

In The
United States Court of Appeals
For The Federal Circuit

MERCEXCHANGE, L.L.C.,

Plaintiff-Appellant,

v.

eBAY, INC. and HALF.COM, INC.,

Defendant-Appellee,

APPEAL FROM THE
UNITED STATES DISTRICT COURT FOR THE
EASTERN DISTRICT OF VIRGINIA
IN CASE NO. 2:01-CV-736, JUDGE JEROME B. FRIEDMAN.

BRIEF OF APPELLANT

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TABLE OF ABBREVIATIONS

In this Brief, the following abbreviations and format will be observed:

MercExchange	Plaintiff-Appellant MercExchange, L.L.C.
eBay	Defendant-Appellee eBay, Inc.
Half.com	Defendant-Appellee Half.com, Inc.
defendants	Collectively, eBay and Half.com
the '265 Patent	United States Patent No. 5,845,265, issued to Thomas G. Woolston, and assigned to MercExchange
district court	United States District Court for the Eastern District of Virginia, Judge Jerome B. Friedman
App _____	Citation to Joint Appendix
Conf-App _____	Citation to the "Confidential" portions of the Joint Appendix for materials filed under seal pursuant to the protective order.
PTO	United States Patent and Trademark Office
uBid	uBid.com, Inc., licensee of the '265 Patent

STATEMENT OF RELATED CASES

Pursuant to Federal Circuit Rule 47.5 Plaintiff-Appellant MercExchange states that: (1) MercExchange previously appealed the district court's modification of a consent judgment between MercExchange and ReturnBuy in *MercExchange, L.L.C. v. eBay, Inc. and Half.com*, Appeal No. 03-1318. This Court, Judges Rader, Schall, and Prost, dismissed the appeal on June 2, 2003 in an opinion not citable as precedent under Federal Circuit Rule 47.6. (2) Defendants-Appellees eBay and Half.com appealed and MercExchange cross-appealed a final judgment entered August 7, 2003 in *MercExchange, L.L.C. v. eBay, Inc. and Half.com, Inc.*, Appeal Nos. 03-1600, -1616. This Court, Chief Judge Michel, and Judges Clevenger and Bryson, affirmed in part, reversed in part, and vacated in part, in a published opinion dated March 16, 2005, as reported in *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323 (Fed. Cir. 2005). (3) eBay and Half.com appealed to the Supreme Court of the United States this Court's order enjoining eBay and Half.com from further acts of infringement of the '265 Patent. The Supreme Court vacated the permanent injunction and remanded the matter to the district court in a published decision dated May 15, 2006 as reported in *eBay, Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006). (4) There is no other case known to counsel to be pending in this or in any other court that will directly affect or be directly affected by this Court's decision in the pending appeal.

JURISDICTIONAL STATEMENT

MercExchange appeals from an order entered July 27, 2007, denying MercExchange's renewed motion for a permanent injunction. The district court had original jurisdiction under 28 U.S.C. §§ 1331 & 1338(a). MercExchange timely filed a notice of appeal on August 27, 2007. This Court has jurisdiction under 28 U.S.C. § 1292(a)(1).

STATEMENT OF THE ISSUES

MercExchange's appeal presents the following issue:

1. Whether the district court abused its discretion in denying MercExchange a permanent injunction for defendants' continued willful infringement?

STATEMENT OF THE CASE

Preliminary Statement.

This is a case of deliberate willful infringement. The question in this case is whether equity favors granting injunctive relief to the patent holder, MercExchange, after a jury's finding of willful infringement against the defendants, eBay and its wholly-owned affiliate Half.com. This Court previously affirmed the jury's finding of defendants' willful infringement and defendants have exhausted all appeals. The district court failed to fully appreciate how eBay's dominance, as a market monopolist, combined with its willful infringement, impacted MercExchange's ability to exploit U.S. Patent No. 5,845,265 ("the '265

Patent”). Instead, the district court viewed MercExchange’s attempts to commercialize the ’265 Patent with skepticism, completely failing to appreciate the impact eBay’s infringing system (which remained in the market) had on MercExchange’s licensees.

The equities strongly favor injunctive relief. Not only is this a case of deliberate willful infringement, but by eBay’s own assertion, the infringement was avoidable. eBay was well aware of and tried to purchase the ’265 Patent before eBay started infringing. And eBay deliberately chose to infringe when it could have (as it contends) avoided infringement with a simple, inexpensive design-around. Under these circumstances, eBay can “make no claims whatsoever on the Chancellor’s conscience.” *Albemarle Paper Co. v. Moody*, 422 U.S. 405, 422 (1975). Further, eBay has proclaimed to the investing public that an injunction would *not* harm it.

In contrast, MercExchange continues to suffer irreparable harm absent an injunction. MercExchange, and MercExchange’s licensees are competitors of eBay. But eBay’s continued use of MercExchange’s technology irreparably harms MercExchange’s ability to market, sell, or license its technology to these existing or future competitors to eBay. If eBay, as a market monopolist, cannot be enjoined, MercExchange is effectively denied the ability to maximize the value of its patents by exclusively licensing them. The value of MercExchange’s lost

opportunities to enter into these license relationships, and to take advantage of the further business those relationships might generate, is unquantifiable.

Moreover, the harm to MercExchange has only intensified in the almost three years since the prior appeal was before this Court. eBay has solidified its market dominance, at least in part by infringing MercExchange's '265 Patent. For example, eBay, following the jury's finding of willful infringement, opened up a new channel of business entitled its "Trading Post Program," which incorporates physical consignment stores where sellers can drop off their merchandise for later sale on eBay. eBay opened this new venture despite recognizing the risk of infringing MercExchange's patents was a "10" on a scale of "1 to 10," with "10" being the highest risk. MercExchange, on the other hand, has been thwarted in its efforts to market its invention because of its inability to prevent eBay — whose dominance squeezes out potential competitors — from infringing.

The district court also erred in ignoring MercExchange's efforts to commercialize the '265 Patent prior to August 7, 2003 (the date of the district court's entry of final judgment). Apparently the district court believed it was being even-handed in refusing arguments made by both parties urging the district court to reconsider findings and holdings from its August 7, 2003 Order and Opinion. But eBay was attempting to argue that it was not a willful infringer, a finding that had been affirmed on appeal and was therefore finally established. In contrast, the

district court refused to consider arguments from MercExchange related to its pre-August 7, 2003 development efforts, despite the fact that the district court's entire analysis on the denial of injunctive relief, which included findings pertaining to MercExchange's licensing efforts, had been vacated and remanded with the mandate to analyze injunctive relief "in the first instance." Instead of approaching this analysis "in the first instance," the district court abused its discretion by relying upon its prior findings and only allowing MercExchange to present evidence of its commercialization efforts after August 7, 2003.

The public interest also favors injunctive relief. In addition to maintaining the integrity of the patent system by enforcing patent rights, enjoining eBay also serves the public interest in promoting competition. Without an injunction, eBay will further solidify its monopoly power by impairing development of potential online auction alternatives to eBay. Moreover, eBay has attempted to thwart MercExchange's effort to even interact with potential licensees and customers.¹

While the factors for evaluating injunctive relief all strongly favor granting MercExchange that relief, the district court abused its discretion by refusing to enjoin eBay's future infringement.

¹ eBay pressured an organization called PESA to have MercExchange's representatives removed from a public meeting that included many of eBay's "power sellers." eBay informed PESA that if MercExchange was not removed from the public meeting that PESA would no longer have "access to eBay execs."

Procedural History.

MercExchange sued eBay in the district court in September 2001 for, *inter alia*, infringement of the '265 Patent. The jury found that eBay (and its wholly-owned subsidiary, Half.com) had willfully infringed the '265 Patent and awarded damages for past direct infringement of that patent in the amount of \$25 million. *MercExchange, L.L.C. v. eBay, Inc.*, 275 F. Supp. 2d 695, 698-99 (E.D. Va. 2003).² The district court upheld the jury's finding of willful infringement, *id.* at 704, and this Court unanimously affirmed the jury's verdict and the district court's judgment that the '265 Patent was valid and willfully infringed. *MercExchange, L.L.C.*, 401 F.3d at 1328-29. eBay did not seek further review on those questions, and the judgments of validity and willful infringement are now final.

With respect to MercExchange's initial request for injunctive relief, the district court denied a permanent injunction, *MercExchange*, 275 F. Supp. 2d at 715, and this Court reversed. *MercExchange*, 401 F.3d at 1339. eBay sought

² MercExchange brought infringement claims based on three of its patents: U.S. Patent No. 6,202,051 ("the '051 patent"), U.S. Patent No. 6,085,176 ("the '176 patent"), and the '265 Patent. Before trial, the district court granted eBay summary judgment that all claims of the '051 patent were invalid for lack of a written description. *MercExchange, L.L.C. v. eBay, Inc.*, 271 F. Supp. 2d 789, 794-95 (E.D. Va. 2002). This Court vacated summary judgment and remanded for trial (which the district court has since stayed). *MercExchange, L.L.C.*, 401 F.3d at 1337. The '176 patent and '265 Patent infringement claims went to the jury; with this Court subsequently reversing the jury's verdict of willful infringement of the '176 patent after concluding that that patent was invalid. *Id.* at 1326.

certiorari on the question whether this Court had properly evaluated the propriety of a permanent injunction. Conf-App 00500163-187. The Supreme Court concluded that neither lower court properly applied the appropriate test for injunctive relief, thereby vacating this Court's decision and remanding to the district court to apply the traditional "four-factor test" for such relief in the first instance. *eBay, Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1841 (2006). The only question remanded to the district court, therefore, was whether permanent injunctive relief is proper under this four-factor test. *MercExchange, L.L.C. v. eBay, Inc.*, Nos. 03-1600, 03-1616, 2006 U.S. App. LEXIS 17505 (Fed. Cir. July 6, 2006) (remand order). The district court, in rejecting MercExchange's renewed motion for a permanent injunction, concluded that legal relief, including potentially enhanced damages, would fully compensate MercExchange for defendants' willful infringement. App 000036.

