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October 10, 2006

BY HAND

Fernando Galindo, Clerk
United States District Court
Eastern District of Virginia
600 Granby Street
Norfolk, VA 23510-2449

MERCExchange V. EBAY, INC., HALF.COM, INC. AND RETURNBUY, INC.
CIVIL ACTION NO. 2:01-CV-736

Dear Mr. Galindo:

Please file Plaintiff MercExchange, L.L.C.'s Reply Brief in Support of Renewed Motion for Entry of a Permanent Injunction Order and supporting Declaration.

Thank you for your cooperation.

Yours sincerely,

Gregory N. Stillman

01368/824
Enclosures

cc: Honorable Jerome B. Friedman
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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 REPLY BRIEF IN SUPPORT OF
RENEWED MOTION FOR ENTRY OF A PERMANENT INJUNCTION ORDER**

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I. INTRODUCTION

The sole question presented to the Court in this motion is whether eBay should be permanently enjoined from infringing MercExchange's patent, U.S. Patent No. 5,845,265 ("the '265 patent") under the traditional four-factor test for equitable relief. As MercExchange's opening brief details (Merc. Br. 9-24), the equities strongly favor immediate injunctive relief.

eBay's argument to the contrary rests on misconceptions of the law, misstatements of the record, and misleading assertions about irrelevant issues.

- **First**, eBay misapprehends the scope of the Supreme Court's decision in this case, erroneously arguing that this Court can simply reinstate its earlier denial of injunctive relief by clarifying that it did not impose a categorical rule. But the Supreme Court was clear: "We hold only that the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with traditional principles of equity." *eBay, Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1841 (2006). Finding that neither lower court had correctly applied traditional principles of equity as embodied in the four-factor test, the Supreme Court accordingly remanded for this Court to weigh those factors anew by applying the four factor test "in the first instance." *Id.*
- **Second**, injunctive relief is prospective. eBay erroneously suggests that the question of injunctive relief must be evaluated based on the circumstances that existed at the close of trial. That is wrong as a matter of law, as discussed *infra*. Because an injunction provides prospective relief, it must be based on currently existing facts and law. This Court must therefore determine whether a permanent injunction should enter by applying the current law—the four-factor test as explicated by the Supreme Court—to the factual circumstances existing today.
- **Third**, eBay lost at trial on the issues of validity and infringement of the '265 patent. Unwilling to accept that its liability for willful infringement of the valid '265 patent (and the award of damages for the past infringement of that patent) are now final and part of the mandate, eBay attempts to reargue those issues. But eBay's repeated protestations as to why it does not infringe and why the damages awarded were inappropriate are irrelevant and but an attempted distraction from the question at hand: whether this Court should permanently enjoin eBay's infringement.

Applying the four factors "in the first instance" here shows that the equitable balance strongly favors granting injunctive relief. *See* Merc. Br. 9-24. Unable to refute these arguments, eBay argues instead that the Supreme Court's decision does not require this Court to apply the

four-factor test in the “first instance,” and that even if it does so this Court cannot consider current legal and factual circumstances when weighing those factors. (eBay Br. 11-13; 18-19). These arguments are meritless, and this Court should enter immediate injunctive relief for MercExchange.

II. BACKGROUND

eBay devotes almost half of its brief to issues that are not before this Court (eBay Br. 1-13). As this Court is well aware, the jury found that eBay (and its wholly-owned subsidiary, Half.com; collectively, “eBay”) had willfully infringed the ’265 patent, and the jury awarded damages for past direct infringement of that patent in the amount of \$25 million. *MercExchange, L.L.C. v. eBay, Inc.*, 275 F. Supp. 2d 695, 698-99 (E.D. Va. 2003). This Court upheld those findings. *Id.* at 704. And the Federal Circuit unanimously affirmed the jury’s verdict and this Court’s judgment that the ’265 patent was valid and infringed. *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1328-29 (Fed. Cir. 2005). eBay did not seek further review on those questions, and the judgments of validity and infringement are now final.

