

UNITED STATES COURT OF APPEALS  
FOR THE DISTRICT OF COLUMBIA

MERCEXCHANGE LLC

*Plaintiff*

vs.  
BAY INC. AND BAYCOM INC.

*Defendants*

APPEAL FROM THE UNITED STATES DISTRICT COURT  
FOR THE EASTERN DISTRICT OF VIRGINIA IN CASE NO. 03-1-00003-0000  
JUDGE J. SCOTT KEENE

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.<sup>1</sup> The district court weighed

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<sup>1</sup> 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

permitting litigants to declare one reality to the jury and the press, and another to the court on post-trial motions[.]” App000042; App000046.

MercExchange does not challenge any of these findings and asks this Court to ignore them and improperly make its own factual findings and credibility determinations.

### **STATEMENT OF THE FACTS**

eBay respectfully disagrees with MercExchange’s factual statement, which is belied by the record and refuted by the district court’s findings of fact. The relevant facts are set forth below.

#### **A. MercExchange’s Relevant History.**

MercExchange is not a research or academic organization that seeks to license its patents to develop its invention. App000019-20. It is two patent attorneys and a friend who have always focused on prosecuting patents and extracting money from an idea one of them purportedly had driving to work at a Washington law firm. MercExchange has no products, R&D, customers, or goodwill and—by its own election—no interest in having any. ConfApp00501958. MercExchange recently obtained the backing of a hedge fund whose sole business is investing in patent infringement actions. ConfApp00502014, App002722-002725. MercExchange received in excess of eight million dollars, admittedly

more than enough to enter the market and grow a business. ConfApp00501959-60, ConfApp00502014, ConfApp00502016. Rather than do so, MercExchange distributed multi-million dollar dividends to its three principals for their personal use, keeping a reserve to pay them \$240,000 salaries to monitor a website for clickthroughs. ConfApp00502017, ConfApp00502021, ConfApp00502068-69. Nothing went to: hiring employees or engineers; capital investments beyond its principals' new home computers; networking equipment; or office space. ConfApp00501960, ConfApp00502020.

MercExchange's failure to commercialize the '265 patent was a result of MercExchange's repeated decisions to pursue *other* activities, not eBay. MercExchange argued that eBay's model was "the most copied" on the Internet and that *more than one thousand* other companies implemented online marketplaces, despite eBay's presence. App000283.0002-283.0003, App000283.0005 (¶¶ 72-74), App000283.0006-283.0040. Nothing stopped MercExchange from entering the market like these companies. It simply chose not to.

Indeed, it was not until the Supreme Court issued its ruling in this case that MercExchange claimed a desire to commercialize its patent. Previously, MercExchange publicly disclaimed any intent to enforce the '265 patent through an injunction and stated that it wanted to sell its rights, including to eBay.

App000752-53 (“it is not our goal to enforce these patents, we want to sell off our Intellectual Property rights” “I always thought the eBay community was the natural home for the patents.”), App000754-57 (“We are seeking reasonable royalties .... It’s not our goal to put eBay out of business. It’s our goal to provide just compensation for the patent owner.”). After the jury’s verdict, MercExchange acted on these statements, retaining a firm to shop its patents to potential buyers. ConfApp00502019, App000034.

**1. For years, MercExchange Sought Investment In A Business Plan That Had “Very Little” Connection To The ‘265 Patent.**

From 1995-99, MercExchange prosecuted the ‘265 patent, but never attempted to build the system. The ‘265 patent contains no software or guidance for implementing the high-level concepts it discloses, and Mr. Woolston testified he did not attempt to write any software. App002546-47(488:10-14), App002549(537:14-17), App002551(538:13-19), App002553(539:3-7).

Instead, Mr. Woolston unsuccessfully pitched a business plan for “Fleanet” to investors, which Mr. Woolston testified was *not* intended to commercialize the ‘265 patent. App002554-55(654:16-19), App002557-58(356:25-357:5) (“Q. Was the Fleanet business plan designed to be a complete commercialization of your invention? A. No. Q. What is the relationship between the Fleanet business plan and the claims in your invention, if any? A. Very little.”). Mr. Woolston testified



that no one mentioned eBay in passing on Fleanet and that he had never heard of eBay at the time. App002567-68(510:24-511:5), App002575-76(537:18-538:6).

**2. In 1999, MercExchange And Aden Enterprises—An Insolvent Holding Company—Combined With The Goal Of Suing eBay, Not To Commercialize The ‘265 Patent.**

By 1999, Mr. Woolston and MercExchange still had made no effort to implement the ‘265 system. Instead, MercExchange found a partner, Aden Enterprises—an Omaha-based holding company, with significant financial problems. Aden was: (1) “not in compliance” with S.E.C. regulations, App002577; (2) carrying “significant debt and litigation” and never turned a profit, *id.*; (3) operating at a 300% loss over revenue, App002582-87(30-34); and (4) subject to “*several*” *tax liens*, App002588-89(173-74) (emphasis added). *See also* ConfApp00501727-28; App002728-29. Aden admittedly “*did not have the financial resources available to exercise its rights and meet its obligations*” under the agreement MercExchange cites. App002590-92 (emphasis added).

However, the companies identified a solution to their problems: sue eBay. App002595(¶9), App002601. They entered a “Patent Enforcement Agreement” and agreed to share the proceeds from a lawsuit against eBay with each other and MercExchange’s counsel, Mr. Woolston’s then-employer. App002601, App002595(¶9), App002609-10(557:14-558:6).

Resolved to sue eBay, MercExchange and Aden formed two subsidiaries, Leftbid and Navlet, that—like Aden—were co-owned by MercExchange and managed by Mr. Woolston. App002374. Each company entered into self-dealing agreements to license MercExchange’s patents, and Mr. Woolston testified he was uncertain which corporate hat he was wearing during negotiations, prompting MercExchange to stipulate these were *not* “arm’s length” transactions. App002608-10(557:25-558:6), App002612(559:18-21), App002614-15(561:12-562:7), App002617(563:16-24).

As the district court observed:

MercExchange portrays its October 1999 partnership with Aden Enterprises as an attempt to commercialize its patents as Aden was “embarking on a major industry initiative to build and deploy Internet Markets and Auctions,” however at the time of such agreement, Aden appears to have had significant financial problems and was not partnering with an eye toward development, but rather, was joining forces with MercExchange to sue eBay and others. Tellingly, not only did MercExchange and Aden enter into a patent enforcement agreement contemplating a suit against “eBay Inc.” less than three months after entering into a partnership, but Aden thereafter sued MercExchange admitting “the [partnership’s] primary purpose ... was to enable it to obtain a share of any recovery [MercExchange] had in connection with ... the litigation contemplated [against eBay].”

App000026-27(n.18).

The Aden-Navlet-Leftbid licenses MercExchange now cites were each entered after the companies developed this plan. App002606-07. MercExchange argues “these licensees were obligated to use their ‘best efforts’ to develop the

technology” but omits that Mr. Woolston was an officer of these licensees’ and the individual charged with their compliance with this obligation—which he later sued them for breaching based on his own disregard for these best-efforts provisions. ConfApp00500742(¶20).

Mr. Woolston never attempted to build the ‘265 system, focusing instead on unsuccessful efforts to broadcast live auctions from art galleries for Leftbid or develop a “price-ticker” for Navlet. App002384; ConfApp00501706-07(Tr. 77:2-16), ConfApp00501709-11(176:15-177:13), ConfApp00501713-14(162:12-17). With no viable product, Leftbid was forced to buy an off-the-shelf product that worked. App002374. Aden later sued MercExchange, revealing the “primary purpose” of their collaboration. App002601. The parties settled their actions and terminated all agreements. App002624-44.

**3. MercExchange Has Consistently Licensed Its Patents Under Threats Of Litigation To Maximize Profit, Not To Develop The ‘265 Patent’s System.**

MercExchange has not “selectively licensed” its patents to commercialize its invention, as an academic institution might do. Rather, MercExchange has engaged in a consistent pattern of threatening established market participants with litigation at opportunistic times to maximize the money it extracts.

In 2000, MercExchange sued GoTo.com for infringement of its ‘176 patent on the eve of GoTo’s merger with another company. App002376,

App000037(n.26). With summary judgment motions pending—concerning the same reference this Court later found anticipated the ‘176 patent—MercExchange settled the case at “no cost” to Goto, taking a \$4 million contingency-reserve previously set aside to resolve litigation. App002376. *See also* App002680(¶9). MercExchange granted GoTo a fully paid up, *non-exclusive license* to all of *MercExchange’s patents*. App002672-90.

In 2002, AutoTrader took a *non-exclusive license to all of MercExchange’s patents* for the automobile-sales field of use. App002709-12. Contrary to MercExchange’s suggestion, AutoTrader does not practice the ‘265 patent. The license is limited to AutoTrader’s “auction-related activities” and only requires royalties if MercExchange “obtains a judicial injunction that prohibits eBay, Inc. from operating within the Field of Use”—a *condition the ‘265 patent cannot satisfy* because it cannot prohibit eBay’s auction sales in that field. App002712(§3.2.1). AutoTrader may freely *opt out* and has already wound down its online auctions. App002716(§5.3).

In 2003, MercExchange granted a non-exclusive license to ReturnBuy, a defendant in this case, for a “confession” of infringement and validity that MercExchange attempted to use against eBay. App000637-638. It did nothing to commercialize MercExchange’s patent. ReturnBuy was winding down operations and selling its assets in bankruptcy. App000638.