STATEMENT OF FACTS

In April 1995, several months before eBay was conceived, Thomas Woolston filed his first patent application involving online marketing technology. The family of patents that issued from this parent application includes the '265 Patent. App 000236.

A. The '265 Patent.

The '265 Patent, in general terms, describes an “electronic market” for the sale of goods. App 000236-262. In such a market, sellers can display their wares by posting pictures, descriptions, and prices of goods on a computer network, such as the Internet. A prospective buyer can electronically browse the goods on sale by connecting to the network. After selecting an item, the buyer can complete the purchase electronically, with the “electronic market” mediating the transaction, including payment, on the buyer’s behalf. The seller is then notified that the buyer has paid for the item and that the transaction is final. A central authority within the market can police the obligations and performance of sellers and buyers over time, thereby promoting trust among participants. In short, the invention provides a platform to offer goods for sale over the Internet in which the entire sales transaction, including the mediation of payment, is performed electronically. App 000236-240.³

B. Initial Efforts to Commercialize the Invention.

Mr. Woolston’s goal from the outset was to commercialize his patented inventions. For that purpose, he founded MercExchange (as well as an earlier

³ In affirming the district court’s claim construction for the '265 Patent, *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1329 (Fed. Cir. 2005), this Court rejected eBay’s contention that the district court had “failed to perform its most critical function” of instructing the jury on claim construction issues.

iteration of that company, called Fleanet) and assigned his patent rights to it. Trial Tr. pp. 334-35; 493 (Conf-App 00500099; 00500108). He developed a business plan and sought capital investment to commercialize his patents. *Id.* pp. 315; 492-96; 513-16 (Conf-App 00500098, 107-108, 110). He also hired a computer programming staff to write software to put his inventions into practice. *Id.* pp. 1084-87 (Conf-App 00500119). In order to make the most of its limited resources, MercExchange also entered into cooperative business and license agreements with another company, Aden Enterprises, in October 1999. Conf-App 00500128-136 (agreement granting exclusive license within the online travel-sector field-of-use). At that time, Aden Enterprises was “embarking on a major industry initiative to build and deploy Internet Markets and Auctions” (Conf-App 00500128),⁴ and MercExchange sought, through this business/license arrangement, to use its patent rights to develop its invention in ways that MercExchange could not accomplish alone. *See also* Conf-App 00500137-142 (non-exclusive license with Aden’s wholly-owned subsidiary Leftbid.com in the field of use of the “Fine Art Sector” of Internet markets); Conf-App 00500143-148 (non-exclusive license with Aden’s wholly-owned subsidiary Navlet.com that provided infrastructure (hardware and software facilities) for Internet auction systems). MercExchange hoped to leverage

⁴ An Internet or online auction market can allow consumers to bid their own price for various items or to buy those items at a fixed price.

the resources of these licensees to help develop and commercialize the invention. *See, e.g.*, Conf-App 00500238-239 (¶¶ 33-37) (noting these licensees were obligated to use their “best efforts” to develop the technology).

By the late 1990s, eBay was also looking for ways to offer goods for sale with the entire sales transaction, including the mediation of payment, performed electronically. Accordingly, in June 2000, eBay approached MercExchange to discuss eBay’s interest in buying MercExchange’s patent portfolio. Conf-App 00500149-150; Trial Tr. pp. 348-52; 590-92 (Conf-App 00500103-104, 115-116). eBay had been aware of MercExchange’s ’265 Patent and its technique for conducting electronic sales since the late 1990’s; in fact, eBay had filed twenty-four patent applications citing the ’265 Patent as prior art from October 1998 through February 2002. Conf-App 00500151-154. MercExchange was interested in entering into a working relationship with eBay. MercExchange relationship with Aden was ending and MercExchange hoped that by so doing business with eBay it could capitalize MercExchange to develop its new search technology. Trial Tr. pp. 348-49; 590-91 (Conf-App 00500103, 115-116). eBay, however, made clear that it was interested only in buying the patents, and all pending patents, rather than entering into any relationship that would keep MercExchange free to further develop its search technology. *Id.* pp. 348-49.

C. eBay's Infringement.

When negotiations for the sale of MercExchange's patents broke down, eBay began using MercExchange's technology without authorization. By the fall of 2000 — only months after eBay had unsuccessfully tried to buy MercExchange's patents — eBay had incorporated into its website a fixed-price sales capability using the “electronic market” system of MercExchange's '265 Patent for the purchase and sale of goods and the transfer of funds in an electronic marketplace. Transcript of Whitman Deposition at 65-67 (Conf-App 00500156-157); Transcript of Krauss Deposition at 21-28 (Conf-App 00500159-162).

At the same time that eBay began using MercExchange's technology, it was becoming clear that lack of capital would prevent MercExchange from successfully commercializing its inventions directly. With no choice but to end its efforts at direct commercialization, MercExchange shifted its remaining resources to building a licensing program. Trial Tr. pp. 533; 1087 (Conf-App 00500113, 119).

While at trial eBay mocked MercExchange's business plan to commercialize its patent, eBay has since adopted that very plan, which incorporates brick and mortar consignment stores where sellers can drop their merchandise for later sale on eBay. *See* Ina Steiner, “eBay Encourages Consignment Sales Through Trading Post Program,” AuctionBytes.com (Jan. 28, 2004), *available at*

<http://www.auctionbytes.com/cab/abn /y04/m01/i28/s01> (accessed March 22, 2007) (Conf-App 00502860-862). *See also* eBay's "Trading Post FAQs," (Conf-App 00502864-868) (defining eBay's Trading Posts as "locations that allow customers to drop items off and have them sold on eBay. Trading Posts provide the service of selling items on eBay for others for a fee."). eBay was fully aware that its new Trading Posts violate MercExchange's patent rights; eBay recognized that among the legal risks associated with this new eBay feature was the risk that it infringes the MercExchange patents "on drop off consignment model" and rated the degree of legal risk as a 10 on a scale of 1-10, where 10 was the highest risk. *See* "eBay Trading Post Franchises" (Conf-App 00502870-893).

D. The '265 Patent reexamination process.

After final judgment had been entered against eBay and while its appeal to the Federal Circuit was pending, eBay filed its first request for the Patent and Trademark Office ("PTO") to reexamine the '265 Patent. eBay subsequently filed a second request, which was rejected by the PTO as non-compliant for failing to specifically state the reason for a substantial new question of patentability. eBay then filed its third request for reexamination as an amended second request. Those parallel proceedings were merged and the PTO has not yet issued a final decision on the reexamination. The PTO has, however, recently issued a non-final Office *Action in which it deemed patentable and/or confirmed claims 1-25*. App 003358.

While this Office Action has preliminarily rejected claims 26-29, MercExchange will respond, believing claims 26-29 will ultimately also be deemed patentable and/or confirmed for substantially the same reasons these claims were found to be valid by the district court (and affirmed by this Court). If the PTO finally rejects claims 26-29, this decision may of course be appealed to the Board of Patent Appeals and Interferences (*see* 35 U.S.C. § 134(b)), and ultimately to this Court (*see* 35 U.S.C. § 306), which previously upheld the validity of the '265 Patent. Even if the PTO were to finally reject claims 26-29 of the '265 Patent, those claims would not be cancelled unless and until that agency action was affirmed on appeal by this Court — a process that could take years. *See* 35 U.S.C. § 307(a) (certificate canceling or confirming claims of patent on reexamination issued when appeals process has been exhausted); *In re Am. Acad. of Sci. Tech Ctr.*, 367 F.3d 1359 (Fed. Cir. 2004) (PTO's findings on reexamination not confirmed until ten years after reexamination was requested).

E. Current Impact of eBay's Continuing Infringement.

Although MercExchange has a final judgment that eBay willfully infringed its valid patent, not a penny of that judgment has been paid. Without an injunction ordering eBay to stop infringing the '265 Patent, the prospect that eBay will persist

in its infringement has continued to make MercExchange's efforts to commercialize its invention extremely difficult, and may completely exhaust this enterprise.

