

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

<input checked="" type="checkbox"/>	Master File Document
<input type="checkbox"/>	Working Copy Document
<input type="checkbox"/>	Routed to _____
For Records Staff Use:	
Attachments to this Document	
Filed/Legal LegalKey Doc ID	
1519500-00120 Court 3-25	

TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION	1
II. THIS COURT WAS NOT ORDERED TO ACT PRECIPITOUSLY AND IGNORE ITS DISCRETION TO STAY THE CASE, AS MERCEXCHANGE ERRONEOUSLY CONTENDS	2
III. A STAY WOULD NOT BE EXTRAORDINARY HERE, AND THE COURT SHOULD BE UNMOVED BY MERCEXCHANGE’S MISCHARACTERIZATIONS OF THE RECORD.....	3
A. The requested stay here is not indefinite in duration.	3
B. There was nothing dilatory about eBay’s requests for reexamination—which may be filed at “any time”	4
C. eBay’s conduct is not inequitable, and the Court should be unmoved by MercExchange’s erroneous arguments to the contrary.....	7
IV. A STAY IS THE ONLY WAY THE COURT CAN ENSURE THAT THE PARTIES AND THE COURT DO NOT WASTE CONSIDERABLE RESOURCES CONTINUING TO LITIGATE PATENTS THE PTO HAS REPEATEDLY CONCLUDED NEVER SHOULD HAVE ISSUED.	9
A. A stay <i>will</i> simplify issues and discovery on the ‘265 patent, contrary to MercExchange’s erroneous contention.....	10
B. Significant litigation remains over the ‘051 patent, and MercExchange ignores the issues that have surfaced by its conduct during its reexamination.....	11
C. MercExchange will not be unduly prejudiced by a stay.	12
V. MERCEXCHANGE POINTS TO NO CASE WHERE A DISTRICT COURT PROCEEDED WITH EVERY CLAIM STANDING REJECTED AND OFFERS NO REASON FOR THIS COURT TO BLAZE SUCH AN UNPRECEDENTED TRAIL.....	13
A. A stay is appropriate under <i>Standard Havens</i> and MercExchange’s argument to “disregard [it] entirely” is misplaced.....	13
B. The Patent Office has repeatedly rejected the ‘265 and ‘051 patents, and those patents should never have issued.....	16

C. MercExchange’s constitutional arguments are meritless.....17

VI. MERCEXCHANGE’S “DISASTROUS PUBLIC POLICY” ARGUMENT IS
NOT IMPLICATED BY THE FACTS OF THIS CASE AND HAS BEEN
RESOLVED BY CONGRESS19

VII. CONCLUSION.....20

TABLE OF AUTHORITIES

	<u>Page(s)</u>
<u>Cases</u>	
<i>3M Innovative Proprs. Co. v. Avery Dennison Corp.</i> , 2006 U.S. Dist. LEXIS 70256 (D. Minn. Sept. 25, 2006)	15
<i>Abbott Labs. v. Baxter Pharm. Prods.</i> , 334 F.3d 1274 (Fed. Cir. 2003)	5
<i>Bank of America v. United States</i> , 23 F.3d 380 (Fed. Cir. 1994)	17
<i>Dayco Prods. Inc. v. Total Containment, Inc.</i> , 329 F.3d 1358 (Fed. Cir. 2003)	11
<i>Electro Medical Sys., S.A. v. Cooper Life Sciences, Inc.</i> , 34 F.3d 1048 (Fed. Cir. 1994)	16
<i>Ethicon, Inc. v. Quigg</i> , 849 F.2d 1422 (Fed. Cir. 1988)	16, 17, 18
<i>Everything For Love.Com, Inc. v. Tender Loving Things, Inc.</i> , 2006 WL 2091706 (D. Ariz. July 21, 2006)	16
<i>FMAC Loan Receivables v. Dagra</i> , 228 F.R.D. 531 (E.D. Va. 2005)	14
<i>Giganti v. Gen-X Strategies, Inc.</i> , 222 F.R.D. 299 (E.D. Va. 2004)	15
<i>Goss Int’l Corp. v. Tokyo Kikai Seisakusho, Ltd.</i> , 435 F. Supp. 2d 932 (N.D. Iowa 2006)	3
<i>Gould v. Control Laser Corp.</i> , 705 F.2d 1340 (Fed. Cir. 1983)	4
<i>Green v. Sauder Mouldings, Inc.</i> , 223 F.R.D. 304 (E.D. Va. 2004)	14
<i>Hagans v. Lavine</i> , 415 U.S. 528 (1974)	18
<i>Hamilton v. Brown</i> , 39 F.3d 1574 (Fed. Cir. 1994)	15