In 2004, MercExchange granted uBid a non-exclusive license to its entire portfolio, during a “very critical time in uBid’s relaunch.” ConfApp00502034. uBid made clear it “chose to license the patents as a cost effective way to limit litigation” and to avoid spending money “on a detailed legal opinion as to [the] patents and [their] impact on uBid.” ConfApp00502010-12, ConfApp00502034-35, ConfApp00502038. uBid saved further money—obtaining an effectively paid-up license for \$150,000—by promising to “work directly with [MercExchange] to secure [its] eBay position” here. ConfApp502010-12, ConfApp00502007.

uBid repeatedly told MercExchange it never “engaged ... attorneys currently or in the past for a legal opinion as to the merits of the patents” and its CEO testified uBid does not practice several ‘265 claim elements. ConfApp00502034-37. No royalties have been paid under the license, or ever will unless uBid: (1) revamps its operations to practice the ‘265 patent, despite no obligation to do so; (2) sees unprecedented sales growth; and (3) elects not to terminate the license pursuant to a provision it insisted upon. ConfApp00502044(¶1.4) (definition of “Qualified GMS”), ConfApp00502053-56, ConfApp00502058. Royalties are so unlikely the companies ignored the license’s requirement for written sales reports until MercExchange’s counsel requested they be *retroactively generated* “[i]n preparing to return to District Court[.]” ConfApp00502055-57.

**4. As Promised, uBid Worked Directly With MercExchange To Manufacture A Record Of Irreparable Harm After Remand.**

True to its word, uBid “worked directly with [MercExchange] to secure [its] eBay position” here, signing declarations that MercExchange wrote and submitted to the district court and the PTO in the ‘265 reexamination. ConfApp00502010-12, ConfApp00502007. One declaration asserts that, within days of the Supreme Court’s decision, MercExchange and uBid discussed exchanging a stake in uBid for an exclusive license, and that the talks would have succeeded, but for the lack of an injunction.

The “negotiations” amounted to a proposal that was summarily rejected by uBid as “part of a process when one vets out concepts” during “early stages of discussion.” ConfApp00502060, ConfApp00502816(226). Despite considering giving up 25% of its company, uBid never had its attorneys analyze the ‘265 patent or whether uBid practiced it. ConfApp00502034-37. The talks failed for several reasons, as uBid’s CEO testified: (1) MercExchange requested a five-year option to buy a quarter of uBid at fixed share price, ConfApp00502060; (2) eBay may have ceased infringing, ConfApp00502061; and (3) uBid’s concern about the ‘265 patent’s validity, ConfApp00502062.

uBid’s CEO acknowledged the reason MercExchange was pursuing it immediately after the Supreme Court’s decision: MercExchange “really wanted to

get a deal done to support its position in the litigation with eBay.” ConfApp00502004-06, ConfApp00502059. A former co-owner of MercExchange similarly noted that a proposed MercExchange-uBid project was “another make [Judge] Friedman semi happy and piss away some \$.” ConfApp00502008-09.

Moreover, uBid does not compete with eBay for the vast majority of the transactions MercExchange contends infringe. uBid does not offer a person-to-person market where anyone can sell and does not allow sales of used or one-of-a-kind goods. App000029(n.20) (citing uBid website). Rather, uBid focuses on overstock or refurbished brand-name items, and permits only established businesses that it qualifies as “certified merchants” to sell. *Id.* (“uBid only certifies approximately one-third of all applications”).

The district court observed:

The court puts minimal credence in the postremand relationship between MercExchange and uBid because: (1) it is unclear for what portion of the market uBid competes with eBay; (2) uBid agreed to work directly with MercExchange “to secure [its] eBay position,” as eBay is viewed as a common foe (eBay Suppl. Brief Ex.5); (3) the failed negotiations began the same week the Supreme Court remanded this case for application of the four-factor test—an exclusive partner to parade before the court would undoubtedly have improved MercExchange’s claim in equity; (4) uBid declined to enter into the exclusive license agreement in part because the PTO reexamination casts doubt on the validity of the ’265 patent; (5) uBid declined to enter into an exclusive license agreement in part because it was unclear whether in the three years subsequent to trial, eBay designed around the business method patent at issue; and (6) uBid never conducted a legal analysis regarding the validity of the ’265 patent or

how such patent impacts uBid even though it was considering selling 25% of its company in exchange for an exclusive license.

App000029-30.

**B. eBay's Relevant History.**

Over the Labor Day weekend in September 1995, eBay's founder wrote the original software for eBay's website and launched its operations later that month. App002370. eBay's core operations and processes remain largely unchanged. *Id.* In November 1995—*two months after* eBay was up, running, and in public use—Mr. Woolston filed the application that issued as the '265 patent while working as a patent attorney for a Washington law firm. App000236. This application added substantial new matter to an April 1995 application, including the embodiment claimed in the '265 patent. App002438-64 (additions underscored), App002465-66(469:15-17). MercExchange recently conceded in reexamination that November, not April, 1995 is the '265 patent's priority date.

**1. eBay's Success Arose From Admittedly Non-Infringing Operations And Had Nothing To Do With The '265 Patent.**

The '265 claims recite apparatuses for conducting *sales of goods at a fixed-price* in which an electronic market clears payment and consummates the transaction. *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1325-27 (Fed. Cir. 2005). *None* of its claims implicate *auction-format* sales, which built eBay's success and remain the great majority of its business. App000639-45, App002371.



From 1995 to 1999, eBay became one of the Internet's great successes, amassing over a hundred million users. App002540-42, App000698. MercExchange's experts conceded eBay was a huge success before any alleged infringement, prompting the district court's finding that eBay's "success *did not arise* from the use of *anything* contained in [MercExchange]'s patents." App000832 (emphasis added), App000031-32, App002540-42.

**2. eBay Did Not Copy The '265 Patent, Making It A "Close Call" On Whether MercExchange's Willfulness Case Was Sufficient To Present To The Jury.**

Although eBay incorporated payment-processing and fixed-price functionality later found to infringe, it did so long after it had built its success through non-infringing activities. App002540-42, App000832. MercExchange falsely suggests eBay copied these ideas after meeting with MercExchange in 2000. eBay acquired Billpoint, a payment system already popular with eBay users, in 1999 and "was *using payment processors long before* it received notice of the '265 patent." App000832 (emphasis added), App002376. eBay likewise initiated negotiations in 1999 to acquire Half.com, a fixed-price, person-to-person market with a payment system. App000645.0010, App000645.0001-645.0006, App000697-98. The district court found eBay did not copy the '265 patent, which "*offer[s] no business or engineering guidance which the defendants could*

*copy*”—a finding MercExchange’s earlier appeal never contested. App000832 (emphasis added), App000031-32.

Without any copying evidence, MercExchange centered its willfulness case around adverse inferences from the absence of a legal opinion and the duty of care to avoid infringement. App000800-01. Even before this Court overruled the viability of such arguments in *Knorr-Bremse v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004) and *In re Seagate Tech. LLC*, 497 F.3d 1360 (Fed. Cir. 2007), it was a “close call” whether willfulness should even go to the jury, under the then-lower standard. See App000031-32. MercExchange emphasizes willfulness—arguing it eliminates three factors—but omits that the willfulness verdict is subject to a pending JMOL/new trial motion based on this Court’s intervening decisions.

**3. MercExchange Approached eBay, Under The Guise Of Offering Assistance, And Carefully Avoided Any Suggestion Of eBay’s Alleged Infringement Despite Its Plan To Sue eBay.**

MercExchange erroneously contends “eBay approached MercExchange to discuss eBay’s interest in buying MercExchange’s patent[s].” Blue at 9. It was MercExchange that initiated a meeting with eBay and for entirely different reasons. App002667-71(1088:23-1089:18, 597:21-24). In 2000, eBay was in litigation with Bidder’s Edge when MercExchange’s patent attorney and co-owner contacted a former classmate working at eBay, offering the now invalid ‘176 patent for use in that dispute. App000689-91, App002375. The discussions focused on

coordinating a meeting and eBay's review of MercExchange's prosecution histories. App002653-64. While eBay showed preliminary interest in acquiring MercExchange's patents, it was *subject to* "develop[ing] a process for moving forward including eBay's *due diligence re this portfolio* of patents." App002665-66 (emphasis added). MercExchange never permitted this diligence, blocking eBay's inspection of the prosecution histories, and the talks broke down. App002664, App000689-91.

Throughout, MercExchange carefully avoided suggesting eBay infringed, even though MercExchange had already entered contracts with Aden and its counsel to sue eBay. App002667-69(1088:23-1089:18), App002670-71(597:21-24), App002601. MercExchange never alleged eBay infringed until filing this lawsuit.

**4. The Success Of eBay's Non-Infringing Auction Operations Does Not Render It A Monopolist In Fixed-Price Transactions.**

The '265 patent is limited to fixed-price sales of goods and does not implicate auction-format sales, which constitute the majority of eBay's operations. App000639-45. The district court admonished MercExchange for a prior argument that the '265 claims cover auction-format sales, finding MercExchange to be in "bad faith" and judicially estopped. *Id.* MercExchange never appealed that ruling

but now again contends the '265 claims encompass auction-format sales in arguing eBay is a monopolist.

eBay's position in the auction market is simply irrelevant to its relative market share in the fixed-price transactions addressed by the '265 patent. MercExchange's crafting a self-serving definition of an "online auction market"—with no support and contrary to the district court's estoppel ruling—does not alter this fact. *Compare* Blue at 8 n.4 with App000639-45. MercExchange offered no evidence of eBay's share of the market relevant to the '265 patent.<sup>2</sup> In contrast, the district court noted the dominant fixed-price website, Amazon.com, permits the sale of used goods. App000038(n.27).