First, it is difficult for MercExchange to enter into and fully benefit from license arrangements because licensees have little incentive to make significant "up front" payments so long as eBay is infringing. Further, neither the licensee nor MercExchange come close to realizing the full benefits from those licenses due to eBay's market dominance in the market space covered by the '265 Patent. Trial Tr. pp. 1087, 1093 (Conf-App 00500119-120); *see also* Conf-App 00500255 (¶ 100). For example, in December 2002 MercExchange entered into a license agreement with AutoTrader.com, Inc. ("AutoTrader"), which competes against eBay in the field of online automobile sales. Conf-App 00500188-200. The license, which was negotiated under the cloud of eBay's infringement, permits AutoTrader to make exclusive use of the '265 Patent within the field of automobile sales — but it makes payment of royalties contingent on MercExchange's successfully stopping eBay's infringement. *Id.* In other words, royalties are payable only if eBay is prevented from continuing to practice MercExchange's patented technology. Because of eBay's continued infringement, MercExchange has been unable to realize any benefit from this license, and, for its part,

AutoTrader has been denied the rights *it* bargained for — the exclusive use of the invention for the purpose of buying and selling cars.

Second, MercExchange's post-trial experience with uBid.com, Inc. ("uBid"), one of eBay's few remaining direct competitors, well-illustrates the irreparable harm that MercExchange is suffering in the absence of an injunction. uBid and MercExchange had extensive discussions concerning merging the respective companies as evidenced by uBid wanting to take an exclusive license to the '265 Patent, in return for granting MercExchange an equity position in uBid. If eBay were enjoined, this exclusive licensing arrangement had the potential to drive up to \$12 billion in fixed-price sales from eBay's site to uBid's, with MercExchange's equity position giving it a direct and substantial stake in those market-share gains. The deal could not be consummated, however, because the absence of an injunction made its valuation too uncertain.

The history behind this lost opportunity is instructive. uBid was founded in 1997 with the express purpose of competing with eBay. Conf-App 00502760 (¶ 13). eBay launched its fixed-price sales feature in mid-2000; uBid launched its own fixed-price feature in February 2002. Conf-App 00502761 (¶ 18).

Shortly thereafter, uBid became aware that eBay's fixed-price feature (i.e., "Buy-It-Now") might infringe MercExchange's patent. After consulting with counsel, uBid voluntarily suspended its similar fixed-price feature in March 2003.

and sought a license from MercExchange. Conf-App 00502762 (¶ 19); uBid Rule 30(b)(6) Deposition Tr. at 162, 286, 306-07 (Conf-App 00502810, 818, 820). A few months later, in August 2003, the district court upheld the jury's verdict that eBay's and Half.com's fixed-price sales features willfully infringed the '265 Patent. *MercExchange, L.L.C.*, 275 F. Supp. 2d at 704; *see also* Conf-App 00502762 (¶ 20).

uBid recognized that securing a license to the '265 Patent and re-launching its fixed-price sales feature could give uBid a competitive advantage over eBay. As uBid's CEO explained in his deposition, eBay at the time was generating about \$40 billion in revenue, with about 30 percent of that revenue generated from its infringing "Buy-It-Now" sales. Conf-App 00502806 (p. 99). Because uBid believed that eBay would not be able to offer its fixed-price features without a license, uBid saw the opportunity to drive up to \$12 billion worth of sales from eBay to uBid's licensed platform. *Id.* (pp. 99-100); Conf-App 00502762 (¶ 21).

Accordingly, in May 2004 uBid entered into a license agreement with MercExchange for a non-exclusive license to the '265 Patent, and uBid re-launched its fixed-price sales feature. Conf-App 00502822-832; 00502810 (pp. 162-63). After uBid re-launched this feature under a license from MercExchange, it was the fastest growing part of uBid's business. Conf-App 00502810 (p. 163).

Based in part on the popularity of uBid's fixed-price sales feature and its future potential value, uBid sought to expand its relationship with MercExchange. Conf-App 00502763 (¶ 25); Conf-App 00502819 (p. 299). Specifically, uBid wanted to solidify its business partnership with MercExchange by converting the non-exclusive license into an exclusive one, in return for giving MercExchange an equity position in uBid. Conf-App 00502811, 00502819 (pp. 209, 299) ("What we were interested in was granting, getting a sublicense, an exclusive sublicense in return for giving up equity in the company."); *see also* Conf-App 00502763 (¶ 25).

As uBid's CEO explained, an exclusive license "could be as powerful as \$12 billion" because eBay sellers (in particular the large "power sellers") could use uBid's fixed-price feature "in lieu of eBay[']s]" (and in lieu of any of uBid's other potential competitors). Conf-App 00502812 (p. 211); *see also* App 003056 (n.8). In return for granting this exclusive license to uBid, MercExchange would get an equity stake in uBid, allowing it to compete directly with eBay and benefit directly from uBid's gains in market share. Of course, the "general premise and the power" of this proposed relationship stemming from an exclusive license-for-equity partnership was that eBay would be prevented – through an injunction – from infringing the '265 Patent. Conf-App 00502812-814, 00502819 (pp. 211, 217-18, 300).

The “premise” behind this deal was in flux, however, because the injunction issue remained unresolved. As the CEO of uBid testified, the parties “couldn’t assess the value” of an exclusive license because, in the absence of an injunction, it was unclear what value that license would give to uBid or to MercExchange over time. *Id.* at 217-18. It could be tremendously valuable, if an injunction entered to prevent the threat of future infringement, or it might not be valuable at all, if no injunction entered and there was therefore nothing to prevent eBay from continuing (or resuming) its infringement. *Id.* at 218, 299-300. Likewise, an equity position in uBid, from MercExchange’s perspective, would be worth far less if eBay was not enjoined from infringing the ’265 Patent. In the face of this uncertainty, MercExchange and uBid could not consummate their relationship and did not arrive at an agreement for exclusive license rights to the ’265 Patent in return for equity in uBid. Conf-App 00502811-812 (pp. 206-12); Conf-App 00502764 (¶ 26).

Third, eBay has also done everything within its power to interfere with MercExchange’s efforts to establish licensees and/or customers. For example, eBay used its market power to prevent MercExchange from interacting with potential licensees/customers by excluding MercExchange from public meetings of eBay “power sellers.” *See, e.g.,* Ina Steiner, “The eBay Patent Wars: PESA Summit Skirmish,” AuctionBytes.com (Oct. 29, 2005) (Conf-App 00502840). *See*

also Emails between eBay representatives reflecting that eBay pressured PESA to remove MercExchange representatives who were in attendance at a public PESA meeting by threatening to withdraw PESA's "access to eBay execs." Conf-App 00502842-855. Once the MercExchange representatives were removed from the PESA meeting, eBay coordinated with PESA to make sure their "message" to reporters covering the meeting was consistent and made "[MercExchange]/uBid seem even less credible." Conf-App 00502857-858.

SUMMARY OF ARGUMENT

The district court abused its discretion by refusing to enter a permanent injunction. First, the district court erred in failing to recognize that a presumption of irreparable harm was appropriate based on the fact that eBay is a willful infringer possessing a virtual monopoly on the relevant market space.

Additionally, the district court abused its discretion in denying injunctive relief by failing to properly apply the traditional four-factor equitable test. MercExchange has and will continue to suffer irreparable harm for which there is no adequate remedy at law. The balance of hardships weighs heavily in favor of injunctive relief, as does the public interest.

Finally, the district court also erred in failing to follow the Supreme Court's directives by not conducting the traditional four-factor equitable test "in the first instance."

ARGUMENT

I. THE DISTRICT COURT ERRED IN DENYING MERCEXCHANGE A PERMANENT INJUNCTION.

A. Applicable Legal Standard.

The Patent Act provides that, in order to prevent the violation of any patent right, courts “may” grant injunctive relief “in accordance with the principles of equity.” 35 U.S.C. § 283. The exercise of this discretion has therefore been guided by traditional equitable principles. *See, e.g., Odetics, Inc. v. Storage Tech. Corp.*, 14 F. Supp. 2d 785, 794-97 (E.D. Va. 1998), *aff’d*, 185 F.3d 1259 (Fed. Cir. 1999). No one can reasonably contend that the district court and this Court do not have equitable jurisdiction to address the issues remaining in this case as the legal component of this case is now over.

The Supreme Court’s recent decision in *eBay, Inc.* reaffirmed this approach, holding that traditional equitable principles, as reflected in the four-factor framework for equitable relief, should be applied in each case. 126 S. Ct. at 1839 (describing four factors as whether (1) the plaintiff has suffered an irreparable injury; (2) money damages are inadequate to compensate for that injury; (3) the balance of the hardships between the parties warrants equitable relief; and (4) the public interest would not be disserved by injunctive relief).

Courts are not “writing on an entirely clean slate” when applying these traditional equitable principles, however. *Id.* at 1841 (Roberts, C.J., concurring).

Instead, a court’s discretion is guided by legal standards and historical practice. *Id.* (“Discretion is not whim, and limiting discretion according to legal standards helps promote the basic principle of justice that like cases should be decided alike.”) (quoting *Martin v. Franklin Capital Corp.*, 546 U.S. 554 (2005)). That historical practice shows that, “[f]rom at least the early 19th century, courts have granted injunctive relief upon a finding of infringement in the vast majority of patent cases.” *Id.* As the Supreme Court made clear in *eBay*, this history does not justify a categorical rule that injunctions must issue after a finding of infringement. At the same time, however, the principles that gave rise to this historical practice — the nature of the patent right and the harm that arises from losing the right to exclude — are still important in a court’s weighing of the four equitable factors.⁵

This case is no exception. Under the traditional four-factor framework, MercExchange is entitled to an immediate permanent injunction against eBay’s continued infringement of the ’265 Patent.

