 1960, 1993 WL 172432 (Fed. Cir. May 21, 1993). Defendants also omit the qualifying “if” from the panel’s statement in which it stated “*if* a final decision of unpatentability means the patent was void *ab initio*,” then damages would be precluded. *Id.* (emphasis added). The Federal Circuit did not decide that a patent, or a judgment of infringement, would be void *ab initio*.

Subsequent precedential decisions demonstrate that *Standard Havens* is not good law, if it ever was. The Federal Circuit stated that a trial court’s denial of a stay when reexamination was requested six months before trial was “fully within the court’s discretion, lest the trial schedule be manipulated or unduly delayed.” *Hoechst Celanese Corp. v. BP Chems., Ltd.*, 78 F.3d 1575, 1584

¹¹ Moreover, an exceptional circumstance was present in *Standard Havens* in that the accused infringer was on the verge of bankruptcy and would have ceased as a going entity absent a stay. *Standard Havens Prods., Inc. v. Gencor Indus., Inc.*, 810 F. Supp. 1072, 1076 (W.D. Mo. 1993).

(Fed. Cir. 1996). And as Judge Spencer noted in *NTP*, in *Viskase Corp. v. American Nat'l Can Co.*, 261 F.3d 1316 (Fed. Cir. 2001), the Federal Circuit again affirmed a District Court's denial of a stay pending a reexamination. *Id.* at 1327-28 (“[t]he Court is not required to stay additional resolution in view of the reexaminations”). This was true even though the case was being remanded for an additional infringement trial. *Id.* at 1325, 1329.

Federal district court decisions have also refused stays in similar situations. As noted, in *NTP*, the accused infringer — like Defendants — was found by a jury to have willfully infringed, and the jury rejected the defendant's invalidity defenses. *NTP*, 397 F. Supp.2d at 786-87. These rulings were largely affirmed on appeal. *Id.* Thereafter, the defendant, RIM, sought from both the Federal Circuit and this Court a stay of the proceedings pending reexamination.¹² *Id.* Both courts denied RIM's request, notwithstanding its repeated invocations of the *Standard Havens* decision. *See, e.g.*, Stillman Dec., Ex. 1 at 103-04.

Defendants also attempt unsuccessfully to distinguish *NTP* on the ground that the PTO's reexamination decisions were not final. Judge Spencer's decision cannot be so narrowly circumscribed. Judge Spencer made crystal clear that the particular stages of the PTO proceedings were not the basis for his ruling. *Id.* at 787-88. He could hardly have expressed more forcefully his belief that a reexamination proceeding following an affirmed judgment of infringement and validity could not derail this Court's proceedings, regardless how far the reexamination had progressed.

In a published decision, he stated, “[a] court is under no obligation to delay its own proceedings by yielding to ongoing PTO patent reexaminations, *regardless of their relevancy to infringement claims which the Court must analyze.*” *Id.* at 787 (emphasis added). “Even in the

¹² Defendants suggest that this is a ground for distinction. It is not. Defendants here also suggested that the Federal Circuit should stay this action pending the reexamination and repeatedly informed the Court of the PTO proceedings. *See supra* at 3-4.

unlikely event that all final office actions were taken in the next few months, [the patentee], if not satisfied, could appeal the PTO's findings. Reality and past experience dictate that several years might very well pass from the time when a final office action is issued by the PTO to when the claims are finally and officially 'confirmed' after appeals." *Id.* Thus, concluded Judge Spencer, "[v]alid patents would be rendered meaningless if an infringing party were allowed to circumvent the patents' enforcement by incessantly delaying and prolonging court proceedings which have already resulted in a finding of infringement." *Id.* (emphasis added).

The defendant's arguments in *NTP* were more plausible than those of Defendants in this case. In *NTP*, the Patent Office itself initiated most of the reexamination proceedings, and arguments were presented to the district court of potentially serious hardships that would befall third-party customers of RIM in the event the Court permitted enforcement proceedings.

Defendants' own lawyers *from this case* filed an "*amicus* brief" with Judge Spencer asking that the Court stay the proceedings and not enjoin the adjudicated infringer, citing the alleged harm that would befall law firms and their clients if RIM's "Blackberries" were enjoined. Stillman Dec., ¶27, Ex. 26. No such arguments exist in this case. Defendants have never argued that a hardship will befall third parties if this Court enforces the judgment and enjoins them. And, Defendants have informed the public and their investors that an injunction will have "no effect" on eBay. *See* Stillman Dec., ¶28 (Ex. 27).

