

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

MERCEXCHANGE, L.L.C.,

Plaintiff,

v.

eBAY INC. AND HALF.COM, INC.,

Defendants.

Case No. 2:01-CV-736

DEFENDANTS eBAY INC. AND HALF.COM, INC.'S OPPOSITION TO
MERCEXCHANGE'S RENEWED REQUEST FOR A PERMANENT INJUNCTION

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I. INTRODUCTION

The Court correctly denied MercExchange's request for a permanent injunction in 2003, and the Court should similarly deny MercExchange's renewed request:¹

- *First*, the Court considered all of the evidence in the record and denied MercExchange's original request for an injunction under the traditional four-factor test. The Supreme Court only questioned this Court's decision to the extent that it may have adopted a categorical rule against non-practicing patentees. The Court did not adopt any such rule, and it should clarify its order, confirm its findings, and deny MercExchange's request.
- *Second*, MercExchange failed to demonstrate any irreparable harm at trial, or show an inadequate legal remedy. MercExchange now seeks to backfill the record with inadmissible hearsay declarations, claiming that neither it nor its licensees can compete with eBay in the so-called "auction market."² U.S. Patent 5,845,265 ("the '265 patent") *does not cover auctions*, and relates to fixed-price systems. eBay achieved its success independent of the '265 patent, as the Court found, and its market presence has not impeded others. Neither MercExchange nor its licensees attempted to build the '265 system, and there is no evidence that MercExchange or any licensee practices the '265 claims. Any harm is purely economic and can be *adequately compensated by money*.
- *Third*, MercExchange largely rehashes the same arguments about potential lost licensing opportunities and other alleged harms, which were raised on appeal, and *rejected by the Supreme Court unanimously*. MercExchange's inability to expand existing relationships or develop new ones has nothing to do with eBay and, instead, is due to the Patent Office's repeated *rejections* of the *'265 claims as unpatentable*. The record does not warrant an injunction, and MercExchange cannot carry its burden.

Accordingly, MercExchange's renewed request for an injunction should be denied.

II. BACKGROUND

A. Two months after eBay's launch in September 1995, MercExchange filed the patent application that led to the issuance of the '265 patent.

Over the Labor Day weekend in September 1995, eBay's founder, Pierre Omidyar, wrote the original software for eBay's website and launched its operations later that month. eBay's core operations and processes remain largely unchanged today.

¹ On August 28, 2006, eBay moved to stay all proceedings in light of the Patent Office's ongoing reexamination of MercExchange's patents, all of which currently stand rejected as unpatentable. While a stay of all proceedings is appropriate, the Court may in its discretion deny MercExchange's request for injunction here, and subsequently stay all remaining proceedings.

² MercExchange's attempt to reopen the record is improper. eBay has filed concurrently herewith a separate motion to strike MercExchange's new "evidence" and declarations.

In November 1995—*two months after* eBay was up, running, and in public use—MercExchange’s founder, Thomas Woolston, filed the patent application that issued as the ‘265 patent while he was working as a patent attorney for a law firm in Washington, D.C.³ Mr. Woolston’s idea was to computerize traditional consignment store operations by establishing a network of trusted “consignment nodes,” through which sellers would bring their goods to a trusted (“vetted” and “franchised”) consignment node operator. Declaration of Robert W. McFarland (“McFarland Decl.”), Ex. 1 at Abstract, 1:34-36, 2:20-24, 2:27-30, 2:46-57; Dkt. 331 at 1-2; McFarland Decl., Ex. 5 at 259. The consignment node operator would inspect the good to ensure that it was bona fide, take possession of the good, obtain the right to transfer ownership through a bailment or consignment contract, and post a description of the good on the consignment network. McFarland Decl., Ex. 1 at 3:57-66; Dkt. 237 at 8-11. Only trusted consignment node operators could post goods on the network. McFarland Decl., Ex.1 at 2:7-10, 2:46-57; Dkt. 331 at 1-2; McFarland Decl., Ex. 6 at 262-263. Thus, a buyer could avoid the “leap of faith” necessary to deal directly with an anonymous or unfamiliar seller because, according to the ‘265 patent, a customer would know a good would be in the legal and physical possession of trusted a consignment node operator who had inspected and vouched for its quality and who would transfer legal title upon payment. Dkt. 237 at 3; Dkt. 331 at 1-2; McFarland Decl., Ex. 6 at 262; McFarland Decl., Ex. 7 at 3637-3638, McFarland Decl., Ex. 1 at 4:9-12, 12:20-26, 17:1-12, 18:27-37; Dkt. 237 at 4-6; Dkt. 558 at 3-5; McFarland Decl., Ex. 6 at 262-263; McFarland Decl., Ex. 8 at 3636-3637.

The claims of the ‘265 patent recite apparatuses for implementing this concept to conduct *sales* of goods *at a fixed-price*. *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1325 (Fed. Cir. 2005). *None* of its claims cover or implicate *auction-format* sales. Dkt. 349 at 2-7.

³ Mr. Woolston’s November 1995 application added a significant amount of new material to an earlier application he filed in April 1995. McFarland Decl., Ex. 2 (showing underscored additions to original application); McFarland Decl., Ex. 3 at 469:15-17. MercExchange was, however, forced to abandon the April 1995 application last year, after failing to persuade the Patent Office that it described a patentable invention. McFarland Decl., Ex. 4.

B. As eBay succeeded, MercExchange made no effort to build the ‘265 system.

eBay adopted a person-to-person system—the polar opposite of the ‘265 trusted intermediary model—on the revolutionary assumption that even anonymous buyers and sellers are basically good and will not cheat one another. Dkt. 219 at 3-4; Dkt. 237 at 3-4; McFarland Decl., Ex. 9 at Tr. 261-262; McFarland Decl., Ex. 10 at 1411-1416; McFarland Decl., Ex. 11 at 1415-1416; McFarland Decl., Ex. 12 at 1455-1461; McFarland Decl., Ex. 13 (Whitman Depo Tr. 114-115). In eBay’s model, buyers and sellers deal directly with one another and consummate transactions themselves. Dkt. 219 at 3; Dkt. 488 at 147-148; McFarland Decl., Ex. 14 at 264-265; McFarland Decl., Ex. 15 at 1406-1407; Dkt. 485 at 254-255. Unlike the ‘265 consignment concept, eBay does not and cannot take responsibility for consummating transactions between buyers and sellers because it does not take possession of the goods, inspect them, confirm they are bona fide or obtain any right to transfer legal ownership. Dkt. 219 at 4; Dkt. 237 at 3-4; Dkt. 237 at 7-8; Dkt. 477 at 224-225; Dkt. 477 at 230-231; McFarland Decl., Ex. 16 (Omidyar Depo. Tr. 254-255); McFarland Decl., Exs. 17-19; McFarland Decl., Ex. 20 at 264-267; McFarland Decl., Ex. 21 at 280; McFarland Decl., Ex. 22 at 1036-1038; McFarland Decl., Ex. 23 at 1374; McFarland Decl., Ex. 24 at 1404.

From 1995 to 1999, eBay became one of the Internet’s great success stories, amassing more than a hundred million registered members around the world. McFarland Decl., Ex. 25 at 1355-1356; McFarland Decl., Ex. 26 at 537-538; Dkt. 581 at 11. eBay’s “success did not arise from the use of anything contained in the plaintiff’s patents,” as the Court found. Dkt. 598 at 38. During this same period, MercExchange continued to prosecute the ‘265 patent, but never attempted to build the system described in the patent.⁴ As the Court observed, the ‘265 patent contained no software or guidance for implementing the high level concepts it disclosed, and Mr.

⁴ Mr. Woolston tried unsuccessfully to cash in on other purported inventions, claiming that he invented PriceLine’s name-your-price travel service—popularized by William Shatner—based on the same ‘265 patent disclosure asserted against eBay here. See Dkt. 109 at 5; Exs. 7-9 to McFarland Decl. in Support of Dkt. 109. While Mr. Woolston attempted to sell this and other concepts to Budget Rental Cars, Microsoft and video game companies, each declined.

Woolston testified he had not attempted to write any such software. McFarland Decl., Ex. 27 at 488:10-14; McFarland Decl., Ex. 28 at 537:14-17; McFarland Decl., Ex. 29 at 538:13-19; McFarland Decl., Ex. 30 at 539:3-7. Instead, Mr. Woolston shopped a business plan to investors for “Fleanet,” *which he testified was not intended to commercialize the ‘265 patent*. McFarland Decl., Ex. 31 at 654:16-19; McFarland Decl., Ex. 32 at 356:25-357:5 (“Q. Was the Fleanet business plan designed to be a complete commercialization of your invention? A. No. Q. What is the relationship between the Fleanet business plan and the claims in your invention, if any? A. Very little.”). Mr. Woolston approached venture funds, Internet startups, antique and art dealers, web developers, and George Mason University—but found no takers. None of the potential investors ever mentioned eBay when they passed on the opportunity to invest in Fleanet, and Mr. Woolston himself had not even heard of eBay at the time, as he testified at trial. McFarland Decl., Ex. 33 at Tr. 503:9-513:20; McFarland Decl., Ex. 34 at 534:20-538:6; Dkt. 109, Exs. 1-4.