⁵ Justice Kennedy’s separate concurrence does not disagree. 126 S. Ct. at 1842. Justice Kennedy noted that the right to exclude does not inexorably dictate injunctive relief; rather, the four-factor test, applied in the context of analogous historical practice, governs. *Id.*

B. Absent An Injunction, MercExchange Will Suffer Immediate Irreparable Harm For Which There Is No Adequate Remedy At Law (Factors #1 and #2).

Absent an injunction, eBay's infringement will continue to cause MercExchange irreparable harm, *i.e.*, harm that cannot be adequately compensated by money damages.⁶ The essence of the patent right is the right to exclude others from using one's invention for a limited time, as a patent's value diminishes with time. *See* 35 U.S.C. § 154(a)(1); *see also Richardson v. Suzuki Motor Co., Ltd.*, 868 F.2d 1226, 1247 (Fed. Cir. 1989). The mere passage of time during which that right is deprived, therefore, can work an irremediable harm. *Richardson*, 868 F.2d at 1247.

It is for that reason that, once infringement and validity have been established, the patent holder is generally presumed to have suffered irreparable harm. *See Richardson*, 868 F.2d at 1247 (Fed. Cir. 1989) (citing *Smith Int'l, Inc. v. Hughes Tool Co.*, 718 F.2d 1573, 1581 (Fed. Cir. 1983)). The Supreme Court's decision in *eBay* did not alter that presumption and the district court erred in holding that it did. App 000014-15. In *eBay*, the Supreme Court explained that a

⁶ Irreparable harm in the absence of equitable relief and inadequacy of legal remedies are, in effect, two sides of the same coin. *See* 11A Charles Alan Wright, *et al.*, *Fed. Prac. & Proc.*, § 2944 (2d ed. 1995) (irreparable harm is not an independent requirement for obtaining a permanent injunction but is one basis for showing inadequacy of legal remedy); Douglas Laycock, *Modern American Remedies: Cases and Materials* 370 (3d ed. 2002) (same).

plaintiff seeking a permanent injunction must demonstrate irreparable harm. 126 S. Ct. at 1839. But, as this Court has suggested in at least one post-*eBay* case, the plaintiff can do so where the defendant fails to rebut the presumption of irreparable harm that arises from a showing of success on the merits of validity and infringement. *Cf. Abbott Labs. v. Andrx Pharms., Inc.*, 452 F.3d 1331, 1347 (Fed. Cir. 2006) (holding that, because plaintiff seeking preliminary injunction failed to establish likelihood of success on merits, plaintiff was not entitled to presumption of irreparable harm). And eBay cannot rebut that presumption here; MercExchange's "willingness to license" should not diminish MercExchange's right to exclude, nor the harm that befalls MercExchange through its deprivation.

In this instance, the Court need not hold that a rebuttable presumption of irreparable harm exists in every infringement case. eBay was not only found by the jury to be a willful infringer (a finding that remains undisturbed after appeal), it is also a market monopolist. It is difficult to imagine a scenario in which irreparable harm does not exist when a market monopolist willfully infringes a small company's patent. To place the burden to rebut a presumption of irreparable harm on the willful infringer, as opposed to the smaller patentee, is without question equitable. The district court erred in concluding otherwise.

Even if this Court concludes that MercExchange is not entitled to a presumption of irreparable harm, however, MercExchange will unquestionably suffer such harm, in numerous ways, absent an injunction.

1. Depriving MercExchange of the right to choose to whom it licenses its patented technology is a harm that cannot be remedied with money damages.

The necessary corollary to the right to exclude is the patent holder's right to decide if, when, and to whom to license its patented invention. 35 U.S.C. § 271(d). Absent an injunction to enforce that right here, MercExchange would, in effect, be forced to license its technology to eBay. Such a forced license is "antithetical to a basic tenet of the patent system . . . that the decision whether to license is one that should be left to the patentee." *Odetics*, 14 F. Supp. 2d at 795.

Forcing MercExchange to license its patent to someone not of its choosing is an irreparable harm — once lost it cannot be retroactively restored nor remedied with money. Conf-App 00500973-976 (¶¶ 32-38). That is true whether MercExchange uses its patented invention itself in a commercial enterprise, licenses the invention, or even refuses to license or make any other use at all of the patent. See *eBay, Inc.*, 126 S. Ct. at 1840-41 (reaffirming *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 422-30 (1908), which rejected the contention that a court of equity has no jurisdiction to grant injunctive relief to a patent holder who has unreasonably declined to use the patent).

But the harm to MercExchange is particularly severe on the record here. MercExchange, and MercExchange's licensees or potential licensees, are (or aspire to be) *competitors* of eBay — an entity that commands ninety percent of the relevant market. Conf-App 00500974-975, 00500977-978 (¶¶ 34-35, 42-43); *Market Share Reporter*, Vol. 2, 573 (Robert S. Lazich, ed., 2006) (Conf-App 00500213-217) (eBay has ninety percent share). Money damages are therefore particularly inadequate to compensate MercExchange for eBay's unauthorized use of the patented invention. Not only is MercExchange forced to license someone *not* of its choosing, which negates an essential and irremediable aspect of MercExchange's patent rights, but MercExchange's ability to license and commercialize its patent to those of its *own* choosing is degraded. Conf-App 00500255 (¶ 100). A potential licensee might be undeterred from taking a license if the unenjoined competitor is a small part of the market, but would have little incentive to adequately compensate MercExchange for the use of its technology where the unenjoined competitor so dominates the market. Conf-App 00500975-979, 991-992, 995-996 (¶¶ 38, 42-44, 81, 90). Further, a potential licensee would only be willing to invest the millions of dollars it would unquestionably take to commercialize the '265 Patent and truly compete with eBay if the licensee knew that eBay was enjoined from using its infringing system. If eBay is only required to pay a compulsory license or pay some other compensation for ongoing

infringement, its system will still dominate the market, leaving little room for new competition. However, if eBay is enjoined from continuing to use its infringing system, potential licensees will see the opportunity in the market to successfully exploit the invention and will be much more likely to be willing to make the required investment to capture the now available market space. The district court failed to appreciate this point.

As explained in *Odetics*, the argument that future royalty payments ameliorate such harm to a patent holder is untenable. 14 F. Supp. 2d at 795. The court observed that “[d]efendants are incorrect that absent an injunction Odetics will not suffer irreparable harm simply because it will be paid royalties for all future infringement. If no injunction issues, Odetics effectively will be forced to license [its] patent to [the infringer], a result antithetical to a basic tenet of the patent system, namely that the decision whether to license is one that should be left to the patentee.” *Id.* In addition, a compulsory license denies the inventor the opportunity to take an active role in the exploitation of his invention. Conf-App 00500258 (¶ 112). Permitting eBay to continue using MercExchange’s technology without authorization is antithetical to the patent law and irreparably harmful to MercExchange.

2. Absent an injunction, MercExchange will suffer substantial losses in the value of its patent, and in business opportunities to use its patent, which cannot be adequately compensated with money.

Absent an injunction against eBay, MercExchange will be hindered in its ability to enter into the kinds of license agreements and business relationships that are necessary to maximize the economic value of the patent. Conf-App 00500760-764 (¶¶ 27-39). It is particularly important for a small company like MercExchange to preserve flexibility in the way it licenses its patent. *Id.* ¶ 28. It may be advantageous for MercExchange to license its patent non-exclusively in certain situations, for example, when the licensee is a potential partner or customer. *Id.* ¶ 37. And MercExchange may need to license exclusively in other situations, for example, to attract capital, talent, and strategic business partners to develop the invention in ways MercExchange could not achieve on its own. *Id.* ¶ 28. It is critically important, however, in order to realize the full value of its patent, for MercExchange to preserve the ability to license exclusively. But without the ability to enforce the right to exclude through an injunction, MercExchange is crippled in its efforts to do so. Conf-App 00500768-769 (¶¶ 53-54). No potential licensee or customer would pay MercExchange anything close to full value for a patent license if eBay is not enjoined from infringing. And few, if any, potential licensees would be willing to commit resources to develop the invention if eBay is not enjoined from infringing. Conf-App 00500980 (¶¶ 46-47); Conf-App

00500746-748 (¶¶ 43, 46-47, 49). Without the ability to license its patent strategically or exclusively, a substantial portion of the value of MercExchange's patent is irretrievably lost — effectively blocked by eBay's infringement. *See* Conf-App 00500757 (¶¶ 16-18). As this Court has explained, without an injunction to enforce it, “the right to exclude . . . would have only a fraction of the value it was intended to have.” *Smith Int'l*, 718 F.2d at 1578.

In demonstrating that it suffered irreparable harm through loss of business opportunities, MercExchange did not — explicitly or implicitly — ask the district court to adopt an impermissible categorical rule. Certainly, the vast majority of patent holders would likely suffer some lost business opportunities as a result of infringement, but each is still required to demonstrate that loss and that the balance of the remaining factors weighs in its favor. MercExchange did not claim in the abstract that it lost theoretically-existing business opportunities. Rather, it pointed to specific opportunities with uBid, AutoTrader, Christie's, and others that were hindered or foreclosed, at least in part, by eBay's infringement. App. 002805-807, 811-815. Recognizing such irreparable harm arising from MercExchange's enumerated lost opportunities does not require this Court to establish a general rule in favor of any patentee who claims unspecified lost opportunities.