**5. After Trial, eBay Modified The Operations Found To Infringe And Designed Around The '265 Patent.**

Shortly after trial, eBay invested considerable time and resources to modify its operations, eliminating multiple elements of every '265 claim and the operations MercExchange relied upon to prove infringement.

On remand, MercExchange argued eBay's current operations infringe, premising its irreparable harm, inadequate legal remedy, and public interest arguments expressly on that assumption but offered no supporting infringement

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<sup>2</sup> To the extent the district court found eBay to be a "monopolist" rather than simply referring to MercExchange's arguments, the finding lacks any evidentiary basis and is clearly erroneous.

evidence or analysis. *See, e.g.*, App002245-46, App003106-07, App003467.0001-2. Despite these repeated assertions, discovery revealed that MercExchange had no evidence of infringement because neither MercExchange, its experts, nor uBid ever analyzed whether eBay's modified operations infringe. ConfApp00502070, ConfApp00502034, ConfApp00502713, ConfApp00502723, ConfApp00501961-62, ConfApp00501964-65. After these admissions and eBay's production of evidence of its non-infringement, MercExchange reversed course and argued "whether eBay has in fact ceased infringing is irrelevant to whether an injunction should issue." ConfApp00502737, Blue at 37.

When the district court reopened the record, eBay responded to MercExchange's assertion with extensive evidence detailing its design-around, including: engineering documents; factual declarations authenticating those documents and detailing the changes; an expert declaration explaining the bases for noninfringement; and videos illustrating eBay's noninfringing operations. *See* ConfApp00501964-72, ConfApp00501979-2002. That evidence stands uncontested. MercExchange offered nothing in support of its argument when the Court reopened the record. Despite moving for a finding of ongoing liability and opposing eBay's pending motion for summary judgment that eBay ceased infringing, MercExchange offered no contrary evidence or any argument why eBay's current operations infringe.

The changes went well beyond the design-around identified during the litigation so as to eliminate any argument of infringement and maintain a consistent user experience despite the significant modifications. As a result, eBay has enjoyed consistent success, from before infringement, during the period found to infringe, and after making the design changes. *Cf.* App000024(n.16).

**C. Reexamination Proceedings.**

After trial, the PTO granted eBay's requests to reexamine MercExchange's patents. The PTO rejected every '265 claim, with claim 26—the centerpiece of MercExchange's infringement case at trial—still rejected. The PTO recently indicated that certain '265 claims may be allowable over the prior art, concluding that skilled artisans would have known to practice every claim element in processing a transaction, including clearing payment and transferring legal ownership to consummate a sale, but that the prior art does not teach notifying a buyer and seller that a sale was final after doing so. *See* App003583. However, in prosecuting the '265 patent's parent application, MercExchange admitted that the very prior art being applied in the reexamination taught the “finality of transaction” purportedly distinguishing the claims. MercExchange has yet to disclose that admission to the examiner.

The PTO reached this result before issuing its guidelines for applying *KSR* and did not mention or apply *KSR* in its actions. *See* App003511-20. Thus, the

PTO has yet to examine claims the district court noted are “a combination of non-unique elements yielding predictable results” under *KSR*. App000024. The district court’s observation is consistent with those of Chief Justice Roberts and Justice Breyer:

- “if this could be patented, maybe A&P could patent their process for a supermarket. I -- I mean, you’d worry about that as a judge.”
- “I may not be a software developer, but as I read the invention, it’s displaying pictures of your wares on a computer network and, you know, picking which ones you want and buying them. I -- I might have been able to do that.”
- “it’s not like -- he invented the ... internal combustion engine or anything. It’s very vague I think, and this is one of the considerations[.]”

App001160-65.

### SUMMARY OF ARGUMENT

MercExchange does not address, let alone explain any error in, the district court’s detailed factual findings and credibility determinations supporting its exercise of discretion in denying an injunction. MercExchange ignores them and resubmits the same factual account and evidence it proffered unsuccessfully below, urging this Court to weigh the evidence and witnesses’ credibility and reach a different result. This Court has held such an approach is insufficient to demonstrate error. The record supports the district court’s findings, which in turn

support its exercise of discretion. MercExchange has identified no basis for overturning the district court's application of the four factor test.

*First*, the district court correctly found MercExchange has engaged in a pattern of conduct that is inconsistent with its right to exclude, and confirms that it would not be harmed absent an injunction, including: (1) making no efforts to commercialize its patent itself or through licensees, despite receiving sufficient resources from a litigation hedge fund; (2) a systematic pattern of licensing to exact a tax on market participants, not to develop its invention; (3) demonstrated willingness to forego its right to exclude in exchange for money, even after trial; (4) repeated press statements that it sought only money, not to enforce its patent; and (5) attempts to sell its patents even after trial.

*Second*, the district court carefully considered all the evidence surrounding MercExchange's relationship with uBid—MercExchange's only case-specific response to the above facts. The district court found MercExchange's witnesses lacked credibility and that the record demonstrated an attempt to manufacture evidence more than it did any actual attempt to commercialize the '265 patent. Contrary to MercExchange's account, uBid does not practice the '265 patent, uBid took a license to avoid the cost of litigation and an investigation of its merits, and abortive exclusive-license talks were suspicious and failed for reasons other than a lack of an injunction.



*Third*, MercExchange's remaining arguments are limited to (i) abstract policy arguments for categorical rules already rejected by the Supreme Court, (ii) waived arguments never raised below, or (iii) irrelevant tangents. The district court did not abuse its discretion by considering facts this Court and the Supreme Court have expressly identified as relevant. The district court properly applied the equitable factors consistent with the Supreme Court's mandate and MercExchange has offered no reason to disturb the district court's careful exercise of its discretion in denying an injunction. This Court should affirm.

## ARGUMENT

### A. Standard of Review

The patentee bears the burden of establishing entitlement to a permanent injunction and "must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction." *eBay Inc. v. MercExchange, LLC*, 126 S. Ct. 1837, 1839 (2006). An inadequate showing on any one equitable factor may justify denying an injunction. *Chrysler Motors Corp. v. Auto Body Panels of Ohio, Inc.*, 908 F.2d 951, 953 (Fed. Cir. 1990) ("[T]he

absence of an adequate showing with regard to any one factor may be sufficient, given the weight or lack of it assigned the other factors, to justify the denial.”).

It is within the sound discretion of the district court whether to grant or deny an injunction. *See eBay*, 126 S. Ct. at 1839. The appellant must demonstrate the district court abused its discretion in denying an injunction. *See eBay*, 126 S. Ct. at 1839; *United States v. W.T. Grant Co.*, 345 U.S. 629, 633-34 (1953) (“[t]he chancellor’s ... discretion is necessarily broad and a strong showing of abuse must be made to reverse it”; reversal only appropriate if “there was no reasonable basis for the District Judge’s decision.”).

This Court’s responsibility is not to “weigh the evidence ... to reach a conclusion on injunctive relief,” rather its “task is solely to review the district court’s decisions for an abuse of discretion.” *Acumed LLC v. Stryker Corp.*, 483 F.3d 800, 811 (Fed. Cir. 2007).

Thus, underlying “[f]indings of fact, whether based on oral or other evidence, must not be set aside unless clearly erroneous, and the reviewing court must give due regard to the trial court’s opportunity to judge of the witnesses’ credibility.” Fed. R. Civ. P. 52(a)(6); *see also Ecolchem, Inc. v. Southern California Edison Co.*, 227 F.3d 1361, 1739-40 (Fed. Cir. 2000) (An appellate court “gives great deference to the district court’s decisions regarding credibility of witnesses.”).

Clear error requires “a ‘definite and firm conviction’ that a mistake has been made.” *Forest Labs*, 501 F.3d at 1268 (citations omitted).

Plausible factual findings should not be disturbed even if this Court would have weighed the evidence differently. *Anderson v. Bessemer City*, 470 U.S. 564, 573-74 (1985); *Novo Nordisk Pharms., Inc. v. Bio-Technology Gen. Corp.*, 424 F.3d 1347, 1353 (Fed. Cir. 2005) (“[W]here the record ... renders the district court’s account of the evidence plausible or discloses two permissible readings of the evidence, the fact-finder has committed no clear error.”). An appellant cannot establish clear error by selectively recounting alleged facts favorable to its theory and must, instead, explain how a mistake has been made. *Forest Labs*, 501 F.3d at 1268-69.

**B. MercExchange Fails To Identify Any Purported Errors In The District Court’s Factual Findings And Impermissibly Asks This Court To Make Its Own Findings And Credibility Determinations.**

**1. The Court’s Recent Decision In *Forest Labs* Rejected MercExchange’s Tactic As Insufficient To Demonstrate Error.**

MercExchange’s brief misapprehends appellate procedure and asks this Court to assume the role of the fact-finder and make credibility determinations as if there were no proceedings below. The district court’s 49-page opinion reached detailed factual findings based on an extensive record and credibility determinations. While those findings and determinations are entitled to great

deference on appeal, *see W.T. Grant*, 345 U.S. at 633-34, MercExchange ignores and contradicts them. MercExchange copied the same factual sections from its district court briefs and pasted them virtually *verbatim* here—down to the footnotes and citations. *Compare* App002246-49, App002251 and ConfApp00502730-33, ConfApp002735(n.4) with Blue at 6-11, 12-14, 14-17, 17-18. MercExchange points to no error. It simply resubmits the exact evidence discredited below, concludes the district court did not “fully appreciate” it, and asks this Court to reach different findings. Blue at 1, 2, 25. This Court has rejected such an approach before, and should reject it here:

[Appellants’] ... arguments ... are largely a recounting of the testimony favorable to their theory of the case without explanation as to why we should have a definite and firm conviction that mistakes were made by the district court in its fact-finding. In other words, they do not inform us why the district court was not entitled to rely on the evidence favorable to Forest or demonstrate that the evidence favorable to them heavily outweighed the evidence favorable to Forest. ... Given [appellants’] failure to disturb the detailed and thorough factual findings underlying the district court's decision, we see no error ....