C. In 1999, MercExchange and Aden Enterprises—an insolvent holding company—combined with the secret goal of suing eBay.

By 1999, Mr. Woolston and MercExchange had still made no effort to implement the ‘265 system. Instead, MercExchange found a partner, Aden Enterprises—an Omaha-based holding company, with significant financial problems.⁵ MercExchange accepted these problems and agreed that the two companies would be co-owned and managed. The companies’ “primary purpose” was *not* to commercialize the ‘265 patent or anything else, but rather to share in any recovery in a lawsuit *against eBay*. McFarland Decl., Ex. 38. A “Patent Enforcement Agreement” memorialized their plans to share the proceeds from a suit against eBay with not only each other, but also with MercExchange’s current counsel. McFarland Decl., Ex. 39.

⁵ MercExchange contends Aden was “embarking on a major industry initiative to build and deploy Internet Markets and Auctions,” Merc. Br. at 3, but the record tells a different story. Aden: was “not in compliance” with S.E.C. regulations, McFarland Decl., Ex. 35; had never operated at a profit, *id.*; was saddled with “significant debt and litigation,” *id.*; operated at a 300% loss over revenue, McFarland Decl., Ex. 36 (Luther Depo. Tr. 30-34); was subject to “several” tax liens, *id.* at 173-174; and “did not have the financial resources available to exercise its rights and meet its obligations” in the agreement MercExchange now cites. McFarland Decl., Ex. 37 at 9-10.

Resolved to sue eBay, MercExchange and Aden formed two subsidiaries, Leftbid and Navlet, that were also co-owned by MercExchange and managed in varying capacities by Mr. Woolston. Each company entered into *self-dealing* agreements to license MercExchange's patents, and even Mr. Woolston testified he had trouble figuring out which corporate hat he was wearing during the negotiations, prompting MercExchange to concede that these were *not* "arm's length" transactions.⁶ Compare McFarland Decl., Ex. 40 at 557:25-558:6; McFarland Decl., Ex. 41 at 559:18-21; McFarland Decl., Ex. 42 at 561:12-562:7; McFarland Decl., Ex. 43 at 563:16-24 with Merc. Br. at 3-4, 18-19.

D. The MercExchange-Aden family never attempted to build the '265 system.

Although the Aden-family "licenses" required a "nexus" between any developed products and MercExchange's patents, Mr. Woolston was the one charged with product development and *never attempted* to build the '265 system—focusing instead on *auction-related* software for LeftBid that had *nothing to do* with the '265 fixed-price approach. McFarland Decl., Ex. 44 (Petsick Depo. Tr. 77:2-16); McFarland Decl., Ex. 45 (Borghi Depo. Tr. 176:15-177:13), McFarland Decl., Ex. 46 (McEachern Depo. Tr. 162:12-17). After Mr. Woolston could not produce a viable system, Leftbid was forced to purchase an off-the-shelf product that worked. The Aden-MercExchange marriage began to deteriorate in 2000. On May 4, 2000, Aden filed suit against MercExchange to terminate their collaboration, and MercExchange responded with a lawsuit of its own against Aden on May 8, 2000. McFarland Decl., Ex. 47. The parties settled their actions, terminated all agreements, and went their separate ways. McFarland Decl., Ex. 48.

E. MercExchange's decision not to build the '265 patent had nothing to do with eBay, and eBay's success had nothing to do with the '265 patent.

MercExchange's failure to commercialize the '265 patent was a result of MercExchange's repeated decisions to pursue *other* activities. Mr. Woolston testified that his

⁶ At the time, Mr. Woolston served as MercExchange's managing director, Aden's and Leftbid's Chief Technology Officer, and Navlet's President, with Aden holding an interest in MercExchange and MercExchange holding an interest in Aden, Leftbid and Navlet.

failure to generate interest in his Fleanet business plan was not due to eBay. McFarland Decl., Ex. 26 at 537-538. MercExchange also represented to the Court that *more than one thousand* other companies were able to implement online marketplaces, despite eBay's presence. Dkt. 81 at 25-26; Dkt. 84 at ¶¶ 72-73, Exs. 17-19. In addition, MercExchange's own experts conceded that eBay was a huge success before even MercExchange contends it began infringing the '265 patent, confirming the Court's correct conclusion that eBay's "success *did not arise* from the use of *anything* contained in [MercExchange]'s patents." Dkt. 598 at 38 (emphasis added).

F. MercExchange approached eBay, under the guise of offering assistance, and carefully avoided any suggestion of eBay's alleged infringement—even though MercExchange was already secretly planning to sue eBay.

While MercExchange erroneously contends that "eBay approached MercExchange to discuss eBay's interest in buying MercExchange's patent[s]," it was MercExchange that initiated a meeting with eBay and for entirely different reasons. In 2000, eBay was involved in a dispute with Bidder's Edge, and MercExchange's patent attorney and co-owner, John Phillips, contacted a former classmate working at eBay to offer the now invalid '176 patent for use in that dispute. The parties' interaction was primarily directed to organizing a meeting and for eBay's review of MercExchange's prosecution files. McFarland Decl., Exs. 49-56. eBay did show interest in acquiring MercExchange's patent portfolio, but *subject to* "develop[ing] a process for moving forward including eBay's *due diligence re this portfolio* of patents." McFarland Decl., Ex. 57 (emphasis added). MercExchange never permitted eBay to conduct such diligence and blocked eBay's efforts to review the patents' prosecution files, and the talks broke down.⁷ McFarland Decl., Ex. 56. During the talks, MercExchange carefully avoided any suggestion that eBay infringed, even though it secretly planned to sue eBay. McFarland Decl., Ex. 58 at 1088:23-1089:18; McFarland Decl., Ex. 59 at 597:21-24. eBay had no notice of the alleged infringement—until MercExchange filed this lawsuit.

⁷ eBay ultimately obtained a preliminary injunction against Bidder's Edge without the '176 patent. *eBay Inc. v. Bidder's Edge, Inc.*, 100 F. Supp. 2d 1058 (N.D. Cal. 2000).

G. eBay used a payment system, as the Court found, long before MercExchange approached it.

While MercExchange points to eBay's 2000 acquisition of PayPal—an online payment system—as the key event that culminated in the alleged infringement, eBay had been using payment systems long before then. In May 1999, eBay acquired Billpoint—another online payment system that had become popular with eBay users. Dkt. 486, at 62-63. Later in 1999, eBay also initiated negotiations to acquire Half.com, a fixed-price, person-to-person market with a payment system, which had been online for months. Dkt. 486 at 65:13-17; Dkt. 478 at 247:9-13, 353:15-22; Dkt. 484 at 46:12-14. While the Court correctly found that “eBay was *using payment processors long before* it received notice of the ‘265 patent,” Dkt. 598 at 38 (emphasis added), MercExchange erroneously maintains that eBay copied the ‘265 system after the parties met, even though eBay used payment systems before the meeting.⁸ The Court, however, already found that there was no copying because “the *patents offer no business or engineering guidance which the defendants could copy.*” Dkt. 598 at 38 (emphasis added).

H. MercExchange settled its lawsuit against GoTo.com and granted GoTo.com a non-exclusive license to its entire patent portfolio for \$4 million.

Meanwhile, MercExchange sued GoTo.com for infringement of the ‘176 patent on the eve of GoTo's merger with another company. MercExchange settled the case for a \$4 million reserve that GoTo set aside as a contingency for the litigation and considered a sunk cost necessary to consummate the merger.⁹ As part of the settlement, MercExchange granted GoTo a full release and *a fully paid up, non-exclusive license to all of MercExchange's patents.* McFarland Decl., Ex. 60, McFarland Decl., Ex. 61.

⁸ MercExchange's contention that eBay did not infringe until it acquired PayPal is also undermined by its proposed injunction, which seeks to enjoin Billpoint. *See* Prop. Ord. at 1.

⁹ GoTo moved for summary judgment of invalidity using the same prior art that the Federal Circuit later found invalidated the ‘176 patent in this case, but the case settled.

I. Before this lawsuit, MercExchange valued its entire company at \$50,000 to the Internal Revenue Service and then at \$2-\$3.5 million to its shareholders.