As the Fourth Circuit recognized in *Blackwelder Furniture Co. v. Seilig Mfg. Co.*, “irreparability of harm includes the ‘impossibility of ascertaining with any

accuracy the extent of the loss.” 550 F.2d 189, 197 (4th Cir. 1977) (quoting *Foundry Servs., Inc. v. Beneflux Corp.*, 206 F.2d 214, 216 (2d Cir. 1953) (Hand, J., concurring)). In this case, the value of MercExchange’s lost opportunities to enter into licensing relationships — and to take advantage of the further business those relationships would generate — is unquantifiable. Certainly, “it would be very difficult to calculate monetary damages that would successfully redress the loss of a relationship with a client that would produce an indeterminate amount of business in years to come.” *Ticor Title Ins. Co. v. Cohen*, 173 F.3d 63, 69 (2d Cir. 1999) (concluding that irreparable harm existed where employee violated covenant not to compete and induced clients to follow him to new firm).

For example, MercExchange was thwarted in its efforts to establish a further business arrangement, by way of an exclusive license or a business combination, with uBid, the second most popular online auction site after eBay and one of the few existing direct competitors to eBay. Conf-App 00502763-764 (¶¶ 24-27); Conf-App 00500745-748 (¶¶ 37-43; 46-47); Conf-App 00500249 (¶ 71). And it was eBay’s infringement that was the direct cause of MercExchange’s difficulties in expanding MercExchange’s business relationship with uBid. In a sworn declaration, uBid’s Executive Vice President Timothy Takesue stated that it is eBay’s infringement, rather than any other factor, that stood in the way of an agreement between MercExchange and uBid for an exclusive license to the ’265

Patent. Conf-App 00502762-64 (¶¶ 21; 25-27). Indeed, uBid conducted its business under that understanding, making it clear that eBay's infringement, and not the reexamination proceedings, prevented uBid from expanding its business relationship with MercExchange. *Id.*

The district court erred in concluding that the "major factor" in uBid's decision not to obtain a non-exclusive license with MercExchange was expressed in an August 2006 e-mail message, which stated, "As you know, we chose to license the patents as a cost effective way to limit any litigation at a very critical time in uBid's relaunch." App 000005 (& n.4). Nothing in this e-mail message contradicts the sworn declaration testimony of Mr. Takesue that it was eBay's infringement, more than anything else, that stood in the way of MercExchange and uBid executing an exclusive license for the '265 Patent. The August, 2006 e-mail explains one reason for uBid executing the initial license with MercExchange. The Takesue declaration explains why the merger was not completed at that time. These two statements are neither mutually exclusive nor the least bit contradictory. As such, the district court erred in discounting the Takesue Declaration.

A recent post-*eBay* case illustrates that MercExchange may also suffer irreparable harm from the loss of prospective licensing or business opportunities. In *z4 Technologies, Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437 (E.D. Tex. 2006), the court denied a permanent injunction in a patent infringement case. To explain

its conclusion that the patent holder would not suffer irreparable harm absent an injunction, the court distinguished the situation in which such harm *would* occur. The court explained that denying a patentee the right to exclude can, in certain circumstances, cause the loss of incalculable business opportunities. For example, “*when an infringer saturates the market for a patented invention with an infringing product . . . that infringer violates the patent holder’s exclusionary right in a manner that cannot be compensated through monetary damages*” because “*it is impossible to determine the portions of the market the patent owner would have secured but for the infringer.*” *Id.* at 441 (emphases added). That is the scenario here — eBay controls the online auction market, including the fixed-price sales portion of that market, in part through infringing the very technology that MercExchange seeks to license to eBay’s competitors. Conf-App 00500977-980, 995-996 (¶¶ 42-44; 46, 90). The technology of the ’265 Patent is a “traffic driving” technology, meaning that eBay’s use of that technology drives a substantial number of users to eBay’s non-infringing functions, giving eBay a competitive advantage. *See Id.* ¶¶ 42-44; Conf-App 00500246-247 (¶ 63). As a result, MercExchange has irretrievably lost potential business opportunities to exploit its own invention. For this reason, eBay’s infringement has “market effects

never fully compensable in money.” *Atlas Powder Co. v. Ireco Chems.*, 773 F.2d 1230, 1233 (Fed. Cir. 1985).⁷

Moreover, because eBay is a virtual monopolist, commanding ninety percent of the online auction market, no potential competitor can gain a foothold to compete against eBay so long as eBay is not enjoined from infringing MercExchange’s technology. *See Market Share Reporter*, Vol. 2, 573 (eBay has ninety percent share) (Conf-App 00500213-217); Conf-App 00500976-979, 995-996 (¶¶ 41-44, 90); Conf-App 00500246-247 (¶ 63). Without an injunction, eBay will further solidify its virtual monopoly power, to the detriment not only of MercExchange but of the public as well. If an injunction were granted, however, such that there was “space” in the market for others to invest and improve on alternative platforms, MercExchange, its licensees, and its potential licensees would have an opening to expand their sales and erode some of eBay’s dominance of the online auction market. Conf-App 00500977-980 (¶¶ 42-44, 46). Without an injunction, MercExchange will likely never realize those opportunities, and, as the *z4* court recognized, it is “impossible to determine the portions of the market the

⁷ It is fundamentally unfair to allow an infringer, whose near monopoly was created at least in part by its infringing activities, to argue that the patent holder it has helped shut out of the market has a diminished right to exclude because that patent holder is not commercially successful.

patent owner would have secured” absent the infringement. *z4 Techs., Inc.*, 434 F. Supp. 2d at 441.

3. MercExchange’s licensing practice does not justify disregard of MercExchange’s exclusionary rights under the patent law.

MercExchange’s licensing of its technology to others does not indicate that a money damages award would be adequate to compensate it here. Even if MercExchange chose to license its patent broadly (or if it chose not to exploit its patent in any way), it is the patent holder’s right to do so, and such licensing activity (or lack of activity) should not diminish the patent holder’s exclusionary rights under the patent law nor be grounds to deny otherwise appropriate injunctive relief. Long-established precedent makes clear that patents are enforceable whether the patent holder chooses to practice the invention, license the patent, or make no use whatever of the patented invention. *Continental Paper Bag Co.*, 210 U.S. at 429-30; 35 U.S.C. § 271(d). Indeed, the Supreme Court emphasized in *eBay* that a general willingness to license one’s patent does not establish that the patent holder will not suffer irreparable harm in the absence of a properly tailored injunction. 126 S. Ct. at 1840. Even assuming that MercExchange existed merely to license its patents (and it does not), it would still suffer irreparable harm absent an injunction because MercExchange’s ability to pursue and develop a successful licensing program would be severely compromised in ways extremely difficult to

quantify. Conf-App 00500981 (¶¶ 49-51). If injunctive relief could be denied to small companies, like MercExchange, because they selectively license their intellectual property after failing in efforts to gain significant market share on their own, there would be substantially less incentive for them to innovate, patent, and try to commercialize their inventions.⁸ *See also* Federal Trade Commission, *To Promote Innovation: The Proper Balance of Competition in Patent Law and Policy*, ch. 1, at 4-6; 24-25 (2003) (Conf-App 00500220-222, 225-226).

In any event, MercExchange does not in fact engage in unrestricted or indiscriminate licensing of its patent for fixed compensation. MercExchange licenses its technology only to selected entities with whom it has negotiated specific terms. *See, e.g.*, Conf-App 00500188-200; 00500201-212; 00500253-254 (¶¶ 92-93). These agreements contain terms that embody non-monetary aspects of the business relationship; price is just one of many terms included in these patent

⁸ It would also be contrary to patent policy to discriminate against licensors when considering the propriety of injunctive relief. Patent licensing is critically important in promoting both innovation and competition. *See* FTC Report, ch. 1, 14, 22-25 (Conf-App 00500223, 225-226); Conf-App 00500256-258 (¶¶ 105-10). Indeed, for a small company like MercExchange, licensing can be the most effective way to bring the benefits of the invention to the public, as the Supreme Court recognized. *eBay, Inc.*, 126 S. Ct. at 1840 (small inventors may be able to exploit their inventions most effectively solely through licensing). The concern with “non-practicing entities” is the supposed danger of patent suppression. But that danger is not present when the patent holder licenses the invention. And in any event, the Supreme Court has held that even unreasonable suppression of the patent is not grounds to deny otherwise appropriate injunctive relief. *Continental Paper Bag*, 210 U.S. at 430.

licenses. For example, small entities and start-ups may often include a “diligence” term in the patent license, under which the patent holder can gain the commitment of those with greater resources to devote those resources to develop the invention and bring the innovation to market. Conf-App 00500769-770 (¶ 56). Indeed, MercExchange’s license with Aden Enterprises, entered into before eBay commenced infringing and that granted exclusive rights within a field of use, included a clause that required Aden to use its best efforts to develop and employ the patent in a commercial embodiment. Conf-App 00500128-136; 00500239 (¶ 36).⁹

MercExchange’s efforts to license its patent therefore reflect far more than an effort to collect a “toll” for use of its patented invention. To the contrary, in its licensing arrangements as well as its broader business relationships, MercExchange has been active in shepherding the development and commercialization of its technology. Conf-App 00500973, 975 (¶¶ 30, 37). MercExchange, therefore, cannot be made whole for the deprivation of its patent rights simply by awarding such a “toll” for future use of the patent. *See Terrace v. Thompson*, 263 U.S. 197, 214 (1923) (legal remedy is inadequate unless it is “as complete, practical and efficient as that which equity could afford”). Moreover,

⁹ MercExchange’s agreements with Aden and its affiliates were ultimately terminated and all patent rights were to MercExchange.

the value of lost opportunities to license cannot be calculated with any degree of precision or confidence. Conf-App 00500981 (¶¶ 49-51); 00500772 (¶ 65). In any event, the best way to determine value is through the market, not the courts. *In re Mahurkar Double Lumen Hemodialysis Catheter Patent Litig.*, 831 F. Supp. 1354, 1397 (N.D. Ill. 1993) (Easterbrook, J.) (injunctions lead to negotiations between the parties, and the outcome of that negotiation “is much preferable to a judicial guesstimate” of royalties); *cf.*, *Bank of Am. Nat’l Trust & Savs. Ass’n v. 203 N. LaSalle St. P’ship*, 526 U.S. 434, 457 (1999) (noting, in the bankruptcy context, that “the best way to determine value is exposure to a market,” not judicial guesswork).