*Forest Labs*, 501 F.3d at 1268-69.

The district court correctly dismissed MercExchange’s version of the facts, and MercExchange sets forth no basis for reversing the district court’s decision without impermissibly substituting this Court’s discretion and factual and credibility determinations for those of the district court. This Court should affirm.

**2. The District Court's Factual Findings And Credibility Determinations Refute The Core Of MercExchange's Arguments.**

The findings MercExchange ignores dispel the foundations of its arguments and discredited the witnesses upon which MercExchange again relies.

**(a) MercExchange Misrepresents Who It Is And What It Does.**

As it did below, MercExchange attempts to recast itself to conform to the Supreme Court's decision. However, the district court correctly recognized that the record reveals a different story: "careful consideration of such facts reveals that MercExchange has no reputation to protect, no goodwill or brand recognition to protect, no customer base to retain, no well-established licensing program to follow, and no current royalty stream to maximize." App000033. *See also* App000016 (no "future research and development opportunities.").

MercExchange is "a company of two employees, the inventor of the patents a former patent attorney," that "has utilized its patents as a sword to extract money rather than as a shield to protect its right to exclude." App000019-20. MercExchange "specialize[s] in litigation and obtaining royalties for licenses based on the threat of litigation" and "doesn't even maintain permanent office space[.]" App000041, App000034. These findings are supported by the record and are not clearly erroneous. *See supra* at 6-13.

MercExchange never “selectively licensed” its patents to develop them. The district court “recognize[d] factual distinctions between MercExchange and the typical small inventor or researcher who opts to utilize outside licensees to help develop its patents.” *Compare* Blue 8-9 with App000019-20. “MercExchange was taking few steps, if any, before trial, during trial, or within the first three years after trial to either develop its patents or to establish a licensing program to benefit from those with the resources to utilize the patents.” App000030. The record supports these findings, and they are not clearly erroneous. *See supra* at 6-15.

After obtaining the verdict here, MercExchange did not seek to build a business or a product; it retained a firm to sell its patents. App000034. This “post-trial attempt to sell off its intellectual property rights, in line with its publicly stated goal of doing the same, is proof that MercExchange is part of the ‘industry [that] has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees.’” *Id.* This conclusion is reinforced by MercExchange acquiring millions of dollars from a patent-litigation hedge fund, Altitude Capital, after trial. App000041(n.30); ConfApp00502014. The Supreme Court recognized such entities do not seek injunctions to protect goodwill, customers, or business, they use them as leverage to maximize monetary recovery. *See eBay*, 126 S. Ct. at 1842 (Kennedy, J., concurring). *See also* App000037 (benefit of injunction is unclear “other than for use as a bargaining

chip”), App003296(20:5-10) (MercExchange: “Altitude Capital is a hedge fund that has made a determination that MercExchange with an injunction is worth committing millions of dollars to”). Despite admittedly receiving more than enough money to enter the market, “MercExchange likewise exhibited a lack of development subsequent to Altitude Capital’s post-trial investment of \$6.25 million.” App000041-42(n.30).

This decision to pursue money rather than build anything around its patent is consistent with MercExchange’s pattern of conduct and public statements:

MercExchange’s established history of suing market participants to exact a royalty, sustained lack of interest in defending its right to exclude, and repeated attempts to sell off its intellectual property rights, create a strong public interest in holding MercExchange accountable for its past actions and words, including words to the public.

App000045-46 (emphasis original). The record supports the district court’s findings, and they are not clearly erroneous. *See supra* at 6-13.

**(b) The District Court Correctly Recognized That The uBid Evidence Lacks Credibility, And It Is Inappropriate For This Court To Disturb That Determination.**

As it did below, MercExchange emphasizes its interactions with uBid, submitting the same arguments and support here. The district court carefully weighed all the evidence and reached detailed factual findings in concluding: “after affording the parties the opportunity to perform additional discovery, it

became evident that MercExchange is unable to establish irreparable harm based upon its post-trial relationship with uBid.” App000024-25. The district court found MercExchange’s witnesses’ account to be “*suspicious*” and *less “candid”* than other documentary evidence, which “*suggest[ed] that MercExchange may have attempted to generate evidence.*” App000026, App00005(n.4), App000047 (emphasis added). Accordingly, the district court “put[] *minimal credence* in the postremand relationship between MercExchange and uBid.” App000029 (emphasis added). The record supports these conclusions and underlying factual findings. *See supra* at 13-15.

**(i) uBid’s Non-Exclusive License Does Not Warrant An Injunction.**

Nothing about uBid’s 2004 non-exclusive license suggests MercExchange would be harmed absent an injunction. It does not reflect an effort to commercialize the ‘265 patent. uBid licensed MercExchange’s entire portfolio to avoid expensive litigation at a critical time. ConfApp00502034, App000005, App000037(n.26). uBid did not investigate validity or infringement—an expense it explained it took the license to avoid. ConfApp00502011, App000004-05. MercExchange granted uBid an effectively paid-up license for \$150,000, with no requirement to develop, market, or practice the ‘265 patent and the right to freely terminate the license. App000030(n.21); ConfApp00502039-52. The license



included illusory royalty provisions that are only triggered if uBid quadruples its sales *and* incorporates numerous claim elements its CEO testified it lacks. App000017-18, App000030(n.21), App000037, ConfApp00502053-54, ConfApp00501926, ConfApp00502044. Royalties are so unlikely the parties ignored the license's reporting requirements. ConfApp00501962, ConfApp00502055-57.

The district court correctly found that "the non-exclusive license granted to uBid in 2004 indicates an adherence to ... the status quo, as MercExchange willingly licensed its entire patent portfolio when approached by a market participant and potential infringer even after obtaining a favorable jury verdict." App000025. *See also* App000047, App000017-18.

**(ii) uBid's "Conveniently Timed" Negotiations For An Exclusive License Do Not Warrant An Injunction.**

MercExchange and uBid's talks about an exclusive license following the Supreme Court's decision do not support an injunction. The district court correctly concluded these "conveniently timed post-remand unsuccessful negotiations" did not establish irreparable harm. App000029. *See also* App000037 ("the reality of the matter is that such relationship does not exist and this court is not moved by conjecture regarding the potential for such relationship, especially when the timing of the negotiations ... appear suspicious").

For three years following their non-exclusive license and the verdict here, an exclusive license was never considered. Despite maintaining an injunction would have yielded a deal, neither party pursued it after this Court ordered an injunction during the eight months before the Supreme Court granted *certiorari*. See App003467.0003. However, within days of the Supreme Court's decision—which noted the relevance of exclusive licensing for development—MercExchange and uBid discussed an exclusive license. See App000026.

The district court correctly recognized the “suspicious nature of such timing,” as the talks “appear to have begun within days of the Supreme Court’s remand.” App000026. Moreover, they occurred after uBid promised to “work directly” with MercExchange “to secure [its] eBay position.” App000004-05; ConfApp00501959, ConfApp00501961-62, ConfApp00502011.

The record demonstrates that the talks came nowhere near an actual business relationship. uBid’s CEO testified that the idea never got past the “part of a process when one vets out concepts” due to a number of issues other than the absence of an injunction. ConfApp00502816, App000025, App000005-6, ConfApp00501962-63, ConfApp00502060-62. The talks were so preliminary that uBid never sought a legal evaluation of whether it practiced the ‘265 patent or its validity, despite purportedly considering selling a quarter of its company. App000004-05, App000025, ConfApp00502033-37, ConfApp00501961-62.

The value of such an arrangement is also less clear than MercExchange claims. Even if sellers left eBay, uBid could not accept most of them without significantly altering its operations to open its site to individuals and unique or used goods. App000029(n.20) (“there is a significant portion of the relevant market that is turned away from uBid”).

Consistent with these real-world obstacles, uBid’s CEO observed that MercExchange “really wanted to get a deal done to support its position in the litigation with eBay”—not to develop its patent. App000026, ConfApp00502004-07, ConfApp00502059. *Cf.* ConfApp00502008-09 (“another make [Judge] Friedman semi happy and piss away some \$”), App000026.

The district court correctly “recognize[d] that MercExchange’s negotiations with uBid appear just as likely to be an effort to placate the court” and “just as likely a litigation tactic as ... a legitimate attempt to develop MercExchange’s ’265 patent.” App000026, App000016. Based on its findings, the district court determined MercExchange’s witnesses lacked credibility and put “minimal credence” in their account of “the post remand relationship between MercExchange and uBid.” App000029-30 (summarizing findings). The record

supports the district court's findings and credibility determinations, and they are not clearly erroneous.<sup>3</sup>

**C. The District Court Correctly Denied Injunctive Relief.**

**1. Irreparable Harm.**

The district court did not err in finding that MercExchange would not suffer irreparable harm absent an injunction. This conclusion was based upon numerous factual findings regarding MercExchange's pattern of conduct. *See, e.g.*, App000016-17; App000047. MercExchange does not challenge those findings as erroneous and is left only with categorical arguments the Supreme Court rejected.