Prior to this lawsuit, MercExchange's official position on the value of its company was much different than the one it took before the Court. In October 2000, MercExchange valued its entire company, *including all patents and patent applications*, at \$50,000 for tax reporting purposes. McFarland Decl., Ex. 62 at 1100:18-1101:11. That same year, Messrs. Woolston and Phillips informed its minority shareholders that MercExchange was worth between \$2 and \$3.5 million, McFarland Decl., Ex. 63 at 565:19-566:2; McFarland Decl., Ex. 64—a value in line with MercExchange's offer to sell 10% of its stock to Aden in 1999 for \$250,000.

J. After MercExchange carefully avoided accusing eBay of infringement, MercExchange filed the present action.

On September 26, 2001, MercExchange filed this suit against eBay alleging infringement of the '265, '176 and '051 patents.¹⁰ Disregarding its prior sworn and fiduciary valuations, MercExchange sought over \$100 million in damages for approximately two years of infringement. MercExchange engaged in numerous improper tactics in an attempt to cash in on eBay's success by, *inter alia* advancing arguments the Court noted were "completely inappropriate," "completely disingenuous," Dkt. 274 at 7-8, and "made in bad faith," Dkt. 349 at 5-7. MercExchange also threatened numerous third-party witnesses, and attempted to disbar a former Patent Office Commissioner—a tactic the Court found was done by MercExchange "purely for strategic purposes."¹¹ Dkt. 240 at 11. The Court noted MercExchange did not come to the Court with "perfectly clean hands." Dkt. 598 at 39.

In addition, MercExchange survived summary judgment on all its claims by completely reversing course on the most important issue litigated in the case. The parties exhaustively argued whether MercExchange's patent claims were limited to the '265 patent's "trusted

¹⁰ The Federal Circuit invalidated the '176 patent and found there was a triable issue on the validity of the '051 patent, which includes an inadequate written description and was obtained through inequitable conduct before the Patent Office. *MercExchange*, 401 F.3d at 1324.

¹¹ MercExchange's improper tactics are detailed in the parties' briefing that led to the Court's denial of MercExchange's request for enhanced damages. Dkt. 581 at 12-17.

intermediary” consignment-concept or could extend to person-to-person systems, such as eBay, during a two-day *Markman* hearing. There was no dispute as to what these terms meant or that eBay was a person-to-person system. MercExchange openly acknowledged this fact on the record: “*a person-to-person auction which is really the model that eBay has*”; “eBay really won the day because *eBay had adopted the person-to-person model*”; and “*that kind of person-to-person individual network . . . was so critical to the success of eBay*.” Dkt. 179 at 43-44. The only dispute was whether the claims could cover a person-to-person system.

In a ruling that could have ended the litigation, the Court resolved that question in eBay’s favor, holding that “the patent teaches away from person-to-person auctions, favoring a system with a trusted intermediary Therefore, when the claims are read in light of the specification, an auction must occur on a trusted network or with a trusted intermediary.” Dkt. 207 at 12. The Court’s ruling explained the necessary aspects that defined the otherwise vague term “trusted network”: “Everything disclosed in the ‘051 patent revolved around a trusted intermediary to present a good to market, add value to the description of the item, transfer ownership of the item, and extract a commission based on the sales price.” *Id.* Facing defeat, MercExchange launched into “a diatribe regarding the court’s *Markman* Opinion” and complained that MercExchange had no clue what a trusted network was and faced “a fundamental due process problem. . . . [T]he Court has never provided a definition for ‘trusted intermediary’ or ‘trusted network,’ and MercExchange is left without any substantial basis upon which to establish these undefined elements.” Dkt. 271 at 15-18, Dkt. 282 at 4, Dkt. 558 at 6, Dkt. 581 at 13-14. After eBay noted that the Court provided the necessary aspects of a trusted network in its *Markman* opinion, the Court dismissed MercExchange’s arguments as “completely disingenuous.” Dkt. 274 at 8.

MercExchange nevertheless seized upon the “fundamental due process problem” at trial and embraced the ambiguity of the term “trusted network” in the abstract. *Compare* Dkt. 207 at 28-30 *with* McFarland Decl., Ex. 65 at 1610. Contradicting the Court’s *Markman* ruling, MercExchange argued to the jury that eBay’s person-to-person system *was* a “trusted network” as described and claimed in the ‘265 patent. *Compare* Dkt. 207 at 10-12 *with* McFarland Decl.,

Ex. 66 at 3707-3708. MercExchange blocked eBay's proposed jury instruction that included the Court's complete construction *verbatim*, and the jury was left to construe the term on its own—something MercExchange's experts could not do.¹²

K. MercExchange convinced AutoTrader to take a license, without disclosing that the '051 patent was invalid, in an attempt to bolster its damages theory.

In December 2002, AutoTrader took a license to all of MercExchange's patents and applications for the automobile-sales field of use. McFarland Decl., Ex. 69 at 4. While MercExchange contends that the license "permits AutoTrader to make exclusive use of the '265 patent within the field of automobile sales," (Merc. Br. at 7), the license is "non-exclusive" by its own terms, and AutoTrader does not use or practice the '265 patent. *Id.* The license is limited to AutoTrader's "auction-related activities" and only requires royalties if MercExchange "obtains a judicial injunction that prohibits eBay, Inc. from operating within the Field of Use"—a *condition the '265 patent cannot satisfy* because it does not prohibit eBay's auction sales in that field. The license also permits AutoTrader to *opt out* whenever it desires.¹³ McFarland Decl., Ex. 69 at 4.

L. MercExchange fails to inform the Court that it licensed or sold significant assets to a hedge fund, Altitude Capital.

MercExchange failed to disclose that a hedge fund, Altitude Capital, invested "substantial millions" in MercExchange, while the case was on appeal.¹⁴ McFarland Decl., Ex. 70 (Altitude Capital "recently made a sizable bet on MercExchange, investing 'substantial millions' to recapitalize the company and help it build a sustainable revenue model.")). Altitude Capital's

¹² See McFarland Decl., Ex. 67 at 1681 ("[T]hat question is very difficult to answer because trust is not an absolute. Trust is a goal. ... So if you get the feeling you are secure, you can trust it, then it is a question of trust."); McFarland Decl., Ex. 68 at 1300-1301 ("I don't think that the issue is cut and dry. ... I don't believe there is a single instantiation, but I believe that trust has typically some of these elements that I have talked about").

¹³ At the time of the license, eBay and MercExchange disputed whether "gross merchandise sales" could be used as a basis for MercExchange's damages theory, rather than the actual revenue eBay receives from sales on its site. The AutoTrader license coincidentally adopted gross merchandise sales, giving MercExchange "evidence" to bolster its damages theory, but other terms show that it is illusory and allow AutoTrader to opt out at any time.

¹⁴ Local Rule 7.1 requires that MercExchange disclose Altitude Capital's financial interest.

mission is to invest in patents and other intellectual property assets, and it has set an investment goal of \$200 million over the next five years. McFarland Decl., Ex. 71.

M. MercExchange's patents currently stand rejected in Patent Office reexamination proceedings and those decisions are likely to be made final.

The MercExchange patents currently stand rejected in Patent Office reexamination proceedings. The Patent Office has repeatedly rejected all claims of the '265 patent, dismissing MercExchange's numerous attempts to halt the reexamination, and finding unpersuasive MercExchange's responses and declarations.¹⁵ Dkt. No. 614. The Patent Office has maintained its stance that the '265 patent should never have issued and that decision is expected to be made final. McFarland Decl. in support of Stay Motion, Ex. 23 at 2. Nevertheless, MercExchange has continued its pattern of withholding material information from the Patent Office that contradicts its positions, in an effort to obtain claims. In the '265 reexamination, for example, MercExchange has advanced numerous arguments that the Patent Office found contrary to and refuted by MercExchange's own experts at trial. Similarly, in the '176 reexamination, MercExchange did not disclose that the Federal Circuit finally invalidated nearly all of its claims, which should have immediately terminated the examination of those claims.

III. THIS COURT CORRECTLY APPLIED THE TRADITIONAL EQUITABLE FACTORS TO DENY MERCExchange's ORIGINAL REQUEST FOR AN INJUNCTION.