The district court erred in concluding that MercExchange’s willingness to license its technology should be viewed as a willingness to accept royalties over injunctive relief. App 000021, 30. If MercExchange wanted to receive any income at all from the ’265 Patent while the market monopolist eBay was intentionally infringing this patent, MercExchange’s only real option was to seek licenses from smaller entities that might also be using the ’265 Patent’s technology. What MercExchange would do to commercialize the ’265 Patent absent eBay’s willful infringement can only be ascertained if eBay is enjoined from ongoing infringement. But possibly the most telling fact here related to MercExchange’s intent regarding the development of the ’265 Patent’s technology

is this — MercExchange asked for a permanent injunction when it filed its initial complaint and has never changed its position. If MercExchange truly considered monetary damages sufficient, it would be seeking a compulsory license and not an injunction.

4. MercExchange’s decision not to request a preliminary injunction should not have entered into the district court’s analysis.

While the district court stated that it did not consider MercExchange’s decision not to seek a preliminary injunction dispositive, the court did consider this factor in its analysis. App 000021-22. Any suggestion by a court that a patentee’s failure to seek a preliminary injunction could constitute “delay,” and thereby factor against the patentee receiving a permanent injunction, would have disastrous consequences for the patent system and the courts. Patentees would likely respond to such a suggestion by seeking preliminary injunctions in virtually every case. This result would endlessly complicate patent cases, necessitating a preliminary airing of all central issues in the case, from claim construction to prosecution history estoppel to patent validity. Such an approach would impose an enormous and needless burden on the courts. Here, the district court erred by giving credence to this suggestion.

5. Any cessation of infringement would not justify denying the injunction.

eBay has repeatedly stated that it either could, or more recently has, designed around the '265 Patent. Even were it to make that argument now, however, the question whether eBay has in fact ceased infringing is irrelevant to whether an injunction should issue in the first instance. Under settled equitable principles, voluntary cessation of infringement is not grounds to deny an injunction. So long as eBay is *capable* of infringing, the threat of continued infringement warrants injunctive relief. *See W.L. Gore & Assocs., Inc. v. Garlock, Inc.*, 842 F.2d 1275, 1282 (Fed. Cir. 1988) (fact that infringer was no longer making or selling infringing items was not sufficient grounds to deny injunctive relief; infringer retained capacity to infringe and there was no evidence it lacked intention to continue infringing); *see also Honeywell Int'l, Inc. v. Universal Avionics Sys. Corp.*, 397 F. Supp. 2d 537, 544-45 (D. Del. 2005) (rejecting defendant's argument that design-around obviated need for permanent injunction); *Odetics, Inc. v. Storage Tech. Corp.*, 14 F. Supp. 2d 785, 797 (E.D. Va. 1998), *aff'd*, 185 F.3d 1259 (Fed. Cir. 1999) (granting permanent injunction despite defendant's assertion that it developed technology that would not infringe); *Genentech, Inc. v. Wellcome Found. Ltd.*, 826 F. Supp. 828, 830-31 (D. Del. 1993) (granting permanent injunction where defendant continued to possess capacity to infringe and only ceased infringing because of lawsuit).

Discovery in this case demonstrated that, as long as eBay is unenjoined and under no legal compulsion to stop infringing, the *threat* of future infringement is enough to deter potential competitors from entering into licensing or other business arrangements with MercExchange. Conf-App 00502807-808, 812 (pp. 109-10, 211-12). Therefore, even if eBay *had* in fact stopped infringing (an assertion no more believable than eBay's assertion that it could have avoided infringement and this entire litigation altogether with an \$8,000 work around),¹⁰ then the proper course for this Court is to enter the injunction. In those circumstances, an injunction will harm eBay not at all, while protecting MercExchange from the *threat* of future infringement, as injunctions are designed to do. *See W.L. Gore*, 842 F.2d at 1282 (if the defendant is honest in his protestations that infringement will not continue, then an injunction will do no harm; if the defendant is dishonest, the "court should place a strong hand upon him") (quoting *Gen. Elec. Co. v. New England Elec. Mfg. Co.*, 128 F. 738, 740 (2d Cir. 1904)). The district court, however ignored this guidance, giving at least minimal credence to eBay's claims that it had designed around the '265 Patent. App 000024 (n.16) ("if eBay has

¹⁰ eBay claimed at trial that this "simple, inexpensive" work-around was available before trial, and eBay could have saved the time and expense of this entire litigation by implementing that design around. *See MercExchange L.L.C.*, 275 F. Supp. at 701. That claim is absurd on its face, but even if it were true, the failure to adopt such a work-around before trial should weigh heavily against eBay in the equitable balance.

successfully designed around the '265 Patent it is highly unlikely that eBay would resume infringing if an injunction does not issue").¹¹

After losing at trial on validity and infringement, eBay publicly proclaimed that it would suffer no harm should an injunction issue because eBay had “modified certain functionality of our websites and business practices in a manner which we believe makes them non-infringing.” *See* eBay 10-Q, filed Nov. 12, 2003 at 44 (Conf-App 00502910). To the extent there is any “uncertainty” over whether eBay is still infringing, it is based on eBay’s own wholly unsupported assertions.

Even if there were genuine “uncertainty” over whether eBay still infringes, however, the harm that flows from that uncertainty is part and parcel of the harm caused by the lack of an injunction. App 002264. MercExchange cannot enjoy its exclusive patent rights so long as eBay is unenjoined, regardless of whether eBay is currently infringing. That is so because eBay was caught willfully infringing, and no court has ever ordered eBay to stop. Until eBay *is* ordered to stop, the market will logically assume that eBay is still infringing. And no potential competitor or licensee would be willing to partner with MercExchange or to adequately compensate MercExchange for the use of its technology in these

¹¹ While the district court states it did not consider eBay’s alleged design around of the '265 Patent in refusing to enjoin eBay’s ongoing infringement, the court referred to eBay’s alleged design around no fewer than six times in its opinion. App 000004 (n.2), 24 (n.16), 25, 29, 32 & 37.

circumstances, particularly where the unenjoined competitor so dominates the market. Conf-App 00502807-808 (pp. 109-10). uBid's CEO explained his view in precisely these terms, noting that because eBay has never been ordered by a court of law to cease its willful infringement of the '265 Patent, "in my assessment as a business manager I can only define in my opinion that they are still infringing willfully." *Id.* at 110. An injunction is therefore essential to *prevent* eBay from continuing to violate MercExchange's patent rights. *See* 35 U.S.C. § 283.

In short, even if eBay voluntarily stops infringing (which it has not), the lack of an injunction to prevent future (resumed) infringement continues to cause MercExchange irreparable harm by thwarting its business ventures.

6. eBay's improper conduct should also be considered in the irreparable harm analysis.

The district court erred by focusing its irreparable harm analysis almost exclusively on MercExchange's commercialization efforts for the '265 Patent. Missing from the district court's analysis is consideration of what eBay has been doing, absent an injunction, to continue to harm MercExchange.

In addition to maintaining its infringing system in the marketplace, eBay has introduced new, infringing systems into the marketplace. As an example, eBay, following trial, introduced its users to consignment stores where sellers can drop their merchandise for later sale on eBay. *See* Ina Steiner, "eBay Encourages Consignment Sales Through Trading Post Program," AuctionBytes.com (Jan. 28,

2004), available at <http://www.auctionbytes.com/cab/abn /y04/m01/i28/s01> (accessed March 22, 2007) (Conf-App 00502860-862). See also eBay's "Trading Post FAQs" (Conf-App 00502864-868) (defining Trading Posts as "locations that allow customers to drop items off and have them sold on eBay. Trading Posts provide the service of selling items on eBay for others for a fee."). eBay knew its new Trading Posts violated MercExchange's patent rights, recognizing that among the legal risks associated with this new eBay feature was the risk that it infringed MercExchange's patents "on drop off consignment model," and rated the legal risk as a 10 on a scale of 1-10, where 10 was the highest risk. See "eBay Trading Post Franchises." (Conf-App 00502870-893).