eBay’s lengthy recitation in its brief of all the reasons it still believes it should not be held liable for infringing the ’265 patent are therefore irrelevant. *See* eBay Br. 1-13 (whether eBay’s system is a “trusted network,” whether eBay or MercExchange first initiated contact for the meeting at which eBay sought to buy the ’265 patent, whether eBay was using “payment processors” before eBay received notice of MercExchange’s patents, whether eBay’s success was attributable to its use of the ’265 patent, whether eBay “copied” the ’265 patent, *etc.*).¹

¹ eBay’s recitation of all the reasons why it believes the damages award was improper is similarly irrelevant. eBay Br. 21. This Court specifically rejected eBay’s argument that the damages award was “excessive,” and eBay did not appeal the judgment regarding damages. *MercExchange*, 275 F. Supp. 2d at 709-710. In any event, the damages were awarded for past infringement, and therefore have no bearing on the propriety of prospective relief.

When eBay addresses the one issue that *is* before the Court—whether a permanent injunction should issue—it misstates the record. First, as a matter of law, the '265 patent does not “stand rejected” in reexamination, as eBay asserts. eBay Br. 20, 25. The patent examiner has not yet issued his final office action on the reexamination. When he does, any decision adverse to MercExchange will be appealed to the Patent and Trademark Office (“PTO”) Board of Patent Appeals and Interferences (“BPAI”).² See 35 U.S.C. § 134(b). That agency decision is in turn subject to appeal to the Federal Circuit. See 35 U.S.C. § 306. *No claims of the '265 patent could be cancelled until this entire appeals process was completed.* See 35 U.S.C. § 307(a) (certificate canceling or confirming claims of patent on reexamination is issued when the appeals process has been exhausted). Therefore, the claims of the '265 patent remain valid unless and until that patent is cancelled, which cannot occur until *after* the PTO examiner issues a final office action, *after* that office action is upheld by the BPAI, and *after* the Federal Circuit affirms that decision. This process could easily take a decade. See *In re Am. Acad. of Sci. Tech. Ctr.*, 367 F.3d 1359 (Fed. Cir. 2004) (10 years between request for reexamination and final decision of Federal Circuit).

Second, MercExchange does not claim that the '265 covers “auction” or “bidding” format sales, as eBay misleadingly suggests (eBay Br. 1-2; 16). eBay tries to obfuscate the issue by repeatedly suggesting (*id.*) that its dominant position in the “online auction market” is irrelevant to whether eBay’s infringement of the '265 patent is causing irreparable harm to MercExchange. eBay’s argument is without merit. As explained in MercExchange’s opening brief (Merc. Br. 2-3 & n.2), the term “online auction market” refers to an online marketplace

² If the PTO examiner confirms the patentability of the claims, eBay has no right to appeal. See 35 U.S.C. § 134(b). Similarly, only the patent owner can appeal an adverse decision of the BPAI to the Federal Circuit. See 35 U.S.C. § 141.

(like eBay or uBid) that allows private sellers to list goods they wish to sell. Those items can then be sold either through a “bidding” format, in which the buyer bids on the price, or through a “fixed-price” format, in which the buyer pays a fixed price. The ’265 patent relates to the fixed-price option. Sales that use this fixed-price option take place, therefore, within the overall “online auction market,” in which multiple sellers sell goods to multiple buyers. This distinguishes such sales from the broader category of fixed-prices sales on the Internet (*e.g.*, Amazon.com), which would cover virtually all Internet commerce other than price-bidding sales. Because eBay holds an overwhelmingly dominant presence in the “online auction market” (including the fixed-price sales portion of that market), if eBay is not enjoined from infringing the ’265 patent, potential competitors (and potential licensees) will be unable to gain a foothold to compete against eBay.