On appeal, the Supreme Court confirmed that the right to exclude afforded by a patent is distinct from the remedy for violation of that right. *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1840 (2006). While a patent owner has "the right to exclude others from making, using, offering for sale, or selling the invention," violation of that right does not entitle the patent owner to automatic injunctive relief. *Id.* at 1841. Rather, the Supreme Court explained that an

¹⁵ eBay filed a motion to enforce the Court's unambiguous protective order, which prohibits MercExchange's experts from participating in patent prosecution efforts on behalf of MercExchange. Dkt No. 36 at 3 (stating that "under no circumstances shall any person who accesses [confidential] material participate ... in patent application preparation or patent prosecution activities on behalf of the parties."). MercExchange has submitted declarations from its experts to the Patent Office, seeking to obtain patent claims that cover eBay's system, even though all of them studied eBay's confidential information.

injunction “‘may’ issue only ‘in accordance with the principles of equity’” under the traditional four-factor test this Court previously applied. *Id.* at 1840. A plaintiff seeking a permanent injunction has the burden to demonstrate that: (1) it has suffered an irreparable injury; (2) remedies available at law, such as money damages, are inadequate to compensate for that injury; (3) balancing the hardships between the plaintiff and defendant, an injunction is warranted; and (4) a permanent injunction would not adversely affect the public interest. *Id.*

The Supreme Court acknowledged that this Court applied the traditional equitable factors, and *only* questioned it “[t]o the extent that the District Court adopted such a categorical rule” “denying [patent holders who prefer to license their patents] the opportunity to [satisfy the traditional four-factor test].” *Id.* at 1840 (emphasis added) (“[a]lthough the District Court recited the traditional four-factor test, it *appears to adopt* certain expansive principles *suggesting* that injunctive relief could not issue in a broad swath of cases” (emphasis added)). As the Supreme Court explained, such a categorical rule is in tension with *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 422-430 (1908), which held that an injunction may not be denied solely because a patent holder has unreasonably declined to use the patent.

The Court’s post-trial order, however, does not appear to pronounce such a categorical rule, nor did eBay argue for one. Rather, the Court applied the four-factor test in view of “all the arguments” advanced by the parties and “all the facts in this case,” which the Court concluded was “highly unusual” and “atypical.” Dkt. 598 at 25-29; *id.* at 29 (“these reasons alone are not sufficient to deny an injunction . . . they are simply factors the court must consider when balancing the equities in this highly unusual case”); *id.* at 27 (“this argument is certainly not dispositive”); *id.* at 25 (“This fact, while certainly not dispositive of the issue”).

In weighing the factors, the Court made numerous factual findings that weighed against injunctive relief in addition to MercExchange’s willingness to license its patents and lack of commercial activity, all of which remain true today for the ‘265 patent:

- “the plaintiff [MercExchange] exists solely to license its patents or sue to enforce its patents, and not to develop or commercialize them” (Dkt. 598 at 28);

- “[MercExchange] has made numerous comments to the media before, during, and after this trial indicating that it did not seek to enjoin eBay but rather sought appropriate damages for the infringement” (Dkt. 598 at 25);
- “[t]he defendants maintain that their success did not arise from the use of anything contained in [MercExchange’s] patents. . . . This court agrees” (Dkt. 598 at 38);
- “the defendants argue that the patents offer no business or engineering guidance which the defendants could copy. This court agrees” (Dkt. 598 at 38);
- “eBay was using payment processors long before it received notice of the ‘265 patent” (Dkt. 598 at 38);
- MercExchange’s claim of irreparable harm was belied by its decision to not seek a preliminary injunction (Dkt. 598 at 25);
- Growing concern in the Patent Office, Congress, and the public over the quality of business method patents (Dkt. 598 at 27); and
- The likelihood of endless contempt proceedings in which the Court “would most likely be required to retain an expert in the field in order to determine if the new systems infringe” given that MercExchange remarkably “continue[d] to strenuously assert that such a [non-infringing] design around is impossible” (Dkt. 598 at 29).

MercExchange did not challenge these findings on appeal, and they remain undisturbed today. The Court properly denied MercExchange’s request for an injunction after careful consideration of this case’s voluminous record.¹⁶ eBay respectfully requests that the Court clarify that it did not intend to pronounce a categorical rule, and deny MercExchange’s renewed request based on its application of the four-factor test to its unchallenged factual findings.

¹⁶ The Court did not deny MercExchange’s request on “an entirely clean slate.” *eBay*, 126 S. Ct. at 1841 (C.J. Roberts concurring). Indeed, the factors relied upon by the Court are based on settled precedent, much of which was established even under the Federal Circuit’s unduly strict rule favoring injunctions. *See, e.g., High Tech Med. Instr., Inc. v. New Image Indus., Inc.*, 49 F.3d 1551, 1556 (Fed. Cir. 1995) (“lack of commercial activity by the patentee is a significant factor in the calculus”); *id.* at 1557 (willingness to license “suggests that any injury suffered by [the patent holder] would be compensable in damages”); *Boehringer Ingelheim Vetmedica, Inc. v. Schering-Plough Corp.*, 106 F. Supp. 2d 696, 704 (D.N.J. 2000) (“This is not to say that money damages are never adequate”); *Fuji Photo Film Co. v. Jazz Photo Corp.*, 394 F.3d 1368, 1380 (Fed. Cir. 2005) (“Because the proofs required for determining future infringing activity are not insignificant . . . the district court did not abuse its discretion in denying . . . a permanent injunction.”); *T.J. Smith and Nephew v. Consol. Med. Equip.*, 821 F.2d 646, 648 (Fed. Cir. 1987) (irreparable harm rebutted by “delay in seeking an injunction” and “grant of licenses [and] acts incompatible with the emphasis on the right to exclude . . .”); *PGBA, LLC v. U.S.*, 389 F.3d 1219, 1229-31 (Fed. Cir. 2004) (no legal error where district court “considered PGBA’s failure to seek a preliminary injunction as a factor weighing against a grant of injunctive relief”); *Foster v. Am. Mach. & Foundry Co.*, 492 F.2d 1317, 1324, 182 U.S.P.Q. 1 (2d Cir. 1974) (affirming compulsory royalty as an appropriate remedy).

IV. REWEIGHING THE EQUITABLE FACTORS CONFIRMS THAT MERCExchange IS NOT ENTITLED TO INJUNCTIVE RELIEF, AND ITS RENEWED REQUEST SHOULD BE DENIED.

Should the Court elect to reweigh the equitable factors, the result should be the same. MercExchange's renewed request simply (1) reargues facts the Court has already resolved in unappealed findings; and (2) rehashes *policy arguments* against denying injunctions in general that have *already been rejected by the Supreme Court*. Neither entitles MercExchange to an injunction on the facts of this case.

A. MercExchange will not be irreparably harmed without an injunction.

As the Court correctly recognized, MercExchange exists only to license its patents; does not commercialize them (and, in fact, never attempted to build the '265 system); publicly disavowed any need to enjoin eBay; and decided that eBay's ongoing operations did not warrant seeking injunctive relief at the outset of the case. These facts remain true today, and the record confirms that neither MercExchange nor any of its licensees has suffered irreparable harm.

1. MercExchange is not entitled to a presumption of irreparable harm.

The Supreme Court made clear that "a plaintiff *must demonstrate* . . . that it has suffered irreparable harm." *eBay*, 126 S. Ct. at 1839. It is, therefore, MercExchange's burden to show that it will be irreparably harmed in the absence of an injunction, and it cannot rely on a presumption of irreparable harm, which is nothing more than a categorical rule. *See, e.g., z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437 (E.D. Tex. 2006) (denying injunction and holding that, in light of *eBay*, plaintiff was not entitled to presumption of irreparable harm); *see also Amoco Prod. Co. v. Village of Gambell, Alaska*, 480 U.S. 531, 545 (1987) (presumption of irreparable harm "is contrary to traditional equitable principles"). The overwhelming evidence nevertheless rebuts any such presumption and confirms that there is no irreparable harm here.

2. The Court correctly recognized that the record does not demonstrate any irreparable harm to MercExchange.

MercExchange ignores the Court's prior findings showing an absence of irreparable harm and reargues other findings it did not appeal. MercExchange never addresses its public statements disavowing any need for an injunction or that the purported injuries it now relies upon

did not warrant even seeking a preliminary injunction. Instead, MercExchange once again argues that eBay single-handedly thwarted its efforts to build the '265 patent and its ability to license it—a story the Court properly found was not true.

MercExchange also erroneously contends that Mr. Woolston “developed a [Fleanet] business plan and sought capital investment to commercialize his patents,” which is refuted by Mr. Woolston’s own testimony. *Compare* (Merc. Br. at 3) *with* McFarland Decl., Ex. 32 at 356:25-357:5 (“Q. Was the Fleanet business plan designed to be a complete commercialization of your invention? A. No. Q. What is the relationship between the Fleanet business plan and the claims in your invention, if any? A. Very little.”). Mr. Woolston likewise testified that his failure to generate interest in his Fleanet business plan was *not due to eBay*, as he had never heard of eBay at the time, and no potential investor ever mentioned eBay as a reason for passing on Fleanet. McFarland Decl., Ex. 25 at 537-538.