Another district court has denied a stay following trial and appeal, even when additional infringement issues remained. *See E.I. DuPont deNemours & Co. v. Phillips Petroleum Co.*, 711 F. Supp. 1205, 1208, n.9 (D. Del. 1989). As in that case, the defendant was found to infringe, and its invalidity defense was rejected at trial. The Federal Circuit actually reversed the infringement and validity verdicts, but remanded the case for a new trial regarding infringement and validity of

additional claims. The defendant then asked for a stay pending a reexamination. The Court, believing that such a stay might result in a “tactical advantage” to the defendant, stated “this Court will not employ its discretion to stay the ordinary course of its proceedings simply because the outcome of the Patent Office proceedings *may* moot the issues remanded.” *Id.* at 1208, n.9 (emphasis in original). To the same effect is the district court’s decision in *Ultrak v. Radio Engineering Indus., Inc.*, 52 U.S.P.Q.2d 1530, 1531-32. 1999 WL 1020250, (N.D. Tex. May 17, 1999) (denying stay even though all relevant claims had been rejected by PTO where Federal Circuit had affirmed trial court’s judgment against Defendant).

Defendants ask this Court to accept the premise that they may undo a Federal Court decision through a collateral administrative proceeding, as if the PTO stands as some supreme appellate body to which adjudicated infringers may seek review of unfavorable court decisions. But the fact that the courts in the decisions cited above denied stays under these circumstances demonstrates that Defendants’ premise is incorrect. Defendants also ominously threaten that in the event MercExchange recovers its damages and the reexamination process ultimately results in a finding of unpatentability, Defendants will have a right of action to sue not only MercExchange, but also its counsel, for return of the damages. Notably, Defendants cite no authority for this stunning proposition.¹³ If that were truly the case, it is difficult to imagine that any court would have ever denied a stay pending a reexamination proceeding, or that courts would have any discretion to deny a stay. Indeed, if Defendants were correct, no patentee could ever make use of money judgments or

¹³ And reaching the opposite conclusion, see *Appleton Toy & Furniture Co. v. Lehman Co. of Am.*, 165 F.2d 801, 802-03 (7th Cir. 1948) (subsequent invalidation of patent in different case did not entitle first-accused infringer to refund of royalties).

licensing royalties received for its inventions, for fear that the judgment would someday be undone as a result of a reexamination proceeding or a subsequent invalidity ruling by a different court.¹⁴

Such a scenario would eviscerate longstanding principles of finality of judgments. Under Defendants' arguments, a patentee could successfully enforce its patents multiple times, but all such judgments could be undone and rendered "void *ab initio*" if a different accused infringer later succeeds in obtaining an invalidity verdict. And under Defendants' view, all of the previously-adjudicated infringers would have a right of action to recover the monies they had paid the patentee pursuant to final judgments. Again, Defendants cite no precedent for these remarkable propositions they would have the Court assume to be correct.

In the absence of actual law supporting their arguments, Defendants appear to suggest that the United States Government agrees with this position. Quite the opposite, the PTO Commissioner has argued before the Federal Circuit that a reexamination proceeding *cannot* void a district court judgment. See Stillman Dec., ¶29, Ex. 28 (*Amicus Curiae* Brief for the PTO Commissioner, *Amstar Corp. v. Envirotech Corp.*, 1986 WL 734249 (Fed. Cir. Nov. 3, 1986)). The PTO Commissioner argued:

Even if such an adverse decision [determining claims in a reexamination to be unpatentable] is upheld on subsequent judicial review, the judgments of the lower Court (or the decision of this Court) respecting the "validity" or enforceability of the . . . patent vis-à-vis [the adjudicated infringer] would remain in effect unless modified pursuant to Rule 60(b), FRCP. In this regard, the lower Court in its order denying [the patentee's] Motion to Enjoin [the adjudicated infringer], expressed "no opinion at this time concerning any affect that a subsequent decision from the Patent and Trademark Office would or should have on the litigation presently pending before [it]." Further, the lower Court noted that [the reexamination proceeding. . . in no way detracts from or disparages the Orders heretofore entered by [it]."