<i>Hoechst Celanese Corp. v. BP Chems. Ltd.</i> , 78 F.3d 1575 (Fed. Cir. 1996)	15
<i>Hurdle v. Com. of Virginia Dept. of Env. Quality</i> , 227 F. Supp. 2d 549 (E.D. Va. 2002)	14
<i>Johnson v. Richmond, Virginia</i> , 2005 WL 1793778 (E.D. Va. June 24, 2005)	14
<i>Koon v. United States</i> , 518 U.S. 81 (1996).....	15
<i>Lear, Inc. v. Adkins</i> , 395 U.S. 653 (1969).....	19
<i>MercExchange, L.L.C. v. eBay, Inc.</i> , 401 F.3d 1323 (Fed. Cir. 2005)	16
<i>Middleton, Inc. v. Minnesota, Mining and Mfg. Co.</i> , 2004 WL 1968669 (S.D. Iowa Aug. 24, 2004).....	3, 5, 7, 16
<i>Motorola, Inc. v. Interdigital Tech. Corp.</i> , 121 F.3d 1461 (Fed. Cir. 1997)	9
<i>NTP, Inc. v. Research in Motion, Ltd.</i> , 397 F. Supp. 2d 785 (E.D. Va. 2005)	3, 16
<i>Patlex Corp. v. Mossinghoff</i> , 758 F.2d 594 (Fed. Cir. 1985)	19, 20
<i>Pegasus Dev. Corp. v. DirecTV, Inc.</i> , 2003 WL 21105073 (D. Del. May 14, 2003).....	20
<i>Pergo, Inc. v. Faus Group, Inc.</i> , 401 F. Supp. 2d 515 (E.D.N.C. 2006)	15
<i>Pope Mfg. Co. v. Gormully</i> , 144 U.S. 224 (1892).....	19
<i>Softview Computer Prods. Corp. v. Haworth, Inc.</i> , 56 U.S.P.Q.2d 1633 (S.D.N.Y Aug. 9, 2000).....	4, 11
<i>Standard Havens Prods. Corp. v. Haworth, Inc.</i> , 27 U.S.P.Q.2d 1959 (Fed. Cir. 1993)	14, 15
<i>Ultrak v. Radio Engineering Industries, Inc.</i> , 52 U.S.P.Q.2d 1530 (N.D. Tex. May 17, 1999)	16

<i>United States v. Cisneros</i> , 397 F. Supp. 2d 726 (E.D. Va. 2005)	14
<i>United States v. Lentz</i> , 352 F. Supp. 2d 718 (E.D. Va. 2005)	3
<i>United States v. Smallwood</i> , 307 F. Supp. 2d 784 (E.D. Va. 2004)	15
<i>Viskase Corp. v. Am. Nat'l Can Co.</i> , 261 F.3d 1316 (Fed. Cir. 2001)	15
<i>Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.</i> , 382 U.S. 172 (1965).....	19
<i>Young Dental Mfg. Co., Inc. v. Q3 Special Prod.</i> , 112 F.3d 1137 (Fed. Cir. 1997).....	9
 <u>Statutes</u>	
35 U.S.C. § 102.....	9
35 U.S.C. § 102(b)	8
35 U.S.C. § 302.....	4, 5, 6
Fed. R. Civ. P. 62.....	3
 <u>Other Authorities</u>	
Chisum on Patents § 11.07[4][b][iii]	4

I. INTRODUCTION

MercExchange raises no legitimate reason why the Court should charge ahead with proceedings on patents that stand rejected in reexamination before the Patent Office, and its arguments do not change the fact that a stay is appropriate and well within the Court's discretion:

- *First*, MercExchange erroneously suggests that this Court lacks the discretion to stay this case because the case was not remanded in order for it to be stayed. Neither appellate opinion supports MercExchange's contentions, and the Chief Justice of the Supreme Court expressly noted that reexamination rejections are grounds for a stay. eBay never petitioned the Federal Circuit for a stay pending reexamination, nor was it denied one, and this Court clearly has the discretion to stay the case now.
- *Second*, the requested stay is not "extraordinary," and there is a "liberal policy" favoring such stays, as courts have made clear. MercExchange ignores that authority, and argues that eBay's reexamination requests were "dilatatory" or "untimely." Congress weighed MercExchange's concerns, rejected them, and did not place a deadline in the reexamination statute, which permits "[a]ny person at any time may file a request for reexamination."
- *Third*, a stay would prevent unnecessary litigation on patents that stand rejected and should never have issued. Litigation is not complete, and final judgment is likely years away. The '051 patent has not been tried, expert discovery is not complete, and the Court must consider MercExchange's inequitable conduct before the Patent Office, which cannot be cured. For the '265 patent, the Court must address the injunction and accounting issues, MercExchange's inequitable conduct during reexamination, and the Patent Office's confirmation that the term "trusted network" is indefinite. For the '176 patent, the Court must consider MercExchange's bad faith enforcement and eBay's request for its fees. These issues have not been severed, nor has a request for partial judgment been made. A stay makes sense, as *Standard Havens* confirms, and the Federal Circuit's rationale should not be disregarded because it is unpublished.
- *Fourth*, MercExchange argues that reexamination is unconstitutional and would result in bad policy. Reexamination is clearly constitutional, and Congress fully weighed MercExchange's concerns when it enacted the statute. It is not appropriate for courts to address these issues, even though there is no merit in MercExchange's arguments.
- *Finally*, the Court should be unmoved by MercExchange's allegations of fraud over eBay's use of the 1992 Honicorp video at trial. eBay did nothing inequitable here, and MercExchange is not in a position to be pointing fingers. Two Honicorp officers have refuted Mr. Nahan's self-serving, uncorroborated and inadmissible assertions, confirming that the video was *publicly displayed, without any obligation of confidentiality*. The system was also *displayed on national television* in 1994 on NBC's Today Show with Bryant Gumbel—which MercExchange fails to mention.

The Court should, therefore, grant the requested stay pending the outcome of the reexaminations.

II. THIS COURT WAS NOT ORDERED TO ACT PRECIPITOUSLY AND IGNORE ITS DISCRETION TO STAY THE CASE, AS MERCExchange ERRONEOUSLY CONTENTS

MercExchange erroneously contends that the Supreme Court and the Federal Circuit did not remand this case for it to be stayed. Dkt. 620 at 5. Nothing in the appellate courts' decisions or mandates, however, limit this Court's discretion to consider a stay, and it is well within this Court's discretion to stay this case pending the outcome of the reexamination proceedings—as both Chief Justice John Roberts and counsel for the United States acknowledged at oral argument before the Supreme Court in this case. Declaration of Robert W. McFarland in Support of Defendants' Reply in Support of their Motion to Stay ("McFarland Reply Decl."), Exh. 1 at 28:24-30:24 (emphasis added) (Chief Justice Roberts commenting on the effect of the reexamination rejections: "It seems to me if *it's a basis for staying the injunction*, it's a basis not to issue one in the first place"); (Counsel for United States stating: "[T]he *district court has discretion on remand to take [the reexamination rejections] into account* based on where the case is at that time. We're not taking a position one way or another what the Court should do in this particular case. *That is an exercise of discretion*. It's subject to review for abuse of discretion.").

MercExchange nevertheless argues that this Court should not consider a stay at all under the "mandate rule," purportedly because "Defendants have already attempted to have the Federal Circuit stay the action, and the Federal Circuit declined the request." Dkt. 620 at 5. But that is not what happened here, and MercExchange's statement is *false*. eBay never sought a stay on appeal in light of the reexaminations, nor did the Federal Circuit rule on any such request. Rather, after the Federal Circuit issued its decision on March 16, 2005, eBay notified the Federal Circuit that it planned to petition the Supreme Court for a writ of *certiorari*, and subsequently moved the Federal Circuit to stay the issuance of the mandate, while the case was appealed to the Supreme Court.¹ See McFarland Reply Decl., Exh. 2 at 1 (arguing for stay based on the

¹ While eBay did ask the Federal Circuit on February 22, 2005 whether the Court wished to entertain *briefing* on the issue of whether the case should be stayed pending the outcome of the reexamination proceedings, eBay never moved for such a stay. eBay subsequently moved the Federal Circuit to stay the issuance of the mandate, and that request was granted. There was no denial of any stay request—*sub silentio* or otherwise—contrary to MercExchange's mischaracterization. See Dkt. 620 at 4.