The MercExchange-Aden family also never attempted to commercialize the '265 patent, as any development work was directed to broadcasting live art auctions (Leftbid) or streaming a price ticker on a website (Navlet). McFarland Decl., Ex. 44 (Petsick Depo. Tr. 77:2-16); McFarland Decl., Ex. 45 (Borghi Depo. Tr. 176:15-177:13), McFarland Decl., Ex. 46 (McEachern Depo. Tr. 162:12-17). MercExchange instead points to the “best efforts” provisions in its non-arm’s length licenses within the Aden family,¹⁷ Merc. Br. at 4, with Mr. Woolston declaring that “MercExchange terminated the Aden licenses for failure to use best efforts to commercialize the inventions”—even though *Mr. Woolston himself* was *in charge of the development efforts* and responsible for ensuring that they complied with these provisions. Woolston Decl., ¶ 20. MercExchange’s failure to commercialize the '265 patent was a result of its own, repeated decisions to pursue other activities and had nothing to do with eBay.

¹⁷ MercExchange also states that it attempted to commercialize the '265 patent by “leverag[ing] the resources” of Aden “to help develop and commercialize the invention,” without mentioning several tax liens against Aden’s resources, significant debt and litigation, and S.E.C. violations. *Compare* Merc. Br. at 3-4 *with* McFarland Decl., Ex. 72 (Luther Depo. Tr. 173:25-174:3); McFarland Decl., Ex. 73 (Woolston Depo. Tr. 639:10-22); McFarland Decl., Ex. 74 at 550:14-23. Aden’s “resources” did not provide any leverage.

eBay did not provide any barriers to market entry, and *more than one thousand* companies were able to implement online marketplaces, as MercExchange itself argued to the Court. Dkt. 81 at 25-26; Dkt. 84, ¶¶ 72-73, Exhs. 17-19. The record also confirms that eBay's presence did not prevent MercExchange from licensing others, like GoTo.com, AutoTrader, and uBid—none of which have been shown to practice the '265 patent.¹⁸ MercExchange also fails to inform the Court that it lured a hedge fund, Altitude Capital, to invest “substantial millions” in MercExchange, notwithstanding Local Rule 7.1. McFarland Decl., Exs. 70 and 71.

MercExchange's contention that eBay's fixed-priced sales affect any potential royalties under these licenses is also wrong. MercExchange took a lump sum payment from GoTo.com in exchange for a fully paid up license to all of MercExchange's patents with no ongoing royalty obligations or involvement with MercExchange. McFarland Decl., Ex. 75. AutoTrader made an up-front payment, licensing all of MercExchange's patents, with royalty obligations subject to conditions that likely will never occur. McFarland Decl., Ex. 69. uBid made an up-front payment for a non-exclusive license, with royalty obligations only arising if uBid reaches \$500 million in annual *fixed-priced* sales—a number even uBid's *total* sales have never approached.¹⁹

3. MercExchange erroneously argues that it is being harmed by eBay in the “auction market”—which has nothing to do with the '265 patent.

In an attempt to manufacture a basis for irreparable injury, MercExchange and its declarants repeatedly—and misleadingly—contend that eBay's presence in the “*auction market*” is irreparably injuring MercExchange, its licensees and potential licensees. Merc. Br. at 7-9.

¹⁸ The self-dealing license agreements MercExchange entered with Mr. Woolston's other companies, Aden and its subsidiaries, Navlet and Leftbid, were terminated to settle cross-suits in which Aden explained that the “primary purpose” for the companies' involvement with one another was to share in a lawsuit against eBay. MercExchange's only other licensee, ReturnBuy, went belly-up allegedly practicing the '265 patent and took a license in exchange for a confession of infringement, which MercExchange hoped to use against eBay at trial to prove inducement. Dkt. 255; Dkt. 277. The Federal Circuit, however, concluded on appeal no reasonable jury could have found eBay liable for inducement.

¹⁹ A *0% royalty* is applied to uBid's *first \$500 million in sales* each year. uBid's CEO explained in his declaration that combining all of uBid's sales over the ten years since its inception would only double that figure. It is likely that no money will ever change hands.

The ‘265 patent, however, *does not cover auctions*, and MercExchange’s repeated arguments premised on eBay’s market share for online auctions are irrelevant and unavailing. The ‘265 patent is directed to a specific *fixed-priced* system, and MercExchange was previously estopped from arguing it covers auctions. Dkt. 349 at 2-7; *MercExchange*, 401 F.3d at 1324.

4. MercExchange cannot elevate a purely economic injury—lost licensing revenues—into irreparable harm by rehashing generalized policy arguments the Supreme Court already rejected.

MercExchange and its declarants argue at length that such speculative lost royalties from prospective licensees—although purely economic—are irreparable, raising the same abstract policy arguments that both this Court and the Supreme Court found unpersuasive. *Compare* Merc. Br. at 12-13 *with* Dkt. 598 at 24. MercExchange previously argued that denying an injunction necessarily and irreparably harms a patent holder by diminishing the value they might realize exploiting their patent in the future, but the Supreme Court was unmoved. McFarland Decl., Ex. 76. Indeed, if such speculative and generalized “injury” were recognized as irreparable, infringement would always (and categorically) result in irreparable harm in every case—which cannot be the case in light of the Supreme Court’s decision. MercExchange nevertheless continues to urge that these same generalized policy arguments. Merc. Br. at 13-15 (“[w]ithout the ability to license its patent strategically or exclusively, a substantial portion of the value of MercExchange’s patent is irretrievably lost”).

MercExchange’s declarations likewise do not offer anything new. The inadmissible Pressman declaration, upon which MercExchange bases its argument, merely explores the implications of denying an injunction *in general*, going on for over twelve pages *without addressing a single fact* specific to *this case*.²⁰ Pressman Decl., ¶¶ 20-64. The Court appropriately rejected this argument before, and notwithstanding Ms. Pressman’s stamina, MercExchange offers no reason to revisit that decision now. Dkt. 598 at 24.

²⁰ eBay moved to strike the Pressman and Jarosz declarations as untimely expert opinions and otherwise inadmissible.

There is no merit in MercExchange's conjecture that enjoining eBay would open the market for others—even for those that do not yet exist—and allow MercExchange to capture sales diverted from eBay, and that argument is premised on *flawed assumptions*. MercExchange's declarants overlook the fact that a *proper* injunction (unlike the one MercExchange proposes here) would not likely affect eBay or its market share in any appreciable way. Merc. Br. at 16-17 (“if an injunction were granted . . . potential licensees would have an opening to expand their sales and erode some of eBay's dominance”); Jarosz Decl. at 17, n.57 (“I have assumed that the issuance of a permanent injunction would force eBay to stop offering its ‘Buy It Now’ feature”).²¹

Finally, MercExchange's reliance on *z4 Techs.*, 434 F. Supp. 2d 437, also misses the point. MercExchange argues that eBay saturated the market with an infringing product, but that is not what happened here. eBay's success had nothing to do with the '265 patent, and eBay will continue to succeed without the benefit of the '265 patent, which offers “no business or engineering guidance which the defendants could copy,” as the Court properly concluded.²²

5. MercExchange's attempt to backfill the record with speculation about what uBid *might* do is unavailing and fails to show irreparable injury.

Without any evidence of irreparable injury in the record, MercExchange seeks to manufacture some, through inadmissible hearsay declarations having no evidentiary foundation, contending that MercExchange is being thwarted from expanding an existing relationship with uBid. MercExchange's “new” evidence and arguments are unavailing, and notwithstanding

²¹ eBay and Half.com could only be enjoined for the adjudged violations, which were directed to *very specific* allegations and proof of infringement. MercExchange cannot now seek an overly-broad injunction having no nexus to that proof and the adjudged violations, in an attempt to enjoin the “Buy-It-Now” feature in the abstract. See section V, *infra*.

²² MercExchange's declarant, Ms. Pressman, explains that “the timing of product development and product introduction is critical . . . earlier is better Another example of the ‘first mover advantage’ is that the first company to sell a product, even a prototype, may develop a market presence and eventual brand name recognition that may eventually slow future potential competitors.” *Finding that this is what happened with eBay*, the Patent Office cited eBay's widely-recognized “first mover advantage” in *rejecting* MercExchange's attempts to tie eBay's success to the MercExchange's patents. McFarland Decl. for Stay Motion, Ex. 23 at 98-100.

Local Rule 7.1, MercExchange conceals that it lured a hedge fund, Altitude Capital, to invest “substantial millions” in MercExchange. McFarland Decl., Ex. 70.

In 2004, uBid, like AutoTrader and Goto.com before it, took a non-exclusive license to MercExchange’s patents shortly after trial. Also like AutoTrader and Goto.com, uBid made clear that it was not interested in any relationship with MercExchange beyond its non-exclusive license. Stillman Decl., Ex. 14 at ¶ 6.4 (“No Joint Venture”). At the time, MercExchange and uBid had no problem setting a royalty structure. Now that the Supreme Court has required MercExchange to demonstrate some irreparable injury, uBid and MercExchange have reversed course, claiming that they wish to expand their “relationship,” but declare that eBay’s presence in the irrelevant auction market has left them scratching their heads over the terms. Takesue Decl. ¶ 26 (“[u]nless eBay, with over 90% market share of the online auctions market, can be enjoined . . . uBid felt the value of any exclusive license . . . is too uncertain.”).