¹⁴ Patentees may have to relitigate the validity of their patents many times over, because subsequently-accused infringers are generally not estopped by prior rulings of validity resulting from litigation involving different infringers. *Allen Archery, Inc. v. Abbott Labs.*, 849 F.2d 1446 (Fed. Cir. 1987).

Indeed, the doctrine of separation of powers clearly prevents any decision of the PTO from having the effect of overturning any decision of the lower Court or this Court respecting the "validity" of the . . . patent. By enacting the reexamination legislation, Congress determined that reexamination of a patent in the PTO was desirable. Nowhere in that reexamination legislation does Congress provide that any order of the Commissioner in a reexamination proceeding will operate to vacate, modify, revise or overrule in any manner any order entered by a Federal Court. It is axiomatic, in view of the separation of powers doctrine, that a decision of the PTO, as part of the Executive Branch of the government does not and cannot frustrate or derogate in any way judgments of the Courts as part of the Judicial Branch.

Id. at **9-10 (emphasis added).

Any contrary rule would have the effect of rendering this Court a less-than-advisory body. As the PTO stated in *Amstar*, the adjudicated infringer's sole relief with respect to the court judgment is limited by the constraints of Fed. R. Civ. P. 60(b), which sets forth the narrow circumstances under which a Court may alter or amend its prior judgments in departure from well-established principles of finality. Under the circumstances of this case, however, Defendants are not entitled to relief under any of the provisions of Rule 60(b) or any other doctrine. Every basis for relief under Rule 60(b) is either time-barred or inapplicable to this case, or both.¹⁵

The separation of powers concerns expressed in *Amstar* should give this Court considerable pause in entertaining any suggestion that an agency action could "void" this Court's judgment. Subsequent to *Standard Havens*, the Supreme Court held in no uncertain terms that it would violate separation of powers principles for Congress to prescribe the reopening of final judgments of Article III courts. *Plaut v. Spendthrift Farm, Inc.*, 514 U.S. 211, 219-29 (1995). The Court identified several types of unconstitutional legislation that require federal courts to exercise their judicial power in a manner forbidden by Article III, including: attempts by Congress to vest review

¹⁵ For example, Rule 60(b)(4) allows a court to vacate a judgment that is "void," but this provision is narrowly construed to apply only when a court has rendered a judgment that is "totally beyond a court's power to render." 12 MOORE'S FEDERAL PRACTICE, § 60.44[1][a] (3d ed. 2006).

decisions of Article III courts in officials of the Executive Branch, *see id.* at 1452-53 (citing *Hayburn's Case*, 2 Dall. 409 (1792)), and subjecting federal court rulings on cases to subsequent review other than by superior Article III courts. *Id.* at 218-19 (citing *Marbury v. Madison*, 1 Cranch 137, 1777, 2 L.Ed. 60 (1803)).

The Court emphasized that “[t]he power to annul a final judgment ... was ‘an assumption of Judicial power,’ and therefore forbidden.” *Id.* at 224 (citing *Bates v. Kimball*, 2 Chipman 77 (Vt. 1824)). The Court cited a consistent line of cases stemming from *Hayburn's Case* holding that the final judgments of Article III courts may not be unraveled through executive or legislative review.¹⁶ Likewise, Congress may not subject this Court’s power to decide this case to review by the PTO.

Defendants contend that a great injustice might be done if they are forced to pay damages only to have the patent later deemed unpatentable by virtue of their untimely reexamination proceeding. However, this supposed injustice is one of their own making, because they intentionally delayed in seeking reexamination. The law is replete with instances in which parties forfeited their legal rights through delay and the application of, for example, statutes of limitation, default, laches, and time bars under rules such as Rule 60(b). These provisions and doctrines represent the considered judgment of Congress and the courts that finality is an important policy in and of itself that outweighs the belated pleas of dilatory litigants. Far more sympathetic parties than Defendants have come before the courts to find that they have relinquished important legal rights

