

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

MERCEXCHANGE, L.L.C.,

Plaintiff,

Case No. 2:01-CV-736

v.

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

Defendants.

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

Seth P. Waxman  
William G. McElwain  
Paul R.Q. Wolfson  
Shirley Cassin Woodward (VSB # 42451)  
Sarah Adams Zumwalt (VSB # 66101)  
**WILMER CUTLER PICKERING  
HALE AND DORR, LLP**  
1875 Pennsylvania Ave., N.W.  
Washington, D.C. 20006  
Telephone: (202) 663-6000  
Facsimile: (202) 663-6363

Gregory N. Stillman (VSB # 14308)  
**HUNTON & WILLIAMS**  
500 East Main Street  
Suite 100  
Norfolk, Virginia 23510  
Telephone: (757) 640-5300  
Facsimile: (757) 625-7720

Thomas J. Cawley (VSB # 04612)  
David M. Young (VSB # 35997)  
**HUNTON & WILLIAMS**  
1751 Pinnacle Drive, Suite 1700  
McLean, Virginia 22102  
Telephone: (703) 714-7400  
Facsimile: (703) 714-7410

Scott L. Robertson  
Jennifer A. Albert  
Brian M. Buroker (VSB # 39581)  
**HUNTON & WILLIAMS**  
1900 K Street, N.W.  
Washington, D.C. 20006-1109  
Telephone: (202) 955-1500  
Facsimile: (202) 778-2201

Attorney for Plaintiff MercExchange,  
L.L.C.

<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 2-11	

## TABLE OF CONTENTS

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

## TABLE OF AUTHORITIES

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

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

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

## I. INTRODUCTION

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

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

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

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

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

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

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

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

## **II. BACKGROUND**

### **A. The Proceedings Before This Court**

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

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

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

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

#### **B. The Proceedings Before The Federal Circuit**

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

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

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

---

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



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

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

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

**D. The Proceedings Before The United States Supreme Court**

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

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

---

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

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

### III. ARGUMENT

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

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

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

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

---

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

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

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

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

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

**1. Defendants Unduly Delayed in Requesting Reexamination**

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

February 2002 in their first interrogatory answers in this case, more than a year before the trial and more than two years before they requested reexamination. Stillman Dec., Ex. 5.<sup>3</sup>

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

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

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

---

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

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

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

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

**a. Defendants' "entrapment defense" fails**

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

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

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

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

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

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

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

---

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

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

**c. Defendants were not “too busy” to seek a timely request for reexamination**

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

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

---

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

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

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

**a. One who seeks equity must do equity**

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

**b. Defendants knowingly submitted false evidence as prior art**

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



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

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

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

---

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

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

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

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

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

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

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