Neither Mr. Woolston nor Mr. Takesue’s declarations, however, address the fact that MercExchange cannot legally license its ‘265 patent on an *exclusive* basis, with GoTo.com already holding a non-exclusive license. McFarland Decl., Ex. 75. Even if MercExchange and uBid could legitimately enter into such an arrangement (which they cannot), the fact would remain that MercExchange itself does not practice the ‘265 claims.²³ *Any harm*, if at all, to a *non-party*, like uBid, is of course *irrelevant* under *eBay*, as another court recently held. *See Voda v. Cordis Corp.*, 2006 U.S. Dist. LEXIS 63623 (W.D. Okla. Sept. 5, 2006).

²³ There is likewise no evidence that uBid actually practices the ‘265 claims, which include very specific requirements. For example, all the claims at issue here require a posting terminal that has a digital camera or other means (*e.g.*, a scanner) for *creating* an image of a good for sale. The uBid website uses stock images taken from an *image repository*, which the Court held does not satisfy this limitation. Dkt. 207 at 39-40. There is similarly no evidence that uBid practices numerous other limitations, and MercExchange and its declarants have failed to provide any such proof. Ironically, MercExchange fails to provide such proof, yet proposes that eBay submit to the Court claim charts, voluminous technical information and computer source code on a weekly basis, to show whether eBay’s system meets the claim limitations. That proposal is, of course, improper for numerous reasons. *See* section V.C., *infra*.

6. MercExchange's problems stem from an invalid patent that stands rejected by the Patent Office—not from the absence of an injunction.

MercExchange and its declarants repeatedly proclaim that MercExchange's lost opportunities are "uncertain" and "unquantifiable," in an attempt to manufacture an injury. None of the declarations, however, mention that a hedge fund, Altitude Capital, had no problems valuing MercExchange's portfolio—albeit before the Patent Office indicated that it intends to make the '265 reexamination rejections final. McFarland Decl., Ex. 70. MercExchange and uBid's "difficulties" in expanding their relationship also occurred as the Patent Office repeatedly rejected the '265 patent. It thus appears that MercExchange's ability to capitalize on licensing opportunities and expand its relationship with uBid and others due to invalid and rejected claims in reexamination, *not eBay*. None of MercExchange's declarants consider, let alone mention, this effect of the reexamination, which is a much more plausible explanation for MercExchange's inability to strike a deal over its invalid patents.²⁴

7. MercExchange does not explain why, if eBay's operations are causing irreparable harm, it waited two years to do anything about it.

The Federal Circuit has indicated that delay in both filing suit and seeking an injunction may negate irreparable harm *High Tech Med. Instrumentation, Inc. v. New Image Indus., Inc.*, 49 F.3d 1551, 1557 (Fed. Cir. 1995) (district court erred in finding irreparable injury in view of seventeen-month delay in filing suit); *Nutrition 21 v. U.S.*, 930 F.2d 867, 872 (Fed. Cir. 1991) (seven-month delay sufficient to negate irreparable harm); *T. J. Smith*, 821 F.2d at 648 (fifteen-month delay in seeking an injunction was sufficient to negate irreparable harm). Here,

²⁴ Declarants Evans, Jarosz and Pressman all proceed under the flawed assumption that eBay's success and continued operations are the only obstacle to MercExchange's ability to license its patents. Mr. Jarosz remarkably concludes that MercExchange would be "neogotiat[ing] licenses to the '265 patents [*sic*] from a position of *significant strength*," even though all claims stand rejected in reexamination. The declarants' opinions are inherently unreliable and should be afforded no weight, if the Court does not strike them.

MercExchange closely monitored eBay before 1999, entered into a contract to sue eBay, but did not file suit until September 2001. That delay supports an absence of irreparable harm.²⁵

B. MercExchange has an adequate legal remedy—money damages.

MercExchange also ignores the Court’s unchallenged findings that money damages are adequate and again recycles the same policy arguments that the Supreme Court rejected.

1. The damages verdict alone would overcompensate MercExchange.

While a prevailing patent holder is entitled, under 35 U.S.C. § 284, to “damages adequate to compensate for the infringement . . .,” the damages award here would more than adequately compensate MercExchange. In 2000, MercExchange’s board unanimously agreed that the entire company—patents and all—was worth \$50,000, in a sworn statement to the United States Internal Revenue Service. McFarland Decl., Ex. 62 at 1100:18-1101:11. That same year, Mr. Woolston sought to buy out two minority shareholders, valuing the company at between \$2 and \$3.5 million. McFarland Decl., Ex. 63 at 565:19-566:2. The \$25 million damages verdict is grossly disproportionate with those amounts and is 500 times the value that MercExchange told the I.R.S. that its entire company was worth.²⁶ The potential windfall is enormous, since eBay’s “success did not arise from the use of anything contained in the [‘265 patent].” Dkt. 598 at 38.

2. MercExchange’s complains that denial of an injunction will cost it licensing revenues—a claim that is speculative and purely economic.

MercExchange claims that its future licensing revenue may be limited—which is a speculative and purely *economic* injury. Merc. Br. at 13 (“MercExchange will be hindered in its

²⁵ MercExchange’s contemporaneous statements to the media at the time confirmed that MercExchange did not wish to enjoin eBay, but instead sought to cash in on its patents, as the Court previously found. Dkt. 598 at 25, n.13 (stating “it is not our goal to enforce these patents, we want to sell off our Intellectual Property rights”).

²⁶ The jury awarded \$12.5 million more than MercExchange contended it should receive. McFarland Decl., Ex. 77 at 2174:16-2175:1; McFarland Decl., Ex. 78 at 2173-2174. According to its own experts, MercExchange’s damages theories were “very tenuous,” “just didn’t seem to make any sense,” and were “not proper,” McFarland Decl., Ex. 79 at 2196:8-13; McFarland Decl., Ex. 80 at 2197:2-9; McFarland Decl., Ex. 81 at 2049:16-24, and argued that it was reasonable for eBay to pay MercExchange a royalty that *exceeded* what eBay actually made on some sales. McFarland Decl., Ex. 82 at 2066:16-2068:17.

ability to enter the kinds of license agreements that are necessary to *maximize the* economic value of the patent”); *id.* at 14 (“[n]o potential licensee would pay MercExchange anything close to full value for a patent license”). MercExchange’s goal all along has been *money*, not an injunction. Dkt. 598 at 25, n.13 (stating “it is not our goal to enforce these patents, we want to sell off our Intellectual Property rights”). MercExchange also has no products, customers or brand-recognition, the loss of which are hallmarks of an inadequate legal remedy. Apparently recognizing that fact, MercExchange recasts its “potential licensees” as “customers,” attempting to fit within the case law. Merc. Br. at 14-15. None of its cited cases, however, hold damages inadequate based on a harm that *may* inure to a party later; rather, each case presupposes an *existing* interest, independent of the right at issue, that will be incalculably harmed.²⁷

Any potential lost opportunities cannot logically establish the inadequacy of money damages. If it did, any patentee could claim that, without an injunction, potential licensing opportunities would theoretically be lost and unquantifiable—which again would run afoul of the Supreme Court’s refusal to adopt categorical rules. MercExchange unsuccessfully raised this argument on appeal, McFarland Decl., Ex. 76 at 30-31, and other courts have likewise rejected it:

Microsoft’s use of z4’s intellectual property does not exclude z4 from selling or licensing its product to any sector of the market or threaten z4’s brand name recognition or good will in any way. z4 is only excluded from selling or licensing its technology to Microsoft. Accordingly, z4 is not excluded from the use of its intellectual property in a way that cannot be calculated with reasonable certainty in the form of monetary damages, *just as the past damages for infringement were calculated at trial.*

²⁷ See *Blackwelder Furniture Co. of Statesville, Inc. v. Seilig Mfg. Co., Inc.*, 550 F.2d 189 (4th Cir. 1977) (“harm posed to Blackwelder’s general goodwill by its inability to fill outstanding and accumulating orders”); *Foundry Servs., Inc. v. Beneflux Corp.*, 206 F.2d 214, 216 (2d Cir. 1952) (“sales the defendant’s competition will make it lose”); *Multi-Channel TV Cable Co. v. Charlottesville Quality Cable Operating Co.*, 22 F.3d 546 (4th Cir. 1994) (“loss of customers to a competitor or the loss of goodwill”); *Giovani Carandola, Ltd. v. Bason*, 303 F.3d 507 (4th Cir. 2002) (“faces the threat of a substantial fine and temporary suspension of its license”); *z4 Tech.*, 434 F. Supp. 2d 437 (“damages the patent holder’s good will or brand name”); *UBS Painwebber, Inc. v. Aiken*, 197 F. Supp. 2d 436 (W.D.N.C. 2002) (“possibility Aiken will continue to solicit clients from PaineWebber”); *Atlas Powder Co. v. Ireco Chem.*, 773 F.2d 1230 (Fed. Cir. 1985) (applying presumption of irreparable harm but noting such harm was further shown by “substantial loss of profits”). The sole exception is “loss of First Amendment rights, for even minimal periods of time, unquestionably constitutes irreparable injury.” *Giovani*, 303 F.3d at 520-21 (quoting *Elrod v. Burns*, 427 U.S. 347, 373 (1976)).

z4 Techs., 434 F. Supp. 2d at 441 (emphasis added). Any damages here are not difficult to calculate and would adequately compensate MercExchange.²⁸

C. The balance of the hardships weighs in favor of denying injunction.

The hardships favor denial of an injunction, as the Court previously found. Contrary to MercExchange's contention, this is precisely the case where "an opportunistic patent holder" kept its infringement contentions hidden, after eBay "sunk significant costs into a large [auction business] (of which one small component may involve an infringing technology)," and "then ambush[ed] that corporation with an infringement lawsuit." Merc. Br. at 21.