¹⁶ *See, e.g., Chicago & Southern Air Lines, Inc. v. Waterman S.S. Corp.*, 333 U.S. 103, 113 (1948) (“Judgments within the powers vested in courts by the Judiciary Article of the Constitution may not lawfully be revised, overturned or refused faith and credit by another Department of Government”); *United States v. O’Grady*, 22 Wall. 641, 647-48, 22 L.Ed. 772 (1875) (“Judicial jurisdiction implies the power to hear and determine a cause, and ... Congress cannot subject the judgments of the Supreme Court to the reexamination and revision of any other tribunal”) (emphasis added); *Gordon v. United States*, 117 U.S.Appx. 697, 700-04 (1864) (opinion of Taney, C.J.) (judgments of Article III courts are “final and conclusive upon the rights of the parties”); *Hayburn's Case*, 2 Dall. at 411 (opinion of Wilson and Blair, JJ., and Peters, D.J.) (“[R]evision and control” of Article III judgments is “radically inconsistent with the independence of that judicial power which is vested in the courts”); *id.*, at 413 (opinion of Iredell, J., and Sitgreaves, D.J.) (“[N]o decision of any court of the United States can, under any circumstances, be liable to a revision, or even suspension, by the [l]egislature itself, in whom no judicial power of any kind appears to be vested.”).

through their delay, particularly where as here that delay was knowing, intentional and tactically-driven. *See, e.g., Valmont Indus., Inc. v. Yuma Mfg. Co.*, 50 F.R.D. 408, 410 (D. Colo. 1970) (denying Rule 60(b) motion of adjudicated infringer to reopen case based upon newly-discovered prior art).

2. A Stay would Unduly Prejudice and Present a Clear Tactical Disadvantage to MercExchange

Courts have also countenanced against granting a stay even when trial has yet to be conducted when the stay would unduly prejudice or present a clear tactical disadvantage to the nonmoving party. *See, e.g., Phillips Petroleum*, 711 F. Supp. at 1208, n.9; *see also Microstrategy*, slip op. at 5-7. That concern is readily evident here. Defendants had every chance to present their invalidity defenses at trial and on appeal. They had every opportunity prior to trial to petition for reexamination based on the prior art, yet they intentionally chose not to do so. For Defendants to wait until nine months after the trial to petition for reexamination is blatant harassment of the patent owner and a subversion of the judicial process.

Defendants mistakenly characterize the patents as “standing rejected,” and they attempt to portray the reexamination proceedings as being near conclusion. Defendants are wrong on both counts. First, the patents are deemed valid until the entire process, including the resolution of an appeal to the Federal Circuit, is resolved adversely to MercExchange. 35 U.S.C. §§ 282, 306, 307. Second, it is unlikely that there will be a final decision on the issues involved in the reexamination proceedings for several years. *See NTP*, 397 F. Supp.2d at 788 (infringer’s prediction of short duration was mere speculation, and reexamination process could take as long as 10 years).

The reexamination proceedings have already been pending for two-and-a-half years. As set forth above, eBay filed its first request on March 8, 2004, almost a year after the trial concluded. The Patent Office’s Order granting eBay’s request with respect to the ’265 Patent issued on June 4,

2004. The Examiner did not issue his initial Office Action for the '265 Patent until March 24, 2005, almost 10 months later. The only prior art reference relied upon by the Patent Office was the Nahan Patent, a reference which this Court and the Federal Circuit found to be lacking critical elements of the '265 Patent claims.¹⁷

MercExchange timely and expeditiously filed its response to this initial Office Action on June 24, 2005. It took the Patent Office nine months to issue a second non-final Office Action on March 24, 2006.¹⁸ MercExchange timely and expeditiously filed its Response to this non-final Office Action on June 26, 2006.

Assuming *arguendo* that the Examiner maintains his rejections of the claims and issues a final Office Action in the next several months, according to the Patent Office's regulations, MercExchange then has two months in which to file a request for reconsideration of the rejections in the final Office Action. See 37 C.F.R. §§ 1.113, 1.116. Again, after such a submission, the Patent Examiner's decision on such a request for reconsideration will likely take several additional months.