reasonable likelihood that the Supreme Court would take the case). The Federal Circuit determined that eBay was likely to succeed at the Supreme Court, *granted* eBay's request and stayed the issuance of the mandate accordingly.²

MercExchange nevertheless argues that eBay requested a stay from the Federal Circuit pending the outcome of the reexamination proceedings, in an attempt to rely on the *NTP*, *Goss* and *Lentz* cases, in which requests for stays were denied. Dkt. 620 at 5-6. All of those cases, however, are inapposite, and do not dictate denial of a stay here. In *NTP*, this Court denied defendant's request for a stay after noting that the defendant had, unlike the present case, sought—and been denied—a stay before the Federal Circuit. *See NTP, Inc. v. Research in Motion, Ltd.*, 397 F. Supp. 2d 785, 788 (E.D. Va. 2005). In *Goss*, the district court granted the defendant a stay pending appeal under Fed. R. Civ. P. 62, and after all issues had been resolved on appeal, the district court determined that a further stay was inappropriate, because the judgment was final—unlike here, where the '265 patent stands rejected and should never should have issued.³ *See Goss Int'l Corp. v. Tokyo Kikai Seisakusho, Ltd.*, 435 F. Supp. 2d 932, 935-36 (N.D. Iowa 2006). Finally, in *Lentz*, the district court denied the defendant's motion for a stay, after the defendant had sought, and been *denied*, a stay on appeal pending certiorari—again unlike here. *See United States v. Lentz*, 352 F. Supp. 2d 718, 726 (E.D. Va. 2005).

III. A STAY WOULD NOT BE EXTRAORDINARY HERE, AND THE COURT SHOULD BE UNMOVED BY MERCExchange's MISCHARACTERIZATIONS OF THE RECORD

A. The requested stay here is not indefinite in duration.

MercExchange argues that the requested stay here is “extraordinary,” ignoring altogether the “liberal policy in favor of granting motions to stay proceedings pending the outcome of reexamination proceedings.” *See* Dkt. 614 at 6 (citing cases). Requests for a stay pending reexamination are hardly extraordinary, and instead are routinely granted. *Id.*; *Middleton, Inc. v.*

² After the Supreme Court issued its decision, eBay requested that the Federal Circuit stay the mandate pending MercExchange's compliance with the Supreme Court's order awarding costs. The Federal Circuit did not rule on that request, which had nothing to do with the reexamination proceedings.

³ *Goss* also did not have other patents and issues to litigate, such as on the '176 and '051 patents.

Minnesota, Mining and Mfg. Co., 2004 WL 1968669 at *2 (S.D. Iowa Aug. 24, 2004) (emphasis in original) (“As the courts have recognized, Congress stated its approval of district courts liberally granting stays within their discretion when the committee stated ‘[i]t is believed by the committee that *stay provisions are unnecessary in that such power already resides with the Court.*’”) (Declaration of Robert W. McFarland in Support of Defendants’ Motion to Stay (“McFarland Decl.”), Exh. 29); *see also Softview Computer Prods. Corp. v. Haworth, Inc.*, 56 U.S.P.Q.2d 1633, 1636 (S.D.N.Y. Aug. 9, 2000) (“there is no question that a district court in which an infringement action has been filed has the discretion to stay the infringement action pending the outcome of the reexamination proceeding”) (McFarland Decl., Exh. 28).

MercExchange overlooks this policy and attempts to rely on the *Cherokee Nation* and *Landis* cases—which did *not* involve stay requests pending reexamination. Dkt. 620 at 6. MercExchange cites these cases and argues that a stay of “indefinite” duration is in appropriate in the absence of a “pressing need.”⁴ MercExchange misses the point. The Federal Circuit has made clear that stays pending “reexamination . . . including any appeal” are not “indefinite” or “protracted,” Dkt. 614 at 17 (quoting *Gould v. Control Laser Corp.*, 705 F.2d 1340, 1341 (Fed. Cir. 1983)), and MercExchange’s argument is premised on an erroneous assumption. The Court undeniably has inherent authority and discretion to manage its own docket, and none of MercExchange’s cited cases suggests otherwise.