MercExchange's contention that eBay will endure no hardship from an injunction misses the point and ignores the Court's prior findings.²⁹ As the Court recognized, the hardship to eBay arises from the repeated proceedings and threats of contempt that MercExchange says will necessarily follow. *See* Dkt. 598 at 29 (MercExchange "continues to strenuously assert that such a [non-infringing] design around is *impossible*") (emphasis added). The Court correctly "envision[ed] contempt hearing after contempt hearing requiring the court to essentially conduct separate infringement trials to determine if the changes to the defendants' systems violates the injunction." *Id.* The Court's concern that it "would most likely be required to retain an expert in the field in order to determine if the new systems infringe" also remains very real, as MercExchange proposes that every future change to eBay's system must be cleared in advance through MercExchange and the Court. Prop. Ord. at 3.

²⁸ MercExchange cannot distinguish the *z4 Tech.* case by arguing that eBay saturated the market with an infringing product. First, eBay's success had nothing to do with the '265 patent, which offers "no business or engineering guidance which the defendants could copy," as the Court properly concluded. Second, the relevant "market" here is not online auctions, as MercExchange contends, but fixed-priced systems, in which eBay *does not* have a dominant position and which are available through numerous other online sites.

²⁹ MercExchange confuses willful infringement with the sort of bad faith, knowingly illegal behavior the Supreme Court addressed in *Albermarle Paper Co. v. Moody*, 422 U.S. 405, 422 (1975). While MercExchange may want the Court to not balance the hardships, it is settled law that willful infringement does not equate to a showing of bad faith. *Jurgens v. CBK, Ltd.*, 80 F.3d 1566 (Fed. Cir. 1996) ("bad faith is not required for a finding of willful infringement").

The undue hardship to eBay is undeniable and compounded by the vagueness in the ‘265 patent’s scope, which MercExchange’s own experts argued was based on a “feeling” and not “cut and dry.” *See* n.12 *supra*. Infringement and injunctions, however, cannot be based on “feelings” and, by definition, must be cut and dry. Otherwise, a defendant and the public alike would be unable to determine whether an activity is proscribed, raising the specter of unwarranted contempt proceedings over lawful activities. *See Riles v. Shell Exploration & Prod. Co.*, 298 F.3d 1302, 1311 (Fed. Cir. 2002); *Applera Corp. v. Micromass UK Ltd.*, 204 F. Supp. 2d 724, 784 (D. Del. 2002), *aff’d* 60 Fed. Appx. 800 (Fed. Cir. 2003) .

MercExchange has exploited the ‘265 patent’s vagueness in the past and undoubtedly will continue to do so in the future—which is indisputably relevant here. *See Fuji Photo*, 394 F.3d at 1380 (“Because the proofs required for determining future infringing activity are not insignificant . . . the district court did not abuse its discretion in denying . . . a permanent injunction .’”); *Pub. Serv. Comm’n v. Brashear Freight Lines, Inc.*, 312 U.S. 621, 630 (1941) (“the action of equity . . . has traditionally exerted its power . . . to prevent the harmful consequences of an unnecessary multiplicity of causes of action”).

MercExchange fails to address these hardships, which the Court recognized, and points to no hardship it will suffer—because there is none. *See Merc. Br.* at 19-21. MercExchange exists for the sole purpose of licensing its patents. It never attempted to build, or commercialize, the ‘265 system. Its only potential hardship is its inability to use undue leverage—something Justice Kennedy expressly warned against: “an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent.” *eBay*, 126 S. Ct. at 1842.

D. The public interest favors denial of an injunction here.

1. The public interest is not furthered by issuing an injunction on a vague business method patent of suspect validity.

MercExchange erroneously argues an injunction is necessary to maintain the integrity of the patent system. *Merc. Br.* at 22. An injunction here, however, would not maintain such

integrity, it would undermine it. *First*, the ‘265 patent currently stands rejected by the Patent Office in reexamination proceedings.³⁰ The Patent Office has indicated that it intends to make those rejections final, confirming that the ‘265 patent should not never have issued.³¹ There is no public interest in enjoining activities under such patents, as Chief Justice Roberts observed: “if [the rejection of the ‘265 patent in reexamination is] a basis for staying the injunction, it’s a basis not to issue one in the first place.” McFarland Decl., Ex. 86 at 30:3-5. The Supreme Court has also recognized a “paramount” public interest in *avoiding* such injunctions: ““The far-reaching social and economic consequences of a patent, therefore, give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct and that such monopolies are kept within their legitimate scope.”” *Blonder-Tongue Labs v. Univ. of Illinois Found.*, 402 U.S. 313, 343 (1971) (quoting *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806, 816 (1945)); *Lear, Inc. v. Adkins*, 395 U.S. 653, 663-64 (1969) (“It is as important to the public that competition should not be repressed by worthless patents, as that the patentee of a really valuable invention should be protected in his monopoly”) (quoting *Pope Mfg. Co. v. Gormully*, 144 U.S. 224, 234 (1892)).

Ignoring these points, MercExchange once again reiterates a policy argument rejected by the unanimous Supreme Court, contending that a purported “compulsory license” is “fundamentally at odds with well-established principles or patent law.” Merc. Br. at 23. The Supreme Court, however, was unmoved, and such a concern is not at odds with the patent laws.

³⁰ MercExchange has sought to derail and delay the reexaminations at every turn, recently arguing for the first time, after two years of filings, that reexamination violates separation of powers, due process and other constitutional principles. Although MercExchange has belatedly raised these arguments, the Federal Circuit has confirmed that reexamination is constitutional. *See Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 604 (Fed. Cir. 1985).

³¹ The Patent Office’s rejections are not surprising. The ‘265 patent issued *without the benefit of the Patent Office’s “second look” policy*—a new policy requiring a second independent review of all business method patents before issuance. McFarland Decl., Ex. 83 at 1205:8-11. This policy resulted from a growing public concern over the validity of business method patents, such as the ‘265 patent. McFarland Decl., Ex. 84 at 1203:8-1204:22. After its implementation, the issuance rate of such patents *dropped to below 40%*. McFarland Decl., Ex. 85 at 1207:9-24. While the ‘265 patent did not get a second look, the reexamination process gave the Patent Office another opportunity for review, and the Patent Office has repeatedly rejected all claims of the ‘265 patent as unpatentable.

The public interest also would not be served by an injunction on the '265 claims, which are vague and amorphous, and require an unbounded element of "trust." Justice Kennedy recognized that "[t]he potential vagueness and suspect validity of some [business method patents] may affect the calculus under the four-factor test"—and for good reason. The public interest is not served if "the holder of a patent [were] . . . allowed to exact royalties for the use of an idea that is not in fact patentable or that is beyond the scope of the patent monopoly granted." *Blonder-Tongue*, 402 U.S. at 349-50.

2. An injunction would not facilitate competition, as MercExchange erroneously contends.

MercExchange erroneously argues that the public interest would be served by an injunction, because it would facilitate competition. MercExchange is wrong, and again points to the irrelevant "auction market," in order to portray eBay as a monopolist. There is no evidence that competition has been stifled in without an injunction, and in fact, the record indicates that the contrary is true. While MercExchange and uBid contend that uBid is second largest player in the market, uBid actually sits a distant third, behind not only eBay, but "bidz.com." See McFarland Decl., Ex. 87. *More than a thousand* companies implemented online marketplaces without an injunction, Dkt. 81 at 25-26; Dkt. 84 at ¶¶ 72-73, Exs. 17-19, and other companies can enter the market freely, like eBay did, without any benefit from the '265 patent.