This "final" office action, however, does not constitute a "final" PTO determination — that determination is made by the Patent Office's Board of Patent Appeals and Interferences ("BPAI"). The BPAI can, and often does, overturn the Examiner's actions.¹⁹

¹⁷ The Federal Circuit held that the Nahan Patent failed to disclose, among other things, the posting communications handler that detects a predetermined posting terminal identification code. *MercExchange*, 401 F.3d at 1331. The Federal Circuit found that the "dealer ID code in [the '111 patent system]" was a "dramatically different operation" from the "'265 patent's posting terminal apparatus' [protocols]." *Id.* The Federal Circuit also concluded that the "transaction processor" described and claimed in the '265 Patent was not disclosed or suggested by the Nahan Patent. "The system claimed by the '111 patent, however, does not receive payments electronically Instead of being able to complete a transaction on the electronic network, a buyer using the invention of the '111 patent must temporarily leave the system to make a payment before the transaction can be completed." *Id.* at 1330.

¹⁸ Again, the principal prior art reference relied upon in this non-final Office Action was the Nahan Patent.

¹⁹ According to PTO statistics, 90% of all reexaminations from 1981-2003 resulted in confirmation of the patent's validity. Stillman Dec. Ex. 29 (PTO, Ex Parte Reexamination Filing Data -- March 31, 2005). Moreover, according to

A final PTO decision from the BPAI is unlikely to issue within the next year and is likely to take significantly longer. The BPAI process is likely to take at least one and one-half and possibly more than two years.²⁰

If the Board's final decision remains unfavorable, MercExchange has the statutory right to appeal this decision within 60 days to the Federal Circuit under 35 U.S.C. §§ 141-145. Thereafter, the Federal Circuit would set its schedule for briefing and argument. The pendency of the appeal to the Federal Circuit could amount to a year to two years, or longer.

Defendants' predictions for a quick resolution of these proceedings, therefore, are mere guesswork. Moreover, Defendants overlook that they would have to invalidate every single one of the infringed claims in order to obtain the relief they seek. MercExchange is confident that the final outcome of the reexamination will be favorable, particularly because the primary prior art reference relied upon by the Examiner has already been found lacking by the Federal Circuit (the same Court that ultimately hears appeals from the reexamination process).

Defendants also contend that MercExchange has "made every effort to delay the reexaminations," complaining of modest one month extensions of time for MercExchange to respond to each of two Office Actions. However, it is eBay — not MercExchange — that has

PTO statistics, from 2000-2006, an average of 44.4% of appeals to the BPAI from Technology Center 3600 (applicable to MercExchange's patents) resulted in reversal of the Examiner's rejections, while only 26% of such appeals resulted in affirmance of the Examiner's rejections. Stillman Dec. Ex. 30 (BPAI, Receipts and Dispositions by Technology Centers, Ex Parte Appeals).

²⁰ The following time frames apply to the BPAI process: filing of Notice of Appeal to the BPAI, six months after final Office Action (37 C.F.R. §§ 1.191(a)(2), 1.134 and 1.550(c)); filing of Appeal Brief, two months thereafter (37 C.F.R. § 1.92(a)); PTO Examiner's Answering Brief, one to three months thereafter (37 C.F.R. § 1.193(a)(1)); Patentee's Reply Brief and Request for Oral Hearing, two months thereafter (37 C.F.R. §§ 1.193(b)(1), (1.194(b))); oral hearing before BPAI, typically, within six-twelve months after filing of request for oral hearing; Board's decision, typically within one to three months after oral hearing; Patentee's request for rehearing of unfavorable decision, two months after BPAI decision (37 C.F.R. § 1.197(b)); Board decision on request for rehearing, typically one to two months thereafter.

abused the reexamination process and has caused delays by filing numerous improper papers at the PTO.

The reexamination regulations are clear. “The active participation of the *ex parte* reexamination requester ends with the [reply to the initial patent owner’s statement] pursuant to § 1.535, and no further submissions on behalf of the reexamination requester will be acknowledged or considered.” 37 C.F.R. § 1.550(g). eBay has made at least *five* such improper submissions to the PTO. The PTO has recognized the impropriety of eBay’s continued participation in the reexamination proceedings by returning two of such filings to eBay to date. Stillman Dec. Ex. 31 (PTO Decision Returning Improper Paper Dated March 24, 2006). It is eBay’s blatantly improper attempt to participate in this *ex parte* proceeding that has caused needless delay.

For this Court to stay the proceedings in light of the reexamination would place this action and the parties in a legal wasteland for years to come. As set forth in its brief in support of its Motion for Permanent Injunctive Relief, during that time, MercExchange would be deprived not only of the judgment to which it is entitled, but its entire licensing program and ultimately its ability to commercialize its invention would be irreparably harmed. Literally more than half of the entire life of the ‘265 Patent will have been lost. A stay of these proceedings would quite possibly mean the end of MercExchange as a going entity. None of the cases that Defendants rely upon even remotely suggests that a stay should be granted under such facts.