B. There was nothing dilatory about eBay’s requests for reexamination—which may be filed at “any time”

MercExchange argues that eBay unduly delayed in requesting reexamination, contending that eBay was under some obligation to do so earlier. MercExchange is wrong. Congress has made clear that “[a]ny person at any time may file a request for reexamination.” 35 U.S.C. § 302 (emphasis added); Chisum on Patents § 11.07[4][b][iii] (“Literally, the statute allows such requests ‘at any time’ . . .”). The statute accordingly does not place any deadlines on a request for

⁴ The Federal Circuit has *never* required a “pressing need” for a stay pending reexamination, and none of the cases MercExchange cite requires such a finding in the reexamination context.

reexamination, and eBay was fully within its statutory right to request reexamination after the trial. Congress carefully weighed the alleged concerns about which MercExchange now complains, and concluded that reexamination may be requested at any time—even after a patent has been litigated. 35 U.S.C. § 302. Courts have accordingly recognized that “if the benefits of granting a stay in the present proceedings outweigh the burdens, *it need not decide whether the defendant could actually have filed its request at an earlier date.*” *Middleton*, 2004 WL 1968669, at *7 (emphasis added, quotation omitted) (McFarland Decl., Exh. 29). The timing of a reexamination request is simply not relevant and the Court need not determine whether eBay could have or should have brought its requests earlier.

There was, however, nothing dilatory here, particularly given the way this dispute arose. MercExchange initiated talks with eBay under the guise of offering eBay assistance and carefully avoided accusing eBay of infringement—even though it secretly planned to sue eBay.⁵ See McFarland Decl., Exh. 48 at 199:8-202:15; McFarland Reply Decl., Exh. 7 at 295:15-21); McFarland Decl., Exh. 43 at 597:8-598:11; McFarland Reply Decl., Exh. 8 at 1088:23-1089:18.⁶ After the talks broke down, eBay had no notice of the alleged infringement—until MercExchange filed this suit. eBay had no reason to suspect it should seek reexamination of the ‘265 patent before this suit,⁷ and once the case was filed, eBay focused on defending itself against MercExchange and its *23-lawyer* team. Dkt. 574 at Exh. 1.

⁵ While MercExchange contends it did not believe eBay infringed until it filed suit, MercExchange never explains why it planned to sue eBay and entered into an agreement for that purpose. McFarland Reply Decl., Exh. 3 at 334:7-19; McFarland Reply Decl., Exh. 4 at 336:1-10; McFarland Decl., Exh. 41 at 578:20-579:6; McFarland Reply Decl., Exh. 5 at 639:20-640:2; McFarland Reply Decl., Exh. 6.

⁶ The parties’ talks were largely directed to organizing a meeting and arranging for eBay’s review of the patents’ prosecution files. McFarland Reply Decl., Exhs. 9-15; Declaration of Gregory N. Stillman in Opposition to Defendants’ Motion to Stay (“Stillman Opposition Decl.”), Exh. 4. While eBay expressed preliminary interest in MercExchange’s patents and proposed an “agenda” for their meeting, the agenda made clear eBay’s interest was conditioned upon “develop[ing] a process for moving forward including eBay’s due diligence re this portfolio of patents.” McFarland Reply Decl., Exh. 16 (emphasis added). MercExchange thwarted eBay’s efforts at this diligence and the talks broke down.

⁷ Citation of the ‘265 patent in eBay’s patent applications is a red herring. Even obvious patents must be cited as prior art, under an applicant’s duty of candor, and seeking a patent does not mean that the cited patent covers the company’s practices. See *Abbott Labs. v. Baxter Pharm. Prods.*, 334 F.3d 1274, 1279 (Fed. Cir. 2003) (“[W]ith the mere listing of references in an IDS, the applicant has admitted no more than that references in the disclosure may be material to prosecution of the pending claims”).

Without attempting to justify its own inappropriate conduct, MercExchange blames eBay for not requesting reexamination earlier—even though all of the bases for the requests for reexamination did not become clear until late in the litigation. *First*, MercExchange’s experts made numerous admissions at trial about the Nahan prior art patent, which made clear that the ‘265 patent should have never issued. MercExchange convinced the jury to disregard the Nahan patent, arguing that it was “considered” by the Patent Office because its classification had been searched. McFarland Decl., Exh. 50 at 3609:9-3610:8; Exh. 51 at 2821:25-2824:12. The Nahan patent was never cited during the ‘265 prosecution, and in a later application, the Patent Office confirmed that it was indeed “newly-discovered” and highly-relevant. Defs. Exh. 449.