3. The public interest is not furthered by a patentee who uses an injunction simply as a bargaining tool.

MercExchange is not trying to promote competition; it seeks to obtain as much money as possible for a patent offering no business or engineering guidance. This has become a recurrent problem, and an injunction in this case is not in the public interest, as Justice Kennedy observed:

[A]n industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees.... When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and *an injunction may not serve the public interest*.

eBay, 126 S. Ct. at 1842 (emphasis added). This is precisely what is happening here.

4. The public interest is not furthered by rewarding a patentee with unclean hands and currently attempting to defraud the Patent Office.

It is well established that “he who comes into equity must come with clean hands.” *Precision*, 324 U.S. at 814; *Keystone Driller Co. v. Gen. Excavator Co.*, 290 U.S. 240, 245 (1933) (relief may be denied if “some unconscionable act of one coming for relief has immediate and necessary relation to the equity that he seeks in respect of the matter in litigation.”). The Court already found that MercExchange lacks “perfectly clean hands” based on its misconduct, Dkt. 598 at 39; Dkt. 581 at 12-17, and that finding alone is sufficient to deny an injunction.

The public interest would also not be served by rewarding MercExchange’s tactics, which include: (i) contracting with Aden to sue eBay and thereafter entering a series of admittedly self-dealing license agreements that MercExchange continues to rely on as evidence of legitimate licenses; (ii) contacting eBay under the pretense of assisting it, carefully avoiding any suggestion of infringement, and later asserting—publicly and falsely—that eBay initiated the contact, in an attempt to obtain enhanced damages; and (iii) seeking over \$100 million in damages after officially valuing its entire company at \$50,000 in sworn tax filings with the I.R.S.

Before the Patent Office, MercExchange likewise did whatever it took to get claims allowed to use against eBay. MercExchange’s patent attorney and co-owner admitted that he made a “deliberate decision” not to disclose material information during the prosecution of the ‘051 patent, in an effort to obtain auction-related claims.³² MercExchange has continued these tactics in reexamination, submitting declarations that violate Patent Office rules, contradict trial testimony, and violate this Court’s protective order. MercExchange has also attempted to delay the reexaminations at every turn, hoping to postpone the Patent Office’s final word until after the Court the present motions. Dkt. 614 at 17-18. The public interest would be not furthered here.

³² This Court appeared intrigued by MercExchange’s inequitable conduct and said it would have conducted further proceedings, had the patent not been invalidated. Dkt. 349 at 1, n.1.

V. MERCExchange's PROPOSED INJUNCTION IS OVERLY-BROAD AND INAPPROPRIATE, AND CANNOT BE ENTERED AS A MATTER OF LAW.

A. An injunction must be narrowly tailored to the specific adjudged violations.

Rule 65(d) requires that “[e]very order granting an injunction ... shall set forth the reasons for its issuance; shall be specific in terms; shall describe in reasonable detail, and not by reference to the complaint or other document, the act or acts sought to be restrained.” FED. R. Civ. P. 65(d).³³ The Court, therefore, “must narrowly tailor an injunction to fit the specific adjudged violations.” *Riles*, 298 F.3d at 1311; *Gemveto Jewelry Co. v. Jeff Cooper Inc.*, 800 F.2d 256, 259 (Fed. Cir. 1986) (same); *Joy Techs., Inc. v. Flakt, Inc.*, 6 F.3d 770, 777 (Fed. Cir. 1993) (vacating injunction that “precludes [defendant] from activities that are not necessary to prevent infringement”). Such specificity is critical so that an enjoined party can design around the patent’s claims without the threat of contempt on every modified device. *See KSM Fastening Sys. v. H.A. Jones Co.*, 776 F.2d 1522, 1526 (Fed. Cir. 1985); *Additive Controls & Measurement Sys., Inc. v. Flowdata, Inc.*, 986 F.2d 476, 479-80 (Fed. Cir. 1983).

B. MercExchange’s proposed injunction has little, if any, nexus to the adjudged violations and erroneously seeks to enjoin lawful and noninfringing activity

The proposed order does not satisfy the requirements of Rule 65(d) and should be denied.³⁴ *First*, the proposed injunction erroneously attempts to *paraphrase* claimed features of the ‘265 patent, ignoring numerous limitations required for infringement. *See* Prop. Ord. at 1; *Applera*, 204 F. Supp. 2d at 784 (emphasis added) (rejecting summary of claims because “the proposed injunction raises the possibility that [defendant] *could be subject to contempt sanctions* for producing a [product] *meeting the description of the order, but not possessing all the claim limitations.*”)

³³ These requirements are “designed to prevent uncertainty and confusion on the part of those faced with injunctions, and to avoid the possible finding of a contempt citation on a decree too vague to be understood.” *Schmidt v. Lessard*, 414 U.S. 473, 476 (1974); *Thomas v. Brock*, 810 F.2d 448, 450 (4th Cir. 1987) (Rule 65(d) requirements are mandatory).

³⁴ Many of the errors in MercExchange’s proposed injunction were included in its original request for a permanent injunction. eBay pointed out those errors in its June 23, 2003 opposition and hereby incorporates those same points here, as if set forth herein. *See* Dkt. 585 at 8-10.

Second, the proposed injunction impermissibly seeks to enjoin any eBay system that “includes a Buy It Now or any other fixed-price format.” See *Rocket Jewelry Box Inc. v. Quality Int’l Packaging, Ltd.*, 90 Fed. Appx. 543, 548 (Fed. Cir. 2004) (enjoining products “similar” to infringing ones was improper; order did not “describe[] in reasonable detail the parameters for determining the extent of any such ‘similarity.’”).

Third, the proposed order impermissibly *itemizes* the claims sought to be enjoined by *number*, without reciting their specific limitations or the Court’s corresponding claim constructions. See Prop. Ord. at 2. A proper order must include not only the specific limitations, but also the Court’s constructions *in the order itself*. *Applera*, 204 F. Supp. 2d at 784; FED. R. Civ. P. 65(d) (order itself must specify enjoined acts, “not by reference to the complaint or other document”); *Kemin Foods, L.C. v. Pigmentos Vegetales Del Centro S.A. de C.V.*, 369 F. Supp. 2d 1075, 1084 (S.D. Iowa 2005).

Fourth, the proposed order also incorrectly lists claims 1, 4, 7 and 23—*which are not infringed*. The Federal Circuit concluded that no reasonable jury could have found eBay infringed these claims. See *MercExchange, L.L.C., v. eBay, Inc.*, 401 F.3d 1323, 1331-33 (Fed. Cir. 2005). MercExchange nonetheless seeks to erroneously enjoin eBay from “actively inducing or contributing to the infringement,” Prop. Ord. at 2, even though eBay and Half.com have not committed such acts of indirect infringement. See *KSM*, 776 F.2d at 1526.

Finally, MercExchange’s proposed injunction has little, if any, nexus to the adjudged violations and MercExchange’s specific proof of infringement.³⁵ Any injunction order must be narrowly tailored to that proof, which resulted in the adjudged violations, as a matter of law.

³⁵ For example, the posting terminal in claims 8 and 15 requires a tracking number scanner and printer. MercExchange’s only proof of such equipment was that of ReturnBuy, and no other posting terminals. McFarland Decl., Ex. 88 at 853:7-854:4; Ex. 89 at 954:19-24). The terminal in claims 8, 15 and 26 must also create a digital image using a digital camera or scanner, because retrieving an image from storage is not covered. Dkt. 207 at 40. Claims 8, 15 and 26 are also limited to authorizing a posting terminal, not the person using the terminal, *id.* at 48, and MercExchange pointed to eBay’s use of hashed cookies containing an Internet Protocol (IP) address. McFarland Decl., Ex. 90 at 803:5-806:25; McFarland Decl., Ex. 91 at 808:11-811:13. Any order under Rule 65(d) must delineate such details, among others. See Dkt. 588 at 24-26.

C. The proposed injunction includes unprecedented and inappropriate restrictions that confirm that it cannot be entered, as a matter of law.

The proposed order also seeks to place improper restrictions on eBay's future operations, requiring *proof* that operations that have *not* been adjudged to infringe are, in fact, *noninfringing*. Prop. Ord. at 3 (requiring eBay to submit to the Court, on a weekly basis, *claim charts, technical documentation and computer source code* before eBay may offer a modified service).

VI. CONCLUSION.

For the foregoing reasons, eBay and Half.com respectfully request that MercExchange's renewed request for a permanent injunction be denied.

Respectfully submitted,

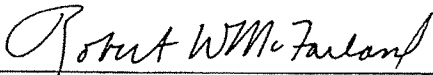
Dated: September 25, 2006

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CERTIFICATE OF SERVICE

I hereby certify that I caused a true and correct copy of the foregoing DEFENDANTS' MEMORANDUM IN SUPPORT OF THEIR OPPOSITION TO MERCExchange's RENEWED MOTION FOR A PERMANENT INJUNCTION to be served as follows this 25th day of September, 2006:

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