**(a) The District Court Correctly Found MercExchange's Pattern Of Disregard For Its Right To Exclude Dispels Any Claim Of Irreparable Harm.**

The record supports the district court's findings regarding MercExchange's: (1) repeated decisions not to build anything embodying the '265 patent, *see supra* at 6-11; (2) consistent willingness to license existing market participants—including eBay—to “exact[] a tax,” not to develop the '265 patent, *see supra* at 11-

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<sup>3</sup> The “error” MercExchange alleges improperly asks this Court to reweigh the credibility of MercExchange's witnesses and conflates the reasons for uBid's *non-exclusive* license and the negotiations for an *exclusive* license. Blue at 29. Based on uBid's CEO's contemporaneous email, the district court found uBid took a non-exclusive license to avoid litigation. App000005(n.4). Contrary to MercExchange's assertion, the district court did *not* discredit uBid's declaration regarding the *exclusive* licensing negotiations based on this admission. Rather, the district court discredited testimony regarding the proposed exclusive license based on numerous other facts detailed throughout its opinion.

13, 18-19; (3) public pronouncements that it wanted to sell its rights, not enforce them, and its hiring a firm to do so after trial, *see supra* at 7-8; and (4) election not to seek a preliminary injunction, allowing eBay's growth to continue despite the purported irreparable harm it wrought, *see* App000021-22; App000024(n.14). MercExchange has not explained why any of these factual findings is erroneous and the district court took great care to make clear that it was not adopting a general rule that any one of these facts alone required denial of an injunction.

The district court likewise considered the nature of the '265 patent, which: (1) is a business method patent never subjected to the PTO's "second look" policy; (2) claims "a combination of non-unique elements yielding predictable results" and has yet to be examined under *KSR*; and (3) is undergoing reexamination in which claims were twice rejected under the pre-*KSR* standard. *See* App000022-24, App000040. The district court correctly noted that the possibility that the '265 patent was improvidently granted was "*an additional factor* that weighs against a finding of irreparable harm." App000024 (emphasis added). Such analysis is consistent with the Supreme Court's guidance and was not an abuse of discretion.

The district court also carefully considered MercExchange's relationship with uBid, and rightly concluded that it did not establish irreparable harm. *See* App000016. First, MercExchange's grant of a non-exclusive license to its entire portfolio for \$150,000 after obtaining the verdict here was a continuation of its

historic practice of using licenses to exact a tax from market participants, not to develop its invention. App000017-18. Second, the district court correctly held that preliminary negotiations that did not result in an exclusive license did not constitute irreparable harm. App000025-26, App000029, App000037. The district court found MercExchange's declarants' story to lack credibility in view of the suspicious timing of the negotiations, emails and other evidence suggesting that the negotiations were an illegitimate attempt to manufacture evidence and that they failed due to factors other than the absence of an injunction. App000026, App000016, App000047. MercExchange has not explained why any of these findings are erroneous.

**(b) MercExchange's Cannot Overcome The Facts Of This Case By Restating Generalized Policy Arguments That Failed Before The Supreme Court.**

MercExchange is left with two categorical policy arguments favoring injunctions that it unsuccessfully raised to the Supreme Court.

*First*, MercExchange again argues that the nature of the right to exclude can result in irreparable harm from the "mere passage of time" during infringement. *Compare* Blue at 21-22 *with* App000945-46, App000949-50, App000961-62. The Supreme Court dispelled the argument regarding the nature of the right, expressly distinguishing "the creation of a right ... from the provision of remedies for violations of that right." *eBay*, 127 S. Ct. at 1840. MercExchange's argument

would result in the sort of categorical rule the Supreme Court held inconsistent with equity.

*Second*, MercExchange again argues that the denial of an injunction forces a patentee to license its patent to someone not of its choosing and this result (a “compulsory license”) itself constitutes an irreparable harm. *Compare* Blue at 23-25 with App000954, App000969, App000979. The Supreme Court was unmoved by the argument, which would result in irreparable harm necessarily flowing from any denial of an injunction—again, an impermissible categorical rule.

**(c) The District Court Correctly Rejected Abstract “Potential” To Begin Competing For Market Share As Too Speculative To Warrant An Injunction.**

The district court properly recognized that MercExchange’s reliance on the hypothetical “potential” to gain market share through agreements and businesses that do not exist would result in an impermissible categorical rule. *Compare* Blue at 44 with App000027 (“the potential for loss of market share is insufficient ... otherwise a scenario would never arise where an injunction would not issue”); *see also* *Illinois Tool Works, Inc. v. Grip-Pak, Inc.*, 906 F.2d 679, 683 (Fed. Cir. 1990) (rejecting claim that potential lost sales alone demonstrate irreparable harm). MercExchange’s recent district court authority does not support its position.

As the district court explained here, “in *TiVo Inc. v. Echostar Comms. Corp.*, 446 F. Supp. 2d 664, 669-70 (E.D. Tex. 2006), ... not only were the plaintiff and

defendant direct competitors, but the market at issue was still in its infancy[.]” App000028. The patentee in *Smith & Nephew, Inc. v. Synthes (U.S.A.)*, 466 F. Supp. 2d 978 (W.D. Tenn. 2006) likewise was an active competitor of the defendant who lost actual market share. In *Novozymes A/S v. Genencor Int’l, Inc.*, 474 F. Supp. 2d 592, 612 (D. Del. 2007), the patentee did not freely license its patent to third parties, but rather competed with the defendant by licensing its own subsidiary, which marketed competing products. Moreover, MercExchange ignores *Praxair Inc. v. ATMI, Inc.*, 479 F. Supp. 2d 440, 443-44 (D. Del. 2007), which the district court explained denied an injunction notwithstanding direct competition because the patentee identified only potential lost market share. App000028.

Moreover, MercExchange’s arguments regarding the “potential” for competition ignore the facts. First, as the district court recognized, because MercExchange took “few steps, if any,” to develop its patent itself or through licensing, it “cannot now establish that it irreparably lost market share that it never ... even pursued.” App000030. Second, MercExchange overlooks that uBid does not compete for the core of eBay’s business and that uBid is not even the most recognized competitor in its own segment. See App000029(n.20), App000029, App000038(n.27). Third, eBay’s infringement did not prevent MercExchange from building the ‘265 patent or anyone else from entering the



market even without an injunction. App000028, App000031. eBay did not “saturat[e] the market with an infringing product,” as its success predates any alleged infringement. App000030. Moreover, because eBay provides a service, not a tangible good, “uBid, MercExchange, or any other website could obtain market share from eBay through a competing website as buyers and sellers can switch from one to the other with little or no sunk costs[.]” App000031. MercExchange will not be irreparably harmed absent an injunction.

## 2. Adequate Remedy At Law.

The district court correctly concluded that “after balancing the equities, ... damages at law constitute an adequate remedy” for MercExchange. App000033. A legal remedy is clearly adequate where the patentee itself has publicly proclaimed that all it wants is money, not to enforce its patent: “it is not our goal to enforce these patents, we want to sell off our Intellectual Property rights.” App000018-19. *See also* App000020, App000034.

MercExchange’s conduct has remained uniformly consistent with its oft-stated goal. First, in the wake of the jury’s verdict, MercExchange retained an outside firm to sell its patents. App000034-35, ConfApp00501972, ConfApp00502712. Second, MercExchange has demonstrated a willingness to license its patents to market participants, including eBay, and forego its right to exclude if the money is right. App000035; *see supra* at 7-8, 11-13, 18-19. Third,

MercExchange let potential damages accrue by not seeking a preliminary injunction despite its contention that eBay's market presence was irreparably harming it. Fourth, despite receiving millions of dollars after trial—admittedly enough to enter the market—MercExchange chose not to, opting instead to distribute the funds for its principals' personal use. App000041-42(n.30), ConfApp00502014, ConfApp502016-17, ConfApp005020-21.

MercExchange's words and actions confirm that it—with its litigation-hedge-fund partner—is the type of patentee Justice Kennedy warned of in his concurrence. *eBay*, 126 S. Ct. at 1842. MercExchange's brief reinforces that all it seeks is money, endeavoring to recast a purely economic injury as irreparable. *See, e.g., Blue* at 26 (“maximize the economic value of the patent ... realize the full value of its patent ... full value for a patent license”). MercExchange's contention that an appropriate legal remedy is incalculable is belied by the fact that it and its hedge-fund partner performed detailed valuations. *See ConfApp00502015, ConfApp00502022-28*. Those valuations, like MercExchange's public statements and conduct, confirm that MercExchange only seeks money, and money is adequate.

The record supports the district court's finding that “MercExchange has followed a consistent course of seeking to maximize the money it can obtain from licensing its patents to market participants ...; a substantial damages award against

eBay ... will accomplish precisely such goal.” App000017 (emphasis original). See also *supra* at 7-8, 11-13. As the district court noted, even absent an injunction, “MercExchange receives what it has consistently sought: money.” App000042. There is no error in the district court’s findings nor in its conclusion that legal remedies are adequate.

### 3. Balance Of The Hardships.

If the district court erred in finding the balance of the hardships to be neutral, it favored MercExchange. It is unclear what hardship MercExchange would actually suffer absent an injunction. MercExchange “has repeatedly illustrated that a royalty from market participants, including eBay, is what it truly seeks.” App000038. This case “boils down to money,” which MercExchange can receive absent an injunction. *Id.*

The district court also correctly found that MercExchange’s uBid arguments are too speculative to demonstrate hardship. Even with an injunction, “uBid may not provide substantial compensation to MercExchange for an exclusive license because: (1) the continued validity of the ‘265 patent remains in doubt, especially in light of *KSR*; (2) eBay may have designed around the patent, making an exclusive license virtually worthless to uBid; and (3) uBid may not currently practice the ‘265 patent.” App000037. Moreover, even if uBid owed royalties under its license, “forcing eBay to pay a similar royalty for its infringing sales

would result in the same end: a fixed royalty to MercExchange.” App000038. MercExchange has failed to demonstrate any hardship it would suffer absent an injunction.