Third, contrary to eBay’s assertions (eBay Br. 7, 19), MercExchange is not precluded from granting exclusive rights under the ’265 patent. eBay contends that MercExchange is so precluded because another company, GoTo.com, already holds “a non-exclusive license” to the ’265 patent. eBay Br. 19. That is incorrect. In 2001, MercExchange extended a *limited* covenant not to sue on the ’265 patent to GoTo.com (which was subsequently renamed Overture and then merged with Yahoo!). GoTo.com settlement ¶¶ 7(a); (b) (covenant not to sue limited to “Channel Fusion Products,” *e.g.*, posting terminal software products) (Ex. 1 to Declaration of Gregory N. Stillman (“Stillman Decl.”), filed concurrently); Yahoo! Press Release (Stillman Decl., Ex. 2). Nothing in that covenant, however, would preclude MercExchange from granting uBid (or some other entity) the exclusive right to practice the ’265 patent by performing or hosting “Buy it Now” online auctions with a fixed-price purchase option. GoTo.com settlement ¶¶ 7(a), (b), (c) (Stillman Decl., Ex.1). There is therefore no impediment—other than eBay’s

willful infringement—to MercExchange entering into such an exclusive licensing agreement with uBid.

Fourth, the lack of an injunction to prevent eBay’s infringement does in fact preclude MercExchange from collecting royalties under its license agreement with AutoTrader, again contrary to eBay’s assertions (eBay Br. 16). eBay claims that its infringement is not the cause of harm to MercExchange because other factors might also affect the availability of royalty payments; eBay states that such payments under the AutoTrader license are “subject to conditions that likely will never occur.” eBay Br. 16. Whether such conditions are “likely” is irrelevant; the point remains that without an injunction MercExchange is *precluded* from collecting royalties. AutoTrader license (Stillman Decl., Ex. 3). More fundamentally, the AutoTrader license, with its provision for contingent royalty payments, illustrates the harm to MercExchange from eBay’s continued infringement: potential licensees have little incentive to adequately compensate MercExchange for the use of its patented technology so long as eBay is permitted to infringe.³

Finally, and contrary to eBay’s representations, MercExchange continues to suffer irreparable harm absent an injunction. As detailed in MercExchange’s opening brief (Merc. Br. 9-24), MercExchange, and MercExchange’s licensees or potential licensees, are, or aspire to be, competitors of eBay. But eBay’s infringement, combined with its market dominance, irreparably

³ eBay cites to numerous other “facts” in an apparent attempt to portray MercExchange as unethical. eBay Br. 8-10. These assertions are irrelevant and in any event completely erroneous. For example, eBay insinuates that MercExchange undervalued its company for tax purposes and overvalued its patents for purposes of securing damages. *Id.* at 8. But the jury rejected eBay’s argument that damages should be limited to MercExchange’s tax valuation, and this Court upheld that damage award. *MercExchange*, 275 F. Supp. 2d at 695. Nor did MercExchange improperly “lure” investors to its company (eBay Br. 10); such investment merely reflects the potential enterprise value of MercExchange.

harms MercExchange's ability to exclusively license its technology to these entities, and the value of such lost business opportunities is exceptionally difficult to quantify, as even eBay concedes (eBay Br. 21). eBay, by contrast, will suffer no harm if an injunction issues; eBay deliberately chose to infringe the '265 patent despite its contention that it could have avoided infringement with a simple design-around, and it continues to claim that an injunction will not harm it (eBay Br. 18). The public interest will also be served by injunctive relief, because such relief would encourage the development of meaningful online auction alternatives to eBay.

III. EBAY MISAPPREHENDS THE SUPREME COURT'S DECISION AND THE FEDERAL CIRCUIT'S REMAND ORDER

eBay takes the remarkable position that this Court can and should avoid the clear mandates of the Supreme Court and the Federal Circuit to weigh the four equitable factors "in the first instance." According to eBay, this Court should announce that, when it first adjudicated MercExchange's motion for a permanent injunction, it did not intend to adopt a categorical rule after all, and should then reinstate its earlier denial of injunctive relief. But that argument directly contradicts the Supreme Court's clear statement that "*neither court below* correctly applied the traditional four-factor framework that governs the award of injunctive relief," *eBay*, 126 S. Ct. at 1841 (emphasis added), as well as the Court's clear direction that it was remanding this case "so that the District Court may apply [the traditional four-factor] framework *in the first instance*," *id.* (emphasis added). The Federal Circuit understood as much, explaining in its own remand order that the Supreme Court's "directive is best honored by remanding this case to the district court without further proceedings in this court at this time" because the matter now stands as if the motion had never been heard and must on remand be considered by the trial court "in the first instance." *MercExchange, L.L.C. v. eBay, Inc.*, Nos. 03-1600, 03-1616, 2006 U.S. App. LEXIS 17505, at *1-2 (Fed. Cir. July 6, 2006). This Court does not have the option to