Second, the Patent Office’s Board of Appeals issued a decision after the trial, confirming the unpatentability of MercExchange’s original ‘820 patent application upon which the ‘265 patent is based. The Board made numerous findings about the Lindsey prior art patent, which again indicated that the ‘265 patent should have never issued. McFarland Reply Decl., Exh 36.

Third, once eBay raised these and other points to the Patent Office, the Patent Office found that there were substantial new questions of patentability with respect to *all of the ‘265 claims*—even though eBay had requested reexamination of only a subset of the claims. The Patent Office went on to reject these claims not only in light of Nahan and MercExchange’s admissions at trial, but based on entirely new prior art that was discovered by the Patent Office during the reexamination—and which had not been used by eBay at trial.

The grounds for the reexaminations formed after trial, through no fault of eBay, and there was nothing wrong with seeking reexamination when eBay did, consistent with Congress’ intent. The reexamination statute permits that “[a]ny person at any time may file a request for reexamination,” 35 U.S.C. § 302, and MercExchange has not and cannot point to anything in the statute or its legislative history that conditions the Court’s discretion to consider a stay on the timing of a request. *Middleton*, 2004 WL 1968669, at *7 (emphasis added) (The Court “*need*

not decide whether the defendant could actually have filed its request at an earlier date.”)
(McFarland Decl., Exh. 29).⁸

C. eBay’s conduct is not inequitable, and the Court should be unmoved by MercExchange’s erroneous arguments to the contrary

MercExchange argues that eBay has unclean hands because it allegedly committed a fraud on the Court, by allegedly misrepresenting the Edwin Newman video at issue in this case. eBay did no such thing, and the Court should be unmoved by MercExchange’s unfounded allegations. MercExchange attempts to justify its allegations, by relying on an uncorroborated, inadmissible hearsay declaration from Mr. Nahan, who claims that the Newman video was confidential. While the Court should not give any weight to Mr. Nahan’s hearsay assertions, there was no dispute at trial that the Nahan system featured in the Newman video was indeed public. In fact, the very same system had been *broadcast to a national television audience on NBC’s Today show in 1994*. Dkt. 374 at 5.

MercExchange fails to disclose this fact, and seeks to rely on Mr. Nahan’s inadmissible hearsay contention that eBay’s counsel was *told* that the video was “confidential.” The declaration fails to provide any evidence to support that allegation, let alone any evidence of a purported confidentiality agreement corroborating Mr. Nahan’s claim. The reality, however, is that the video was *not treated as confidential*, and the video was freely distributed to third parties and publicly displayed *without any obligation of confidentiality*, contrary to Mr. Nahan’s purported recollection. In fact, one of Mr. Nahan’s co-inventors, Douglas Graham, specifically *informed eBay’s counsel before trial that the video was not confidential*. See Declaration of Douglas Graham (“Graham Decl.”), ¶¶ 2-7 (attached as McFarland Reply Decl., Exh. 18).

Mr. Graham—the former President of Mr. Nahan’s company, Honicorp—confirmed that the primary purpose of the Newman video was to generate investment in Honicorp and market

⁸ MercExchange likewise cites no authority for its argument that the jury’s finding of willfulness strips this Court of its authority to manage its own docket. Moreover, MercExchange’s reliance on willfulness is particularly misplaced in this case, where the Court observed it was a “close call” on whether MercExchange’s willfulness evidence was sufficient to even present the issue to the jury. McFarland Reply Decl., Exh. 17 at 3250:5-12.

the Honicorp system. *Id.*, ¶ 5. The Newman video was distributed and shown to various persons, including artists, dealers, galleries and potential investors in Honicorp. *Id.*, ¶ 6. The video was *not marked or labeled confidential*. *Id.* In March 2003, Mr. Graham gave eBay's attorneys a copy of the Newman video and advised them that it was his understanding that the Newman video had been circulated and the *content was not confidential*. *Id.*, ¶ 7.

