

UNITED STATES COURT OF APPEALS
FOR THE DISTRICT OF COLUMBIA

MERCEXCHANGE, INC.

Plaintiff

vs.
BAY INC. AND BAYCOM, INC.

Defendants

APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA, IN CASE NO. 00-10000
JUDGE J. CLAYTON KENNEDY

BRIEF OF DEFENDANTS' AFFIDAVITS
BAY, INC. AND BAYCOM, INC.

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STATEMENT OF RELATED CASES

eBay incorporates MercExchange's statement. *See Blue* at xi.

STATEMENT OF THE ISSUES

eBay agrees that the issue here is whether the district court abused its discretion in denying a permanent injunction. eBay disagrees with MercExchange's suggestion that there is "continued willful infringement" or that the district court made any such finding. *See Blue* at 1.

STATEMENT OF THE CASE

eBay respectfully disagrees with MercExchange's "Preliminary Statement," as it ignores and contradicts the district court's factual findings and the underlying record.

The issue before the Court arose after the Supreme Court issued its decision in *eBay v. MercExchange*, and remanded the case so that the district court could apply the traditional equitable factors in assessing MercExchange's request for injunction. On remand, the district court reopened the record, received voluminous evidence and briefing, and heard hours of argument.¹ The district court weighed

¹ Published decisions of the district court reopening the record and denying the injunction may be found at 467 F. Supp. 2d 608 and 500 F. Supp. 2d 556.

the credibility of the parties' evidence and "carefully consider[ed] each of the unique facts underlying this complex case." App000033. The district court made numerous factual findings, properly applied the equitable factors, and exercised its discretion to correctly deny MercExchange's request for injunction, in a detailed 49-page opinion.

MercExchange does not address or explain why any of the court's findings might be erroneous, but instead ignores and contradicts them, reasserting the same evidence the district court discredited. The "factual" account MercExchange submits was lifted virtually *verbatim*—down to footnotes and citations—from its briefing below. This Court has rejected such an approach before, as it should here. *Forest Labs, Inc. v. Ivax Pharm., Inc.*, 501 F.3d 1263, 1268-69 (Fed. Cir. 2007).

The record supports the district court's findings and exercise of its discretion. Contrary to MercExchange's account, the district court correctly found MercExchange has made little, if any, effort to commercialize the '265 patent either itself or through licensees, even after trial with admittedly sufficient resources to do so. Rather, MercExchange—two patent attorneys and a friend with backing from a patent-litigation hedge fund—uses litigation to "exact[] a tax for utilizing its patents from market participants," distributing multi-million dollar dividends to its three principals. App000047.

As the district court correctly found, MercExchange demonstrated a consistent lack of interest in either building anything from its patent or excluding others from practicing it. Instead, MercExchange has “followed a consistent course of seeking to maximize the money it can obtain from licensing its patents to market participants” and has been uniformly willing to forgo its right to exclude—including against eBay—in exchange for money. App000017. As it did before the district court, MercExchange “attempt[s] to disguise its true motivations to the court, claiming that a desire to commercialize guided its decisions when in reality, litigation guided such actions,” as the district court correctly found. App000026(n.18). This Court should be unmoved by MercExchange’s appeal.

MercExchange’s conduct is consistent with its public statements that it only wants money and to sell its patent—not enforce it. The district court relied upon this pattern in concluding MercExchange would suffer no irreparable harm.

The district court also correctly found MercExchange adopted this course by its own choosing and eBay’s success did not prevent MercExchange or anyone else from commercializing the ‘265 patent. eBay built its success on non-infringing auction format sales long before it knew of the ‘265 patent or implemented the features found to infringe, as MercExchange admitted. Nothing prevented MercExchange from commercializing the ‘265 patent, as the district court correctly found.

MercExchange's cry of monopolism is unsupported. The '265 patent is limited to fixed-price transactions and does not implicate auction-format transactions, which the district court found built eBay's success and remain the majority of its business. eBay's market share in non-infringing auctions is irrelevant and MercExchange offered no evidence of eBay's position in the relevant fixed-price market, which includes Amazon.com and thousands of other companies.

MercExchange's emphasis on willfulness is similarly misplaced. The district court reiterated that it was a "close call" whether MercExchange presented enough evidence at trial to survive JMOL. Contrary to MercExchange's assertion, the district court found that eBay did not deliberately choose to infringe or copy the '265 patent. Rather, after entering an agreement to sue eBay, MercExchange approached eBay under other pretenses and carefully avoided accusing eBay of infringement, even though eBay was already using the payment processor MercExchange later contended infringed.

MercExchange refused to permit inspection of its prosecution histories and the talks broke down. The next time eBay heard from MercExchange was the filing of this lawsuit, the first notice of any alleged infringement. MercExchange's willfulness case was limited to knowledge of the '265 patent, the attendant duty of care and adverse inferences drawn from the absence of an opinion of counsel. This

Court's recent authority has overturned these bases, and MercExchange cannot rehabilitate these deficiencies by pointing to an incomplete proposal for a "Trading Post Program" it knows eBay rejected and never implemented.

Finally, the district court's decision to reopen the record for discovery into events occurring after its 2003 post-trial order was well within its discretion, and the court expressly addressed the pre-2003 "commercialization" evidence MercExchange contends was ignored. The district court found MercExchange "attempted to disguise its true motivations to the court, claiming that a desire to commercialize guided its decisions when in reality, litigation guided such actions." App000026(n.18). The district court made similar credibility determinations regarding MercExchange's account of its relationship with uBid, noting it was: "suspicious;" "just as likely to be an effort to placate the court" and "just as likely a litigation tactic as it was a legitimate attempt to develop MercExchange's '265 patent." App000026; App000016. Thus, the district court correctly found "MercExchange may have attempted to generate evidence of irreparable harm in order to advance its litigation position[.]" App000047.

Based on years of familiarity with MercExchange, the district court correctly concluded: "The factual history of this matter indicates that MercExchange has never sought to defend its right to exclude; to put credence in such claim at this late stage would not serve equity" and "the public interest would be disserved by