Balanced against MercExchange’s lack of hardship is the risk that eBay would be subjected to an injunction on a patent that should never have issued. While the district court observed the suspect validity of the ‘265 patent, it did not find that this risk tipped the balance of hardships in eBay’s favor. It noted the uncertainty regarding validity, whether eBay had designed around the patent, and MercExchange’s relationship with uBid, finding: “With the future so speculative in this continually-developing, complex scenario, the court cannot confidently determine in which party’s favor the balance of the hardships tips.” App000039.

None of MercExchange’s three arguments demonstrate error. *First*, a willfulness finding cannot categorically exempt a case from any balancing of the hardships. Blue at 44. The Supreme Court rejected this argument when MercExchange raised it earlier. App000946, App000961, App000965, App00067-68. At oral argument, when MercExchange argued “eBay’s willfulness in this case disables eBay from invoking the relative balance of harms. We certainly agree –,” Justice Breyer interrupted: “Why? I mean, I think there are so many factors that could enter into it.” *See* App001114.0001-0002. The Supreme Court rejected such general rules and made no distinction between willful infringers and other

defendants in ruling that a “plaintiff must demonstrate ... (3) that, considering the balance of hardships ..., a remedy in equity is warranted” and remanding the case for an application of *each* of the four factors. *eBay*, 127 S. Ct. at 1839. MercExchange also ignores willfulness was a “close call” on JMOL before *Seagate* and *Knorr-Bremse* and the verdict is subject to a pending JMOL motion based on that authority. *See infra* at 61-64.

*Second*, MercExchange’s contention that the district court “appears to have virtually ignored” eBay’s statement regarding its design-around is unfounded. Blue at 45. The district court expressly addressed the statement in its opinion. App000036. Moreover, MercExchange never attempts to square its reliance on the effectiveness of eBay’s design-around for balancing the hardships with its irreparable harm and public interest arguments, which are incorrectly premised on eBay still infringing.<sup>4</sup>

*Third*, MercExchange attempts to distinguish what it deems an unfavorable fact pattern. Blue at 47. However, MercExchange describes the very facts of this case and its efforts only highlight the impropriety of an injunction. As the district court’s findings confirm, here “an opportunistic patent holder” kept its infringement contentions “hidden” after eBay “sunk significant costs into a large

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<sup>4</sup> Nor does MercExchange offer any response to eBay’s uncontested evidence that it has ceased infringement.

[auction business] (of which one small component may involve infringing technology)”; and then “ambush[ed] that corporation with an infringement lawsuit,” as eBay was never accused of infringement before this suit. *Compare Blue at 47 with App000022(n.13), App000041.*

#### **4. Public Interest.**

The district court did not err in concluding that the public interest weighed slightly against an injunction. The district court based this conclusion on detailed factual findings that are supported by the record and unchallenged by MercExchange.

The district court gave credence to MercExchange’s argument that there is a public interest in protecting a patentee’s rights. App000039. However, it found that, because MercExchange never sought to protect its right to exclude and instead only sought money, MercExchange’s rights are adequately protected without an injunction. App000041-43 (“The patent system has therefore protected the right that MercExchange has always sought to defend through its patent, the right to use such patent to exact fees.”). The court noted that “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 nor the public interest.” App000042. The district court found the public interest supports “holding MercExchange accountable for its actions and its words,” otherwise it

“would encourage future litigants to be less than forthright with the court, advancing whatever arguments best support a specific motion, no matter their accuracy.” App000043.<sup>5</sup>

The court also found that the public interest in maintaining the integrity of the patent system was not as strong here because: the ‘265 patent is a business method patent never subjected to the PTO’s “second look” policy; claims combinations of known elements but has not been examined under *KSR*; and was rejected twice in reexamination under pre-*KSR* authority. App000040. The district court correctly found that arguments regarding the integrity of the patent system to be less persuasive for a patent that may have been improvidently granted. App000039-40.

The district court further considered the potential impact of an injunction on the public. While not implicating public health issues, the district court correctly found that millions of people rely on eBay’s platform, that “eBay unquestionably has a substantial impact on the United States economy,” and that “eBay’s success

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<sup>5</sup> MercExchange’s shifting positions extend to the liability verdict here as well. At trial, MercExchange blocked a date-of-invention jury instruction and argued to the district court and this Court that it was unnecessary because MercExchange only claimed priority based on its April 1995 application. After this Court affirmed the liability verdict, MercExchange conceded to the PTO that it was only entitled to a *November* 1995 priority date. MercExchange thereby prevented consideration of material references—including eBay’s own early operations—MercExchange now concedes are prior art to the ‘265 patent.

pre-dates its infringement.” App000041. These facts clearly tip the public interest towards denial of an injunction, particularly when contrasted against a company that “specialize[s] in litigation and obtaining royalties from licenses based on the threat of litigation” and has never sought to develop its patent or “to defend its right to exclude and prevent development of its patent by others.” App000041. MercExchange and its litigation-hedge-fund partner are precisely the sort of non-practicing entity Justice Kennedy warned of and the public interest would be ill-served by providing them with an injunction solely as a bargaining tool. *eBay*, 126 S. Ct. at 1842 (Kennedy, J., concurring).

None of MercExchange’s three arguments warrants a different conclusion. *First*, MercExchange raised its arguments regarding compulsory licenses and the integrity of the patent system to the Supreme Court. *See supra* at 38-39. The Supreme Court was unmoved, rejected the application of such categorical rules, and held the Patent Act requires that injunctions be denied where equity so dictates and at the trial judge’s discretion. Thus, the integrity of the patent system enacted by Congress requires denial of an injunction where the traditional four factor test is not satisfied, whether this results in a “compulsory license” or not.

*Second*, MercExchange’s reliance on the willfulness verdict is again misplaced. The argument was raised to the Supreme Court unsuccessfully, the



verdict is unsupported under the controlling law, and the verdict is subject to a pending motion for JMOL before the district court. *See infra* at 61-64.

*Third*, MercExchange's argument that an injunction would facilitate competition is unavailing. The argument presumes eBay's current operations infringe—and therefore would be prohibited by an injunction—but MercExchange has offered no such evidence nor any response to the substantial evidence in the record demonstrating eBay's noninfringement. The argument also overlooks that eBay is not a monopolist in the relevant market of "fixed price" transactions and MercExchange has offered no evidence that it is. Indeed, even under MercExchange's view, an injunction would not promote competition. MercExchange would have eBay's purported "monopoly" simply transferred to uBid, offering no explanation how substituting one alleged monopolist for another promotes competition.<sup>6</sup>

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<sup>6</sup> MercExchange also offered no evidence that eBay users would migrate to uBid or another website if eBay's fixed-price operations were enjoined, rather than simply utilize eBay's non-infringing auction format, which admittedly made eBay a success before it even offered fixed-price sales.

**D. None Of The Purported Errors That Are Issues For An Appellate Court Have Merit Or Constitute An Abuse Of Discretion.**

**1. The District Court Did Not Err In Not Creating A New Presumption Of Irreparable Harm That MercExchange Never Argued For Below.**

MercExchange argues: (1) that the former presumption of irreparable harm upon a showing of infringement survived the Supreme Court's ruling, Blue at 21-22; and (2) it was error for the district court not to create an entirely new presumption where willfulness is found and a defendant is accused of being a monopolist. Blue at 22. Neither argument has any merit and the latter was waived when MercExchange failed to raise it below.

First, MercExchange cites the denial of a preliminary injunction in *Abbott Labs. v. Andrx Pharms., Inc.*, 452 F.3d 1331, 1347 (Fed. Cir. 2006) as proof that this Court still recognizes the prior general presumption. Blue at 22. MercExchange's reliance on dicta from a decision not applying a presumption is misplaced. Contrary to its present argument, MercExchange acknowledged below that this Court "has yet to address the issue," but now suggests *Abbott* resolved it. See ConfApp00502729-30(n.1) (quoting *Int'l Rectifier Corp. v. IXYS Corp.*, 188 F. Appx. 1001 (Fed. Cir. 2006) (vacating injunction and remanding because the presumption "may need to be revisited in light of *eBay*")). See also *Sanofi-Synthelabo v. Apotex*, 470 F.3d 1368, 1383 n.9 (Fed. Cir. 2006) ("we need not address" whether the "presumption is in direct contravention of the Supreme

Court's decision"). There is a growing consensus that the presumption cannot be reconciled with the Supreme Court's decision. *See* App000014-15.

This conclusion is consistent with the Supreme Court's holding that a patentee "must demonstrate ... an irreparable injury" without mentioning a presumption as a means to do so, notwithstanding MercExchange's arguments for a presumption, *eBay*, 126 S. Ct. at 1839, and its prior guidance that such a "presumption is contrary to traditional equitable principles" *Amoco Prod. Co. v. Village of Gambell*, 480 U.S. 531, 545 (1987) (emphasis added). Indeed, the former general rule overturned by the Supreme Court in this case was largely derived from the presumption of irreparable harm.

*Second*, MercExchange's argument for an entirely new presumption, just for this case, fails for the same reasons. Additionally, MercExchange waived the argument by never raising its special presumption before the district court. *See Braun Inc. v. Dynamics Corp. of Am.*, 975 F.2d 815, 821 (Fed. Cir. 1992).