Another Honicorp officer also confirmed that the Newman video was not confidential. Karen Bacon, the former Vice President of marketing for Honicorp, confirmed that the video was publicly displayed without any obligation of confidentiality.⁹ See Declaration of Karen Tallackson Bacon ("Bacon Decl."), ¶¶ 2-8 (attached as McFarland Reply Decl., Exh. 20). Honicorp publicly displayed the Newman video to various attendees of the Miami Art Fair, including myself. *Id.*, ¶ 6. Honicorp requested, but did not insist in all cases, that a non-disclosure agreement be signed in order to view the Newman video. *Id.* The Newman video had also been shown to potential customers for several years prior to the Miami Art Fair. *Id.* Although Honicorp had a confidentiality agreement, its use was not consistently enforced. *Id.*, ¶ 7. Some viewers were never asked to sign the agreement, but were permitted to view the video. *Id.* During the sales process, some viewers were asked to sign the agreement and refused, and were still permitted to view the video. *Id.* Honicorp permitted representatives from art galleries to view the video *without any confidentiality obligation*, in order to obtain their business. *Id.*, ¶ 8.

Notwithstanding its public nature, eBay never argued that the video itself was "in the public domain" or constituted a prior use or publication under 35 U.S.C. § 102. Rather, eBay explained it was "instructive for understanding how the Nahan system worked." McFarland Reply Decl., Exh. 25 at 2655:1-13. MercExchange was likewise permitted to cross-examine eBay's expert, Dr. Wellman, who stated that he did not know whether the tape was publicly

⁹ Mr. Nahan's motives in crafting the declaration are suspect. At the time he prepared the declaration, he and his wife, Sherri Nahan, were actively seeking to sell their patent and retire on the proceeds. McFarland Reply Decl., Exh. 19. Prior public display of their system in the 1992-copyrighted Newman video would have presented a significant invalidity problem and likely prevented the Nahans from cashing in on whatever value their patent may have had. 35 U.S.C. § 102(b).

distributed or not.¹⁰ McFarland Reply Decl., Exh. 26 at 2813:12-2814:2 (“Q. So you have no evidence that this was ever distributed to anybody, correct? A. Correct.”). MercExchange also sought to exclude the Newman video and the NBC Today Show demonstration, *arguing before the jury that the Newman video was not published*. See McFarland Reply Decl., Exh. 27 at 3353:7-22 (“Objection. . . . There’s no evidence that that video was ever published in this record.”). MercExchange new about Nahan for years, had ample opportunity to confront the video, and there was no fraud on the Court in the process.¹¹

Mr. Nahan’s own declaration even admits that the video was not confidential, at least as of 1996—even under his version of the facts. Such a video may freely be used to show how a prior art system, like the one in Nahan’s patent, operated. *Young Dental Mfg. Co., Inc. v. Q3 Special Prod.*, 112 F.3d 1137, 1145-46 (Fed. Cir. 1997) (no error “by admitting into evidence a model of the preferred embodiment from a prior art patent.”); *Motorola, Inc. v. Interdigital Tech. Corp.*, 121 F.3d 1461, 1470 (Fed. Cir. 1997) (use of “generic prior art” exhibit allowing experts to summarize the components found the prior art was not improper). eBay used the video precisely for that purpose, and there was nothing inequitable or “unclean” about it.

IV. A STAY IS THE ONLY WAY THE COURT CAN ENSURE THAT THE PARTIES AND THE COURT DO NOT WASTE CONSIDERABLE RESOURCES CONTINUING TO LITIGATE PATENTS THE PTO HAS REPEATEDLY CONCLUDED NEVER SHOULD HAVE ISSUED.

In determining whether to grant a stay request, courts generally consider: “whether a stay will simplify or eliminate issues in the litigation; whether a stay would unduly prejudice the non-moving party; and the stage of the litigation.” Dkt. 614 at 6 (citing cases). MercExchange does

¹⁰ MercExchange suggests that eBay deceptively touted the video as an “infomercial,” but it was MercExchange that repeatedly referred to the video in that way. See McFarland Reply Decl., Exh. 21 at 533:6-14 (“[Exhibit] 269 appears to be an infomercial video”); Dkt. 374 at 5 (Apr. 9, 2003) (“defendants now imply that they intend to enter into evidence their newly-produced video tape of an infomercial and a transcript of the Today show...”); McFarland Reply Decl., Exh. 22 at 2813:12-14 (“Yesterday there was a videotape shown of an infomercial”); McFarland Reply Decl., Exh. 23 at 2826:9-13 (“the infomercial we saw”); McFarland Reply Decl., Exh. 24 at 3602:21-22 (“Edwin Newman infomercial”).