D. Disastrous Public Policy Would Result From Allowing An Adjudicated Infringer To Forestall Enforcement Of A Judgment In Light Of Post-trial Reexamination Proceedings

A rule permitting an adjudicated infringer to stay post-appeal proceedings pending the outcome of a post-trial reexamination would result in disastrous policy. And there is nothing unique about the circumstances of this case that warrant permitting these Defendants — above all other litigants — to orchestrate this extraordinary delay in the enforcement of a Federal Court

decision. If the Court were to grant a stay here, any adjudicated infringer would be empowered to await trial and delay in seeking reexamination unless and until the patentee prevailed at trial and on appeal. This would be a complete perversion of the purpose of the reexamination statute, which was to provide an efficient *pretrial* alternative to litigation and/or to assist the Courts in their adjudication of validity issues *during the trial*.

Far from making patent litigation less costly and more efficient, this would have the exact opposite effect. Every accused infringer would be emboldened to take their chances at trial believing that they still retained a “silver bullet” that could stop further enforcement proceedings in their tracks. Patent litigation matters would be prolonged for years while the parties awaited the outcome of interminable and possibly multiple reexamination proceedings. Infringers could effectively run out the clock on the life of a patent, which is not incoincidentally exactly what Defendants are trying to do here. Meanwhile, adjudicated infringers such as Defendants would continue to reap the benefits of their willful infringement.

Such a result cannot be condoned on the basis of a public policy of invalidating “bad patents.” First, Defendants, like all accused infringers, had their day in court with respect to validity. Second, as collateral estoppel will not generally apply against a different accused infringer, any subsequently accused infringer will likewise have its day in court with respect to challenging validity. Moreover, any other party can seek a reexamination proceeding that might result in invalidity of a patent applicable to future trial proceedings. The question before this Court is not whether the public at large may challenge the validity of MercExchange’s patents; the only question is whether these Defendants may continue to do so for years to come after already presenting their arguments before federal trial and appellate courts and losing.

E. Because eBay Already Represented To This Court That The '051 Case Was Ready For Trial, And eBay Unduly Delayed In Seeking Reexamination, The Court Should Also Deny A Stay With Respect To The '051 Case

MercExchange recognizes that the issue of staying proceedings solely with respect to the '051 Patent presents a closer question, because the Court has not yet tried the issue of eBay's infringement. However, in November 2002, eBay represented to this Court that the '051 case was ready for trial. Stillman Dec., ¶33 (Ex. 32). The Federal Circuit affirmed this Court's *Markman* rulings with respect to the '051 Patent. And one of the primary infringement issues with respect to the '051 Patent has already been conclusively determined against eBay, specifically, that eBay operates as a trusted network or system. As such, eBay is collaterally estopped from contesting that it infringes the "auction" limitations of the '051 Patent claims. And as with the '265 Patent, there is simply no excuse for eBay's delay in seeking reexamination of the '051 Patent.

Also, eBay does not reveal that its supposed inequitable conduct defense has evaporated. eBay contended that MercExchange failed to alert the '051 Patent Examiner to a rejection in an office action made by a different Examiner pertaining to a different patent. The basis for this rejection, however, has been reversed by the PTO's Board of Patent Appeals, thereby defeating any basis for eBay's defense. Stillman Dec., ¶34, Ex. 33. Thus, eBay's defense is amenable to summary judgment against eBay.

Accordingly, the Court should likewise deny eBay's request for a stay of proceedings with respect to the '051 Patent.

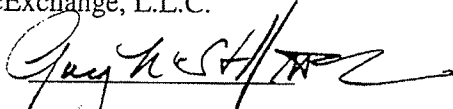
IV. CONCLUSION

For the foregoing reasons, the motion to stay the mandate of the Supreme Court, and all further proceedings, should be denied.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that on the 25th day of September, 2006 I caused a copy of the foregoing Plaintiff MercExchange, L.L.C.'s Brief in Opposition to Defendants' Motion to Stay The Mandate and All Further Proceedings to be served as follows:

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