Regardless, any presumption is rebutted by the extensive record here.

**2. The Supreme Court's Mandate Did Not Implicitly Require "De Novo" Reconsideration Of All Factual Findings From Trial, Particularly Those MercExchange Never Contested On Appeal.**

MercExchange contends that "the Supreme Court instructed the district court to essentially conduct a *de novo* review of all evidence pertaining to the traditional four-factor equitable test." Blue at 54. The Supreme Court did not do so, and

instead, ruled: “Because we conclude that neither court below correctly applied the traditional four-factor framework ... we vacate the judgment of the Court of Appeals, so that the District Court may *apply that framework in the first instance.*” *eBay*, 126 S. Ct. at 1841 (emphasis added).

While MercExchange emphasizes this underscored language, the clear import of the Supreme Court’s mandate is that the district court, rather than this Court, is to apply the four-factor framework. Nothing about this language or this Court’s mandate requires or suggests a *de novo* review of previously-uncontested findings. MercExchange’s argument should also be rejected for three additional reasons.

*First*, MercExchange waived this argument. The district court issued the order MercExchange challenges months prior to the final briefing and argument on the injunction. App003046-3076. In that order, the district court explained it would not reconsider its prior factual findings that were never appealed and would only reopen the record to consider events after its August 2003 post-trial order. *Id.* at App003050, App003052-003055. MercExchange never objected and cannot do so for the first time here.

*Second*, in the Fourth Circuit, it is “well-established that ... the decision whether to reopen the evidence at a later stage of the proceedings rests with the trial judge.” *United States v. Com. of Va.*, 88 F.R.D. 656, 662 (E.D. Va. 1980).

*See also* App003049 (“the parties ... agree” reopening the record “lies squarely within this court’s discretion”). Thus, it was within the district court’s discretion not to reopen the record at all. MercExchange can point to no abuse here, as MercExchange itself argued the court should reopen the record to developments occurring *after* the district court’s 2003 decision—precisely what the Court did. *See, e.g.,* App003051 (“... we would like the opportunity to supplement the record ... to bring it current, to make the Court aware of what MercExchange has been about in the three plus years since the jury entered its verdict ...”).

*Third*, even under MercExchange’s erroneous view, there still was no error, as the district court received and specifically addressed all the pre-2003 evidence MercExchange identifies. MercExchange presented all its evidence with its opening brief before the district court’s order, which refused to strike any of it. App003046. The district court did not “err[] in ignoring MercExchange’s efforts to commercialize the ‘265 patent prior to August 7, 2003.” Blue at 3. It considered these very efforts and expressly addressed them in its opinion.

For example, MercExchange refers to relationships and licenses within the Aden-MercExchange family of companies. Blue at 8-9. However, the district court specifically noted that “MercExchange portrays its October 1999 partnership with Aden Enterprises as an attempt to commercialize its patents,” weighed the evidence, assessed credibility, and found that “MercExchange has 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.” App000026-27(n.18).<sup>7</sup>

The district court reopened the record as MercExchange requested and did not ignore the evidence MercExchange claims. There is no error.

**3. The District Court’s Consideration Of “Willingness To License” And MercExchange’s Motivation Is Proper.**

The district court did not err in considering MercExchange’s willingness to license or improperly focus on MercExchange’s motivation. *First*, this Court has recognized that such willingness may undermine a patentee’s claim to an injunction and is relevant. *See, e.g., Polymer Technologies, Inc. v. Bridwell*, 103 F.3d 970, 974 (Fed. Cir. 1996); *T.J. Smith and Nephew Ltd. v. Consolidated Medical Equip., Inc.*, 821 F.2d 646, 648 (Fed. Cir. 1987). The district court did not abuse its discretion by considering this evidence. Nor did the district court err in its analysis. The district court did not base its decision on the mere fact that MercExchange has licensed its patents. It made specific factual findings regarding MercExchange’s licensing, distinguishing MercExchange from a patentee who licenses its patent as means to commercialize its invention and protect its right to

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<sup>7</sup> The district court likewise “evaluated all the conditions surrounding” MercExchange’s pre-2003 licenses. *Compare Blue* at 54 *with* App000019(n.12), App000037(n.26).

exclude. *See, e.g.*, App000020, App000026-27(n.18), App000033-34, App000041. It noted the “unavoidable distinction between utilizing third-party licensing to bring a concept to market and strategically utilizing a patent to excise a tax from companies already participating in the market.” App000035(n.24). Moreover, the district court made clear that MercExchange’s licensing practices were one of many factors it considered. App000018-19. There is no error.

*Second*, the district court did not err by improperly focusing on MercExchange’s motivation. Blue 42-43. MercExchange points only to discussion of its willingness to license, which is undeniably relevant and appropriate. Moreover, MercExchange put its motivation at issue by arguing that it always intended to commercialize and selectively license its patents. *See, e.g.*, Blue 7-9. MercExchange’s pattern of offering to license market participants is relevant to the validity of those arguments. Neither of the two cases MercExchange cites warrant a different conclusion. Both address the relevance of motivation to entitlement to assert a “legal right.” Blue 42-43. However, MercExchange now seeks *equitable*, not legal, relief.

**4. The District Court’s Consideration Of MercExchange’s Failure To Seek A Preliminary Injunction Is Appropriate.**

The district court did not err in considering MercExchange’s failure to seek a preliminary injunction. This Court has recognized that such failure is a relevant factor in assessing irreparable harm. *See PGBA, LLC v. United States*, 389 F.3d

1219, 1229-31 (Fed. Cir. 2004). Moreover, the district court made clear this fact alone was not dispositive and detailed its relevance on the facts of this case. App000021-22, App000022(n.14). Given this Court's authority and the district court's analysis, there is no abuse of discretion.

MercExchange's policy concerns are unfounded. None of the dire implications it predicts have occurred in the 20 years since the Court recognized the relevance of a patentee's failure to seek a preliminary injunction. Blue at 36.

**5. The District Court Did Not Err In Considering eBay's Design-Around.**

MercExchange incorrectly claims the district court erred in giving eBay's design-around "at least minimal credence" by referencing the "design around no fewer than six times." Blue at 38, 39 n.11. *First*, the district court explained its "opinion is not premised upon [the] purported design-around" and that it did not "place any weight on eBay's claims that it ceased infringing." App000004(n.2), App000024(n.16). The district court also made clear that even if it found that eBay designed-around, this would only represent "another factor" that "may impact the injunction calculus." App000024(n.16).

*Second*, this Court has long held that cessation of infringement is relevant to the equitable calculus and may even warrant denial of an injunction. *See, e.g., W.L. Gore & Assocs., Inc. v. Garlock, Inc.*, 842 F.2d 1275, 1281-82 (Fed. Cir. 1988).



Considering a design-around as a non-dispositive factor—which is, at most, what the district court did—is no abuse of discretion.

*Third*, MercExchange put ongoing infringement at issue. MercExchange’s irreparable harm and public interest arguments require an injunction against eBay’s current, redesigned operations to shift users to uBid or other competitors. *See, e.g.*, ConfApp00502728-31, Blue at 31, 49. MercExchange’s assertion that its talks with uBid broke down because there was no injunction likewise presumes ongoing infringement. However, uBid’s CEO testified that the question of whether eBay had designed around the ‘265 patent was a main factor in its failed negotiations. ConfApp0000502812(212) (“actual infringement uncertainty is really the premise that broke this down”). After putting eBay’s design-around at issue, MercExchange cannot credibly claim error. MercExchange only disputed its relevance after discovery revealed MercExchange had no basis for its allegations and after eBay produced detailed design-around evidence. *See supra* at 20-21.

**6. The District Court Did Not Err By Not Mentioning eBay Activities MercExchange Itself Relegated To Footnotes.**

MercExchange’s argument that the district court erred in failing to explicitly discuss eBay’s alleged conduct since trial is misplaced. *See Blue* at 40-42.

*First*, this Court “presume[s] that a fact finder reviews all the evidence presented unless he explicitly expresses otherwise.” *Medtronic, Inc. v. Daig Corp.*, 789 F.2d 903, 906 (Fed. Cir. 1986). As in *Medtronic*, the district court explained it

“endeavored to carefully consider each of the unique facts underlying this complex case,” dispelling MercExchange’s argument. *Compare id.* at 906 n.7 with App000033.

*Second*, MercExchange’s argument is waived. That the district court did not explicitly discuss these points is consistent with MercExchange’s own view of their insignificance, mentioning each only in footnotes. *Cf. SmithKline Beecham Corp. v. Apotex Corp.*, 439 F.3d 1312, 1320 (Fed. Cir. 2006) (footnoted arguments not preserved).

*Third*, even adopting MercExchange’s view, any error is harmless. Neither point demonstrates irreparable harm nor warrants an injunction. Indeed, MercExchange’s resort to such tangential footnotes confirms it cannot demonstrate any legitimate irreparable harm.

As to the “Trading Posts Program,” MercExchange cites an incomplete draft proposal. *See* Conf-App 00502881 (“Benefits of Entering – Blah, blah” “Benefits of Partnering – Blah, blah”). Based on this draft, MercExchange contends eBay launched a business it knew infringed. However, the final version of the draft— included two documents later in eBay’s production<sup>8</sup>—explained that eBay *rejected the proposed business plan MercExchange claims eBay knew infringed*. eBay

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<sup>8</sup> Due to the simultaneous supplemental briefing below, eBay was unable to introduce this document into the record.

chose not to enter the business itself, instead leaving third-parties to run their businesses independently with eBay providing marketing assistance, including use of a “Trading Posts” logo, as evidenced by the article MercExchange cites. Conf-App 00502860-862 (“a marketing program called Trading Posts ... allowing two storefront services to use the name in their business”). MercExchange knows this does not constitute infringement, as this Court rejected a similar inducement theory earlier in this case. 401 F.3d at 1332.