“clarify that it did not intend to pronounce a categorical rule” and re-enter its previous decision (eBay Br. 13). Rather, the Court must conduct the four-factor analysis anew.⁴

IV. THE EQUITIES FAVOR GRANTING MERCEXCHANGE A PERMANENT INJUNCTION ENJOINING EBAY FROM INFRINGING MERCEXCHANGE’S PATENT

Under the traditional four-factor test for equitable relief, each factor weighs in favor of MercExchange, and MercExchange is therefore entitled to a permanent injunction to prevent eBay’s infringement.

A. Absent An Injunction, MercExchange Will Suffer Immediate Irreparable Harm For Which There Is No Adequate Remedy At Law

Absent an injunction, MercExchange will suffer irreparable harm for which there is no adequate remedy at law. As explained in MercExchange’s opening brief (Merc. Br. 9-10), the Supreme Court made clear that historical practice—in which injunctive relief was granted in most cases after a finding of infringement—does not alone justify a categorical rule that injunctions *must* issue after a finding of infringement. At the same time, however, the principles that gave rise to this historical practice, including the nature of the patent right and the harm that arises from losing the right to exclude, are still important in a court’s weighing of the four equitable factors. *See eBay*, 126 S. Ct. at 1841 (Roberts, C.J., concurring); *id.* at 1842 (Kennedy, J., concurring). Indeed, because the essence of the patent right is the right to exclude,

⁴ Moreover—and as explained in greater detail in MercExchange’s opposition to eBay’s motion to strike—in applying the four equitable factors, this Court must consider the facts as they stand today, not as events stood three years ago. An injunction is a forward-looking remedy, *see Swift & Co. v. United States*, 276 U.S. 311, 315 (1928), and a court must consider changed circumstances, both factual and legal, in the exercise of its equitable discretion to enter such a remedy. *See Miller v. French*, 530 U.S. 327, 347 (2000); *System Fed’n No. 91 v. Wright*, 364 U.S. 642, 646-647 (1961). Simply put, the question before the Court is not whether an injunction should have issued three years ago but whether, in light of current facts and circumstances, and considering all pertinent information before the Court, such relief is warranted today.

irreparable harm to the patent holder is generally presumed after a finding of validity and infringement. The Supreme Court did not alter that presumption. *See Merc. Br. 11.*

Even if this Court finds that MercExchange is not entitled to such a presumption, however, MercExchange has clearly demonstrated that it is suffering irreparable harm absent an injunction, and the equities favor immediate injunctive relief. MercExchange has demonstrated irreparable harm for which there is no adequate remedy at law because it has been deprived of the ability to choose to whom to license its patented technology, and has suffered losses in the value of its patent as well as lost business opportunities to use its patent. *Merc. Br. at 11-19.*

1. Purely economic injury may be irreparable.

eBay attacks MercExchange's assertion of lost business opportunities on the rather ironic ground that such harm is "purely economic." eBay Br. 17. Of course, MercExchange is a business and, as such, suffers harm economically when its rights are violated. The fact that MercExchange's lost business opportunities constitute economic harm offers no insight into whether such harm is adequately compensable with money. Purely economic injury may cause irreparable harm when such harm is impossible to quantify. *See Ticor Title Ins. Co. v. Cohen*, 173 F.3d 63, 68-69 (2d Cir. 1999) (concluding that irreparable harm existed where employee violated covenant not to compete and induced clients to follow him to new firm, because "it would be very difficult to calculate monetary damages that would successfully redress the loss of a relationship with a client that would produce an indeterminate amount of business in years to come.").