Additionally, eBay has attempted to stymie MercExchange's efforts to exploit the technology in the '265 Patent. eBay has prevented MercExchange from interacting with potential licensees/customers by using its market power to exclude MercExchange from *public meetings* of eBay "power sellers." See, e.g., Ina Steiner, "The eBay Patent Wars: PESA Summit Skirmish," AuctionBytes.com (Oct. 29, 2005) (Conf-App 00502840). See also Emails reflecting that eBay pressured PESA to remove MercExchange representatives from a public PESA meeting by threatening to withdraw PESA's "access to eBay execs." (Conf-App 00502842-855). After removing MercExchange representatives from the PESA

meeting, eBay made sure the “message” to reporters covering the meeting was to make “[MercExchange]/uBid seem even less credible.” (Conf-App 00502857-858).

The district court abused its discretion by failing to consider eBay’s conduct, such as described above, in its irreparable harm analysis.

7. The district improperly focused its analysis on what it perceived to be MercExchange’s motive.

eBay’s arguments below distorted the traditional four-part equitable test into one in which the issue depends on discerning the *motives* of the parties toward the property rights. Indeed, these findings of what MercExchange purportedly believed then or now or is “willing” to do in the future colors every facet of the district court’s reasoning. For example, MercExchange “exhibited a willingness to license its patents” (App 000003, 16, 17, 20, 25, 32, 34, 44); was “plainly willing to accept royalties” (*Id.* at 16, 22); displayed a “willingness to freely license” (*Id.* at 17); a “willingness to forgo its right[s]” (*Id.* at 18, 19, 21, 33, 35, 47); and, “was willing to permit eBay’s infringement” (*Id.* at 22). While the district court did not consider the obvious fact that MercExchange brought an infringement suit at law and prayed for equitable relief, the district court improperly turned the equitable test into an inquiry of the patent owner’s motives, which of course is forbidden under *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 429 (1908) (“As to the suggestion that competitors were excluded from the use of the

new patent, we answer that such exclusion may be said to have been of the very essence of the right conferred by the patent, as it is the privilege of any owner of property to use or not use it, *without question of motive.*”) (emphasis added) (citing *Connolly v. Union Sewer Pipe Co.*, 184 U.S. 540 (1902)).

The party having such a patent has a right to bring suit on it, not only against a manufacturer who infringes, but against dealers and users of the patented article, if he believes the patent is being infringed; and the *motive which prompts him to sue is not open to judicial inquiry*, because, having a legal right to sue, it is immaterial whether his motives are good or bad, and he is not required to give his reasons for the attempt to assert his legal rights. The exercise of the legal right cannot be affected by the motive which controls it.

Connolly, 184 U.S. at 546 (citing *Kiff v. Youmans*, 86 N. Y. 329, 40 Am. Rep. 543) (emphasis added)).

8. Permanent injunctive relief has been granted in post-eBay cases where the patentee licenses, rather than develops, the patented technology.

Permanent injunctive relief has been granted in post-*eBay* cases where the patent holder does not market the patented technology itself, but rather licenses it. *See, e.g., Novozymes A/S v. Genencor Int’l, Inc.*, 474 F. Supp. 2d 592, 612 (D. Del. 2007) (noting that the Supreme Court in *eBay* clarified that a patentee’s willingness to license its patent is not necessarily enough to establish that the patentee would not suffer irreparable harm in the absence of an injunction; here the patent holder markets its technology by licensing it to a subsidiary that competes

with the infringer, and under these circumstances the statutory right to exclude cannot be equated with an award of cash). Moreover, MercExchange's lost opportunity to partner with uBid, a direct competitor to eBay, is similarly not compensable with an award of money. Injunctive relief can be warranted where the patent holder's *potential* to gain market share is thwarted just as such relief is warranted for patent holders that are hindered from gaining additional market share. See, e.g., *TiVo, Inc. v. EchoStar Communications Corp.*, 446 F. Supp. 2d 664, 669-70 (E.D. Tex. 2006) (permanent injunction granted; loss of market share and *potential* loss of market share constitute irreparable harm); *Smith & Nephew, Inc. v. Synthes (U.S.A.)*, 466 F. Supp. 2d 978, 983 (W.D. Tenn. 2006) (permanent injunction granted; loss of market share as well as loss of plaintiff's ability to *create* customer relationships constitute irreparable harm).

C. The Balance Of Hardships Weighs Heavily In MercExchange's Favor (Factor #3).

The balance of hardships will rarely, if ever, favor a willful infringer like eBay. A willful infringer has, at the very least, engaged in "egregious and reckless conduct," *Union Carbide Chems. & Plastics Tech. Corp. v. Shell Oil Co.*, 425 F.3d 1366, 1381 (Fed. Cir. 2005), and thus, as more generally with those who have acted in bad faith, can typically "make no claims whatsoever on the Chancellor's conscience," *Albemarle Paper Co. v. Moody*, 422 U.S. 405, 422 (1975).

That is particularly true here. eBay indisputably knew of the '265 Patent and had a duty to avoid infringing it. Conf-App 00500151-154; Trial Tr. p. 3519 (Conf-App 00500126). Yet, as the jury found by clear and convincing evidence, eBay failed to act in good faith to avoid such infringement. Trial Tr. pp. 3519, 3546-47 (Conf-App 00500126-127). Moreover, eBay deliberately chose to infringe when it could have allegedly, by its own admission, avoided infringement with a simple and inexpensive design around. Such an infringer has no legitimate interests to be placed in the balance of hardships. See *Windsurfing Int'l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1003 n.12 (Fed. Cir. 1986).

Even if eBay had any “claim on the Chancellor’s conscience” whatsoever, it has loudly and publicly proclaimed that it would suffer no harm should an injunction issue. See eBay 10-Q, filed July 28, 2006, at 37 (Conf-App 00500091) (“we believe that any injunction that might be issued by the district court will not have any impact on our business”). eBay explains that an injunction will cause it no harm because eBay has “modified certain functionality of our websites and business practices in a manner which we believe would avoid any further infringement.” *Id.* The district court appears to have virtually ignored this important fact in denying injunctive relief. But even if eBay’s “modifications” could prevent continued infringement (a supposition unsupported by the record), a cessation of infringement would not save eBay from an injunction here. So long as

eBay is *capable* of continuing to infringe, an otherwise appropriate injunction should enter. *See W.L. Gore & Assocs., Inc. v. Garlock, Inc.*, 842 F.2d 1275, 1282 (Fed. Cir. 1988) (fact that infringer was no longer making or selling infringing items was not sufficient grounds to deny injunctive relief; infringer retained capacity to infringe and there was no evidence it lacked intention to continue infringing); *see also Honeywell Int'l, Inc. v. Universal Avionics Sys. Corp.*, 397 F. Supp. 2d 537, 544-45 (D. Del. 2005) (rejecting defendant's argument that design-around obviated need for permanent injunction); *Odetics*, 14 F. Supp. 2d at 797 (granting permanent injunction despite defendant's assertion that it developed technology that would not infringe); *Genentech, Inc. v. Wellcome Found. Ltd.*, 826 F. Supp. 828, 830-31 (D. Del. 1993) (granting permanent injunction where defendant continued to possess capacity to infringe and only ceased infringing because of lawsuit).

In any event, the claim that such "modifications" could prevent continued infringement only serves to reinforce the lack of harm to eBay from an injunction. And if those modifications do not prevent continued infringement, eBay cannot shelter behind a claim of "hardship." *See W.L. Gore*, 842 F.2d at 1282 (if the defendant is honest in his protestations that infringement will not continue, then an injunction will do no harm; if the defendant is dishonest, the "court should place a

strong hand upon him”) (quoting *General Elec. Co. v. New England Elec. Mfg. Co.*, 128 F. 738, 740 (2d Cir. 1904)).

The balance of harms, therefore, weighs heavily in MercExchange’s favor. And general policy arguments about “non-practicing entities” or so-called patent “trolls” do not warrant a different outcome. This is not a situation in which an opportunistic patent holder keeps its invention hidden, waiting until a large corporation has sunk significant costs into a large manufacturing facility (of which one small component may involve an infringing technology), and then ambushing that corporation with an infringement lawsuit. Conf-App 00500253 (¶ 89).

Whatever policy concerns may attend such behavior, those concerns are not implicated here. eBay was keenly aware of MercExchange’s patent well before eBay commenced infringing. Conf-App 00500151-154. Indeed, eBay sought to purchase MercExchange’s patent portfolio before it started infringing. Conf-App 00500149-150. There was no “unfair surprise” to eBay, or any other harm to eBay, that could counterbalance the irreparable harm that eBay’s infringement inflicts on MercExchange.

D. The Public Interest (Factor #4).

The final factor, the public interest, also weighs heavily in favor of MercExchange. There is a strong public interest in maintaining the integrity of the patent system by enforcing the patent holder’s right to exclude. *See*

MercExchange L.L.C. v. eBay, Inc., 275 F. Supp. 2d 695, 713 (E.D. Va. 2003) *rev'd on other grounds*, 401 F.3d 1323 (Fed. Cir. 2005). For that reason, the public interest factor usually favors the patentee, with rare exceptions, such as when the infringer's product is necessary to protect the public health, national security, or other critical public interests. *See, e.g., Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1547 (Fed. Cir. 1995).