¹¹ MercExchange is hardly in a position to be pointing fingers. MercExchange took positions in this case that Court found were “completely disingenuous,” “completely inappropriate,” and made in “bad faith,” among others. Dkt. 625 at 8. MercExchange likewise took inconsistent positions about the value of its company before this Court and in sworn filings before the I.R.S. *Id.*

not challenge these considerations, and instead contends that stay is only warranted if a reexamination request was made *before trial*. Dkt. 620 at 15. MercExchange cites no authority for its unfounded position, and the considerations here weigh in favor of a stay—just as they did in *Standard Havens*. Dkt. 614 at 7-9 (discussing *Standard Havens*).

A. A stay will simplify issues and discovery on the ‘265 patent, contrary to MercExchange’s erroneous contention.

MercExchange argues that “it is impossible for [a stay pending] reexamination to ‘simplify’ any issues pertaining to the ‘265 Patent.” Dkt. 620 at 15-16. If, however, the Patent Office maintains its current rejections, there would be no need for further litigation on the scope of the ‘265 patent, whether on MercExchange’s requested injunction, or on its improper threats of contempt over eBay’s post-trial activities. As the Court found, MercExchange “continues to strenuously assert that such a [non-infringing] design around is impossible,” and its injunction request alone would involve “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.” Without a stay, MercExchange requests an order requiring eBay to clear any design change in advance with the Court, through weekly submissions of claim charts, non-infringement arguments, technical documentation, and source code. MercExchange’s Proposed Permanent Injunction Order at 3-4 (August 28, 2006). MercExchange’s own proposal would effectively require reopening discovery to confirm that eBay’s post-trial operations are non-infringing—an exercise that could be avoided by staying the case and awaiting the Patent Office’s decision.¹²

The Court has likewise found that MercExchange’s request for an accounting for any infringement by eBay’s post-verdict activities promises to be a trial in itself. Dkt. 598 at 36. It will in all likelihood require substantial litigation regarding eBay’s operations over the past three

¹² MercExchange’s injunction is improper and paraphrases some claim limitations, and ignores others. *See* Dkt. 625 at 28-30. While the injunction cannot be entered for those and other reasons, *see id.*, further unnecessary litigation over the scope of the ‘265 patent could be avoided by a stay.

years, expert testimony assessing MercExchange's allegations of infringement, and expert analysis of the appropriate measure of damages, among other issues.

Finally, MercExchange and its experts have submitted improper declarations in reexamination, in violation of this Court's protective order. Putting those violations aside, MercExchange's submissions mischaracterized the prior art, trial testimony and other parts of the record, all in an attempt to deceive the Patent Office to re-issue the '265 claims. Litigation and discovery over MercExchange's ongoing inequitable conduct during reexamination will be necessary, if the Court does not stay this case. Substantially *more* unresolved issues and litigation remain than in *Standard Havens*—all of which would be unnecessary unless the Patent Office changes its mind. The resources this case has required to date only confirm that the remaining issues will require significant investment to resolve, and “the grant of a stay will maximize the likelihood that neither the Court nor the parties expend their assets addressing invalid claims[.]” *Softview*, 56 U.S.P.Q.2d at 1636 (McFarland Decl. Exh. 28).

B. Significant litigation remains over the '051 patent, and MercExchange ignores the issues that have surfaced by its conduct during its reexamination.

While MercExchange effectively concedes that issues of infringement and invalidity remain unresolved for the '051 patent, it incorrectly proclaims that eBay's “inequitable conduct defense has evaporated.” The inequitable conduct has not evaporated, it has exacerbated. MercExchange claims that the Patent Office's reversal of a rejection in a co-pending application somehow cured MercExchange's failure to disclose that rejection in the '051 prosecution. The Federal Circuit has, however, made clear that a failure to do so can support a finding of inequitable conduct.¹³ *Dayco Prods. Inc. v. Total Containment, Inc.*, 329 F.3d 1358, 1368 (Fed. Cir. 2003) (“a contrary decision of

¹³ MercExchange argued nothing “requires a patent applicant to submit a PTO Examiner's Office Action to another PTO Examiner handling the examination of a co-pending application[.]” MercExchange's Opp. to eBay's Mot. for Sum. Jmt. of Noninfringement and Unenforceability of U.S. Patent 6,202,051 at 17 (Dec. 3, 2002). The Court indicated that it would have conducted further proceedings into MercExchange's inequitable conduct, had the '051 patent not been invalidated, and the Court has now even more reason to do so, in light of the *Dayco* decision.