Moreover, eBay's protestation that MercExchange's lost business opportunities are "speculative" merely serves to strengthen the case for a permanent injunction. It may indeed be difficult to *value* MercExchange's lost business opportunities so as to adequately compensate MercExchange. *See Terrace v. Thompson*, 263 U.S. 197, 214 (1923) (legal remedy is inadequate

unless it is “as complete, practical and efficient as that which equity could afford”). The *existence* of such lost opportunities, however, is far from “speculative” and is set forth in detail in MercExchange’s opening brief. Merc. Br. 13-17.

2. Recognizing that lost business opportunities may constitute irreparable harm does not require establishing a categorical rule.

In demonstrating that it suffered irreparable harm through loss of business opportunities, MercExchange does not—explicitly or implicitly—ask the Court to adopt an impermissible categorical rule. Certainly, the vast majority of patent holders would likely suffer some lost business opportunities as a result of infringement, but each is still required to demonstrate that loss and that the balance of the remaining factors weighs in its favor. MercExchange does not claim in the abstract that it lost theoretically-existing business opportunities. Rather, it has pointed to specific opportunities with uBid, AutoTrader, Christie’s, and others that have been hindered or foreclosed, at least in part, by eBay’s infringement. Merc. Br. 7-9; 13-17. Recognizing such irreparable harm arising from MercExchange’s enumerated lost opportunities does not require this Court to establish a general rule in favor of any patentee who claims unspecified lost opportunities.

3. The harm MercExchange is suffering is due to eBay’s infringement.

eBay attempts to deflect responsibility for the irreparable harm it has caused MercExchange by noting that other factors could potentially affect MercExchange’s business growth. That may be true, but it is irrelevant. The relevant point is that eBay willfully infringed MercExchange’s patent, and that infringement has irreparably harmed MercExchange by thwarting its efforts to license or otherwise exploit its patent. First, forcing MercExchange to license its technology to someone not of its choosing is an irreparable harm—once lost it cannot be retroactively restored nor remedied with money. *See* Merc. Br. 11-13. And absent an

injunction to prevent eBay's infringement, MercExchange would, in effect, be forced to license its patent to eBay. *See Odetics, Inc. v. Storage Tech. Corp.*, 14 F. Supp. 2d 785, 795 (E.D. Va. 1998) (such a forced license is "antithetical to a basic tenet of the patent system ... that the decision whether to license is one that should be left to the patentee"). There can be no claim that eBay's infringement is not the cause of that harm.

Second, eBay is simply incorrect to claim that its infringement does not affect MercExchange's ability to earn royalties or license its patent. eBay Br. 16. As noted, the AutoTrader license explicitly conditions royalty payments on MercExchange's ability to enjoin eBay. (Stillman Decl., Ex. 3). Regardless of what other conditions may also be necessary for MercExchange to receive royalties, MercExchange will unquestionably be precluded from collecting royalties unless eBay is enjoined. Moreover, the fact that AutoTrader bargained for such a term in the license attests to eBay's dominant position in the marketplace and the fact that eBay's infringement significantly affects the market for licenses to the '265 patent. eBay's infringement is also the direct cause of MercExchange's difficulties in expanding MercExchange's business relationship with uBid. In a sworn declaration, uBid's Executive Vice President Timothy Takesue stated that it is eBay's infringement, rather than any other factor, that stands in the way of an agreement between MercExchange and uBid for an exclusive license to the '265 patent. Declaration of Timothy E. Takesue ¶¶ 21; 25-27 (Stillman Decl., Ex. 4).

Third, eBay's argument that it is the ongoing reexamination of the '265 patent, rather than eBay's unchecked infringement of that patent, that is causing the irreparable harm to MercExchange fails for several reasons. Despite eBay's wishful assertions (eBay Br. 20, 25), the '265 patent does not, as a matter of law, "stand rejected" in reexamination. *See p. 3, supra*. As noted, even if the PTO examiner were to reject the claims of the '265 patent, those claims would

remain valid unless and until the ultimate PTO decision was affirmed on appeal to the Federal Circuit, a process that would likely take years. *See* 35 U.S.C. § 307(a). As matters stand, therefore, MercExchange continues to possess full property rights in the '265 patent and it can continue to enforce that patent. Indeed, uBid has conducted its business under that understanding and has made clear that it is eBay's infringement, and not the reexamination proceedings, that has hindered its efforts to expand its business relationship with MercExchange. *See* Takesue Decl. ¶¶ 21, 25-27 (Stillman Decl., Ex. 4).