There is also a strong public interest in promoting marketplace competition, which leads to better prices and innovative products for consumers. In some cases, the public interest in protecting patent rights and in promoting competition may be in some tension. *See, e.g., Illinois Tool Works Inc. v. Grip-Pak, Inc.*, 725 F. Supp. 951, 959 (N.D. Ill. 1989) *aff'd*, 906 F.2d 679 (Fed. Cir. 1990) ("The public interest is evenly split in this case. Public policy favors protection of patent rights. . . . Such protection, however, should not come at the expense of legitimate competition."); *see also Alternative Pioneering Sys., Inc. v. Direct Innovative Prods., Inc.*, 822 F. Supp. 1437, 1449-50 (D. Minn. 1993). Here, they are decidedly *not*; rather, issuing a permanent injunction would promote *both* these public interests.

Clearly, the integrity of the patent system would be upheld by enjoining eBay, a willful infringer, from further violating MercExchange's property rights. *See TiVo, Inc. v. EchoStar Communications Corp.*, 446 F. Supp. 2d 664, 670 (E.D.

Tex. 2006) (“The public has an interest in maintaining a strong patent system. This interest is served by enforcing an adequate remedy for patent infringement — in this case, a permanent injunction. The infringing products are not related to any issue of public health or any other equally key interest . . .”).

An injunction against eBay would also facilitate competition. eBay commands ninety percent of the online auction business. If eBay were enjoined from infringing MercExchange’s patent, MercExchange and its licensees can carve out a viable foothold in the Internet auction market for fixed-price sales, thereby presenting competition to eBay in the overall online auction market. Conf-App 00500995-996 (¶ 90); 00500259 (¶ 121). In other words, were eBay enjoined, some substantial portion of fixed-price sales transactions would migrate from eBay to other online auction marketplaces that could offer fixed-price sales. Conf-App 00500977-979 (¶¶ 42-44). Far from denying the public the benefit of the invention, therefore, an injunction would instead foster competition in the online auction market to the public benefit. Conf-App 00500995-996 (¶ 90).

Without an injunction, however, eBay will further entrench its virtual monopoly, dissuading other potential competitors from entering the market and impairing the development of market alternatives to eBay. Conf-App 00500976-980 (¶¶ 41-47). The loss of these opportunities to erode eBay’s dominant position will distort evolution of the online auction market. *Id.* at ¶ 47. In this case,

therefore, it is the *lack* of an injunction that will stifle competition and disserve the public interest.

Moreover, the strong public interest in enjoining a willful infringer like eBay is illustrated by the strongly disfavored alternative of a compulsory license. As noted, the right to exclude includes the patent holder's right to license (or not license) as it chooses. Because compulsory licensing is fundamentally at odds with well-established principles of patent law, it has long been strongly disfavored. *See, e.g., Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 215 (1980) (noting that compulsory licenses are a "rarity" in the patent system). And Congress has consistently rejected attempts to impose compulsory licensing. *See Hartford-Empire Co. v. United States*, 323 U.S. 386, 417 (1945) (citing attempts since 1877); see e.g., H.R. 1708, 107th Cong. (1st Sess. 2001); H.R. 2927, 106th Cong. (1st Sess. 1999) (examples of rejections since).

The parallel reexamination proceedings before the PTO are not relevant to the question before this Court and should not diminish the public interest in enforcing MercExchange's valid patent. *See Tilghman v. Proctor*, 125 U.S. 136, 144 n.1 (1888)¹² ("a surrender [of a patent] after final judgment or decree can have

¹² Prior to 1946, interest in patent cases was governed by the common law, which included holdings from *Tilghman*. *Gen. Motors Corp. v. Devex Corp.*, 461 U.S. 648, 651 (1983). The interest provision from *Tilghman* was superseded by 35 U.S.C. § 284. *Devex Corp.*, 461 U.S. at 652. The holding from the citation above, however, remains undisturbed.

no effect upon a right passed previously into judgment.”). Any rule that gives weight to a pending reexamination in these circumstances would create perverse incentives — encouraging infringers routinely to launch a second, administrative front in patent litigation after a jury verdict of infringement, as eBay has done here.

This case represents “Exhibit A” as to why initial office actions issued in reexaminations should not be considered at all in the “four-factor” injunction analysis. eBay, after being found by the jury and the district court to be a willful infringer of the ’265 Patent (and subsequently affirmed by this Court), filed multiple *ex parte* reexamination requests for the ’265 Patent, presenting essentially the same prior art and arguments that had previously been rejected below and by this Court. App 003554-555 (consolidating eBay’s multiple reexamination requests). eBay stridently suggested to the district court that because the reexamination was granted and in light of *KSR*, the ’265 Patent was doomed. Conf-App 00501974-975. The district court appears to have accepted eBay’s argument, referring to the reexamination more than twenty times in the order now under appeal. App 000003 (n.1), 6, 8-10, 13 (n.10), 22-24, 24 (n.15), 25, 29, 32, 37-40 & 47. The district court went so far as to state, “Applied to the instant facts, the KSR opinion reduces the likelihood that the ’265 Patent will survive reexamination as the PTO’s prior non-final actions were issued prior to KSR, which plainly raised the bar as to what qualifies as non-obvious.” *Id.* at 23-24.

The district court concluded that the “combination of the Supreme Court’s KSR opinion with the PTO’s pre-KSR interim rejections of all claims of the ’265 Patent suggest that the PTO’s final action may reach the same conclusion.” *Id.* at 38.

This intense focus on the interim reexamination phases was, of course, premature. In an October 2, 2007 Office Action, the PTO, post-*KSR*, has now confirmed the patentability of claims 1-25 of the ’265 Patent. App 003558. And eBay, as an *ex parte* requester, has no standing to appeal this decision. The district court’s undue reliance, therefore, on the initial reexamination phases for the ’265 Patent was improper and colors its entire analysis rejecting MercExchange’s request for injunctive relief.¹³

The public interest, therefore, cuts heavily in favor of MercExchange. And there is no countervailing interest here that would override it.

¹³ There are serious questions as to whether this reexamination passes constitutional muster. Because eBay requested reexamination after the verdict of willful infringement and based its request on the same alleged prior-art references it had relied on at trial, and because the issues of validity and infringement in this litigation have now been finally decided, there is a serious question whether the PTO’s continuing reexamination in the context of eBay’s strategically delayed request constitutes an impermissible intrusion on the judicial power under Article III. See *Chicago & S. Air Lines v. Waterman S. S. Corp.*, 333 U.S. 103, 113-14 (1948) (“It has also been the firm and unvarying practice of Constitutional Courts to render no judgments not binding on the parties and none that are subject to later review or alteration by administrative action.”) (citations omitted). This Court can avoid this issue, however, because the pending reexamination is not relevant to the question before this Court. *Christopher v. Harbury*, 536 U.S. 403, 417 (2002) (it is the “obligation of the Judicial Branch to avoid deciding constitutional issues needlessly”).

E. The district court failed to follow the mandate from the Supreme Court of the United States.

In *eBay*, the Supreme Court vacated this Court's judgment ordering an injunction. *See eBay*, 126 S. Ct. at 1841. In its remand, the Supreme Court instructed the district court to perform the four-factor injunction analysis "in the first instance." *Id.* The district court, however, did not follow this directive. In its July 27, 2007 Order and Opinion, the district court stated,

[I]n applying the four-factor equitable test, this court will ignore eBay's assertions that it never willfully infringed the '265 patent as the jury's verdict, affirmed by the Federal Circuit, establishes that at the time of trial eBay was a willful infringer of plaintiff's valid and enforceable '265 patent. Similarly, the court will ignore arguments advanced by MercExchange or its experts suggesting that MercExchange has always endeavored to develop the '265 patent and uphold its right to exclude as the court previously determined that MercExchange exhibited a "willingness to license its patents," a "lack of commercial activity in practicing the patents," and that MercExchange's "numerous comments to the media before, during, and after th[e] trial indicat[e] that it did not seek to enjoin eBay but rather sought appropriate damages for the infringement."

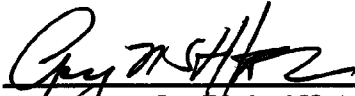
App 000003. While the district court properly rejected eBay's efforts to reargue its willful infringer status (as all appeals on this issue had been exhausted), it erred in refusing to evaluate MercExchange's evidence directly related to the traditional four-factor equitable test "in the first instance." Because the district court believed that MercExchange's "willingness to license its patents" and "lack of commercial activity" were an indication that money damages would suffice, *see eBay*, 126 S. Ct. at 1840, the district court (during its review of this evidence that led to its

August 7, 2003 Order and Opinion) may not have properly evaluated all the conditions surrounding MercExchange's reasons for selectively licensing the '265 Patent. For this reason, the Supreme Court instructed the district court to essentially conduct a *de novo* review of all evidence pertaining to the traditional four-factor equitable test. The district court, therefore, erred in refusing to look at MercExchange's evidence "in the first instance."

CONCLUSION AND RELIEF SOUGHT

The district court abused its discretion in denying an injunction. MercExchange requests that this Court remand the case to the district court with instructions that it should enter an injunction forthwith.

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