MercExchange’s attendance at a PESA meeting of eBay users is similarly unavailing. *See* Blue 41-42. MercExchange surmises that eBay “pressured” PESA to ask MercExchange to leave but cannot point to any corroborating evidence. *Id.* The article MercExchange cites explains that it was *PESA’s decision independent of eBay*. Nor do the documents evidence any attempt to get a “message” to reporters. Blue at 42. Rather, the document MercExchange cites comments on facts *already reported* in an article. That MercExchange’s acts make it “seem even less credible” was not eBay’s doing.

If these arguments had merit, MercExchange would have taken discovery or mentioned them outside of a footnote. It did neither.

**7. The District Court Did Not Err By Considering The Reexamination Proceedings.**

The district court did not err in considering the ‘265 reexamination as one of many non-dispositive factors. The fact that the PTO has since indicated that

certain claims may be allowable before it applies *KSR* does not warrant a different result.

*First*, the '265 reexamination is relevant. As Chief Justice Roberts observed, "if [reexamination is] a basis for staying the injunction, it's a basis not to issue one in the first place." App002776-77(30:3-5). Justice Kennedy's concurrence similarly explained that "trial courts should bear in mind ... the nature of the patent being enforced" and that the "suspect validity of some [business method patents] may affect the calculus under the four-factor test." *eBay*, 126 S. Ct. at 1842. If the reexamination was irrelevant, it is unclear why the Supreme Court noted it in its opinion without specifying that it should not be considered. *Id.* at 1839, n.1.

MercExchange also put the reexamination at issue by arguing that licensing difficulties with uBid and others stemmed from the absence of an injunction. Blue at 14. uBid's CEO testified that uncertainty as to whether the '265 patent was valid or would survive reexamination factored into uBid's analysis. App000025; ConfApp00502062. The ongoing reexamination likewise is relevant to what hardship MercExchange might suffer absent an injunction and to MercExchange's argument that a strong patent system requires an injunction for the '265 patent.

*Second*, MercExchange misapprehends the district court's analysis. While the district court considered the reexamination, as it was obligated to do, it did "not ground its opinion in speculation regarding the final outcome of such

reexamination.” App000040. Rather, it was further evidence of the ‘265 patent’s suspect validity. MercExchange erroneously equates the number of times “reexamination” was mentioned to “intense focus.” Blue at 51-52. However, the majority of these references occur in analysis of eBay’s motion to stay pending “reexamination.” MercExchange cannot establish error in the district court’s injunction analysis by pointing to its discussion of a different issue.

*Third*, the PTO’s indication that certain ‘265 claims may be nonobvious under the pre-*KSR* standard does not undermine the district court’s analysis. The district court explained it was not basing its opinion on “speculation regarding the final outcome” of the reexamination. Rather, in a broader assessment of the ‘265 patent’s “suspect validity,” the district court correctly observed that the PTO twice rejected its claims and they were less likely to be found valid once *KSR* is applied. *See, e.g.*, App000023-24, App000040. This remains correct. The office action MercExchange cites does not mention or apply *KSR*, because the PTO issued its examiner guidelines on *KSR* after the office action issued. App.003511-20. Nonetheless, the ‘265 claims describe combinations of known elements used in their intended manner, *see, e.g.*, App000024, and are unlikely to survive once *KSR* is applied either by the PTO in reexamination or by the district court on eBay’s pending JMOL motion. It defies common sense that one skilled in the art would know to process transactions between buyers and sellers as claimed, clearing

payment and transferring ownership, but would not have thought to notify the buyer and seller that it had done so, “denoting finality of transaction.”

The matter should likewise be resolved if MercExchange complies with its duty of candor before the PTO. MercExchange has yet to disclose its own prior admission that the same prior art applied in the reexamination teaches the claims’ purported “finality of transaction” point of novelty. *See* App003583. If MercExchange obtains issuance of claims having withheld this material admission, it hardly deserves relief in equity.

**8. The Willfulness Verdict Does Not Provide Any Cause For Reversal, And The Record Confirms That There Was No Copying And eBay’s Success Has Nothing To Do With The Patent.**

While the willfulness verdict against eBay is the centerpiece of MercExchange’s brief, MercExchange fails to disclose that willfulness was a “close call” in this case or that the willfulness verdict is the subject of a pending motion for JMOL/new trial before the district court in light of substantial changes in the law. Nevertheless, MercExchange argues that a showing of willfulness by any patentee should eliminate the burden of establishing the first three factors. *See, e.g.,* Blue at 22 (“[P]lace the burden to rebut a presumption of irreparable harm on the willful infringer ....”); *id.* at 45 (A “[willful] infringer has no legitimate interests to be placed in the balance of the hardships”). As the district court properly recognized, the willfulness verdict alone does not warrant an injunction

and the facts here make clear that a categorical rule in favor of the patentee is inappropriate.<sup>9</sup>

The district court correctly found that “eBay is unlike willful infringers that succeed by copying another’s proprietary software or engineering specifications as MercExchange’s patents ‘offer no business or engineering guidance which the defendants could copy ....’” App000031. This fact, coupled with the finding that eBay’s success was entirely unrelated to the ‘265 patent, led the district court to state that it was a “close call” whether the willfulness evidence was sufficient to go to the jury. App000031-32. When the jury found in MercExchange’s favor, the district court declined to enhance damages. Although the district court found that the willfulness verdict “plainly favors MercExchange when conducting an equitable balancing,” App000045, given the weakness of the willfulness verdict and other findings of fact in eBay’s favor, it was well within the district court’s discretion to deny the injunction under the equitable factors.

Moreover, the already “borderline” willfulness verdict was based on a now-overturned standard, which has been replaced with a heightened one. *See In re*

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<sup>9</sup> Nor does *Albemarle Paper Co. v. Moody*, 422 U.S. 405, 422 (1975), support MercExchange’s proposed categorical exemptions based on willfulness. *Albemarle* dealt with subjective bad faith, a far more culpable condition than that required for willful infringement—particularly under the previously lower standard. *See, e.g., Jurgens v. CBK, Ltd.*, 80 F.3d 1566, 1572 (Fed. Cir. 1996) (“bad faith is not required for a finding of willful infringement”).

*Seagate Tech., LLC*, 497 F.3d 1360, 1368-71 (Fed. Cir. 2007). The willfulness verdict cannot be sustained, and eBay's pending JMOL/new trial motion of no willfulness is appropriately based on this substantial change in law. See *Mendenhall v. Barber-Greene Co.*, 26 F.3d 1573, 1582 (Fed. Cir. 1994) ("courts of appeals have recognized a variety of 'special circumstances' under which they would reconsider their previously-determined law of the case," including "[i]ntervening changes in applicable authority"). See also App003640-42.

In *Seagate* (issued after the district court's post-trial order), this Court eliminated a would-be infringer's affirmative duty of care to avoid infringement. 497 F.3d at 1371. Now, in order to establish willfulness, a patentee must show an objectively high likelihood of infringement and reckless disregard of that risk. *Id.* The verdict cannot be sustained under this heightened standard. See, e.g., App003510.0032-36, App003648-49, ConfApp00503243, App003629. The *Seagate* decision also discounted post-filing activities as proof of willfulness where a patentee does not seek a preliminary injunction. See *Seagate*, 497 F.3d at 1374. MercExchange relied on such evidence without seeking a preliminary injunction here. App003649(n.5). Likewise, *Knorr-Bremse* eliminated the adverse inference from a failure to obtain an opinion of counsel. 383 F.3d at 1345-46. MercExchange highlighted such inferences as proof of willfulness here. See, e.g., App003510.0033-34, App003510.0036-37, App003646-48.



Because MercExchange's case was limited to an overruled duty of care, an overruled inference drawn from the absence of an opinion of counsel, and post-filing conduct that is to be discounted—if not disregarded—under *Seagate*, JMOL of no willfulness is not only appropriate, much of MercExchange's case should never have been admitted before the jury. At least one court has ordered a new trial under similar circumstances. *See Broadcom Corp. v. Qualcomm Inc.*, 8:05-cv-00467-JVS-RNB (C.D. Cal. Nov. 21, 2007) (Dkt. 983, granting a new trial on liability in light of *Seagate*, since “willfulness is necessarily bound up with the basic liability determination”). *See also* App003630-31, App003637-38, App003642-46.

**CONCLUSION**

eBay respectfully requests that the Court affirm the district court's denial of a permanent injunction.

Respectfully submitted,

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**CERTIFICATE OF SERVICE**

I hereby certify that on December 11, 2007, I caused true and correct copies of the foregoing Brief of Defendants-Appellees eBay Inc. and Half.com, Inc. to be served as follows:

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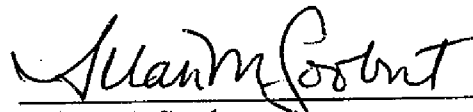


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**CERTIFICATE OF COMPLIANCE**

Pursuant to Federal Rule of Appellate Procedure 32(a)(7)(C), the undersigned certifies that this brief complies with the type-volume limitation of Federal Rule of Appellate Procedure 32(a)(7)(B)(i). The brief contains 13,884 words, excluding the parts of the brief exempted by Federal Rule of Appellate Procedure 32(a)(7)(B)(iii).

Dated: December 11, 2007

  
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