Moreover, it is uncertain whether even the first step—final rejection by the PTO examiner—will occur, much less whether the BPAI would agree, or whether the Federal Circuit would find (as it already has once before) that the patent is in fact valid.⁵ eBay would have this Court assume that cancellation of the patent is inevitable. That is incorrect. The patent may well be confirmed on reexamination. And equity requires that any risk from uncertainty in that outcome be borne by the willful infringer rather than the innocent patent holder, particularly an infringer who instituted reexamination proceedings *after* it lost at trial in a transparent effort to secure through administrative proceedings what it lost before the jury, this Court, and the Federal Circuit. As such, to the extent that any uncertainty regarding the ultimate outcome of the reexamination *has* hindered MercExchange's business opportunities in any way, those injuries are directly attributable to eBay's infringement.

4. MercExchange's licensing practice does not justify disregard of MercExchange's exclusive rights under the patent law.

⁵ Indeed, PTO statistics suggest that it is unlikely that the patent would be cancelled even after rejection by the PTO examiner. According to PTO statistics for 2000-2006, an average of 44.4 percent of appeals to the BPAI, from the PTO office that handles patents in the category of MercExchange's patent here, resulted in reversal of the PTO examiner's rejection, whereas only 26 percent of such appeals resulted in affirmance of the PTO examiner's rejection. BPAI, Receipts and Dispositions by Technology Centers, *Ex Parte* Appeals (Stillman Decl., Ex. 5).

eBay repeatedly asserts that MercExchange “exists only to license its patents,” and argues at length that because MercExchange never tried to “build” its patents it is therefore undeserving of an injunction. eBay Br. 14-16. eBay is incorrect on both the facts and the law. MercExchange unquestionably tried to develop and commercialize its patents, as detailed in its opening brief. Merc. Br. 3-5; 7-9.

More fundamentally, MercExchange’s licensing activity does not indicate that a money damages award would be adequate to compensate it for eBay’s infringement. See Merc. Br. 17-19. The patent law does not condition the availability of injunctive relief on whether the patent holder practices (or on the degree of effort to practice) the invention. The Supreme Court made clear almost 100 years ago that patents are enforceable whether the patent holder chooses to practice the invention, license the patent, or make no use whatever of the patent. See *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 429-430 (1908). And the Supreme Court, in this very case, not only reaffirmed that principle but made clear that a “willingness to license” does not establish that the patent holder will not be irreparably harmed absent an injunction.⁶ eBay, 126 S. Ct. at 1840.

⁶ The cases eBay cites (Br. 13 n.16) do not support the position that a history of licensing means that monetary compensation is necessarily adequate. In *High Tech Med. Instrumentation, Inc. v. New Image Indus., Inc.*, 49 F.3d 1551 (Fed. Cir. 1995), the court considered a “lack of commercial activity” in denying the injunction only because the patentee neither made, nor sold, nor licensed its invention—a far cry from this case. The court in *Boehringer Ingelheim Vetmedica, Inc. v. Schering-Plough Corp.* simply observed, while granting an injunction based on the difficulty in calculating damages for lost opportunities, revenue, market share, and reputation, that there may be other instances in which a monetary award provides adequate compensation. 106 F. Supp. 2d 696, 704 (D.N.J. 2000). Finally, *T.J. Smith and Nephew v. Consol. Med. Equip., Inc.* provides no details as to the patentee’s practice of granting licenses and may differ significantly from the situation here, in which the patentee has used licensing in a selective manner designed to commercialize the patents. 821 F.2d 646, 648 (Fed. Cir. 1987).

