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## Reframing Patent Remedies

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# Reframing Patent Remedies

KAREN E. SANDRIK\*

*The strength of the patent system is waning. The Supreme Court recently opened the door for dramatic change by rejecting the long-standing presumption that a permanent injunction should issue upon the adjudication of a valid and infringed patent. Federal courts have since refashioned patent remedies to favor monetary liability for patent infringement, resulting in the restructuring of substantive rights for certain classes of patent holders. In particular, some patent holders have nearly lost their right to require consent prior to the use of their patented technology. This is a troubling development. If a patent holder is unable to enforce its right to exclude, there is little preventing an interested user from acting unilaterally. Simply, the interested user will take what it wants without first seeking permission from the patent holder.*

*In this Article, I argue that patent law should look to the law of trespass to regain the strength of its property roots as well as a predictable framework for the occasions that merit a switch from a property rule to a liability rule. Under the proposed framework, the vast majority of patent holders will reestablish their right to exclude infringers. However, in the event that a patent holder abuses its monopolistic leverage to unreasonably cause harm to the public, an incomplete privilege will extend to the infringer. This incomplete privilege will function the same way a defense of necessity does in trespass, allowing the infringer access to the patented technology without the ordinary threat of a penalty. Permitting the infringer a limited amount of time to design around the patented technology or come up with alternative technology will further innovation, as well as refocus courts on how the public is affected by the gain or loss of the patented technology. This recognition of the public's interest while still valuing a patent holder's right to exclude will reinvigorate the current patent system.*

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\* Assistant Professor, Willamette University College of Law. I am grateful for invaluable feedback through discussions, questions, and comments from Jasmine Abdel-Khalik, Kelli Alces, Curtis Bridgeman, Robin Craig, John Golden, Andy Hessick, David Landau, Jake Linford, Dan Markel, Efthimios Parasidis, Amelia Rinehart, and from the participants at the FSU College of Law Summer Workshop Series, the 2011 Southeastern Law School Association Conference, and the 2011 Intellectual Property Scholars Conference.

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## I. INTRODUCTION

The strength of the patent system and the incentive to invest in it is diminishing. This remains so despite the recently passed Leahy-Smith America Invents Act (“Act”). This Act is intended to boost American innovation and give inventors a competitive twenty-first century patent system.<sup>1</sup> Most notably, however, the Act fails to address patent remedies. It also does not address the recent shift toward monetary liability that has resulted in the restructuring of substantive rights for certain patent holders. Consequently, a new rule has emerged: some patent holders have reduced access to remedies.

The starting point here is that the Patent Act grants one right to all qualifying inventors—the right to exclude others from its invention.<sup>2</sup> When enforcing this right to exclude, an inventor often asks for a permanent injunction against an adjudicated infringer and, until recently, courts employed a presumption in favor of granting the requested injunction.<sup>3</sup> The Supreme Court in *eBay Inc. v. MercExchange L.L.C.* rejected this presumption and instructed federal courts to employ a four-factor test for injunctive relief.<sup>4</sup> This rule change was made in large part

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1. See Press Release, Senator Patrick Leahy, Comment of Senator Leahy on the Senate Motion to Proceed to the America Invents Act (Aug. 2, 2011), available at <http://www.leahy.senate.gov/press/comment-of-senator-leahy-on-the-senate-motion-to-proceed-to-the-america-invents-act>.

2. See 35 U.S.C. § 271(a) (2006).

3. See *infra* Section II.B. and accompanying notes.

4. See *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 393–94 (2006). The four factors that a patentee must demonstrate in order to receive a permanent injunction against an infringer are:

(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.

*Id.* at 391.

because of the growing concern regarding the conduct of many nonpracticing entities (“NPEs”).<sup>5</sup> An NPE is a patent holder that demands a licensing fee or royalty based on its patented technology, but does not actually use this technology itself to provide an end product or service.<sup>6</sup> NPEs receive strong criticism from patent commentators, although recent research demonstrates that these patent holders also play an important role in the innovation economy. For example, NPEs may serve as the intermediary between inventors and the users of technology as well as provide liquidity and needed market clearing.<sup>7</sup> Even with this role, however, patent commentators are most concerned when NPEs strategically delay in agreeing to license their technology in hopes of demanding a royalty that not only reflects the value of the patented technology, but also a premium for holding out.<sup>8</sup> The Supreme Court sent a strong message in *eBay* to patent holders who were bottlenecking the industry: if you hold out and hold up innovation, you will not be allowed to exclude.

Many infringers have benefited from the *eBay* rule change, which allows the continued infringement of the patented technology despite the patent holder’s request for an injunction. This loss of the virtually automatic right to injunctive relief has most heavily affected NPEs. Case law in the last five years has established a near categorical rule that NPEs cannot obtain injunctive relief. Further, the ruling in *eBay* has prompted courts to similarly establish an unofficial presumption that some practicing patent holders—those that do not directly compete in the same market with their infringers—will likewise be unable to enjoin their infringers. The result of this is that some patent holders are protected by a so-called liability rule and other patent holders by a property rule.

In short, a liability rule allows for a nonconsensual taking of an

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5. See *id.* at 396 (Kennedy, J., concurring) (“An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees. For these firms, an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent.”(internal citation omitted)). The more pejorative term for an NPE is the so-called “patent troll.” See John M. Golden, Commentary, “Patent Trolls” and Patent Remedies, 85 TEX. L. REV. 2111, 2112 (2007); Sannu K. Shrestha, *Trolls or Market-Makers? An Empirical Analysis of Nonpracticing Entities*, 110 COLUM. L. REV. 114, 115 (2010).

6. See Golden, *supra* note 5, at 2112 (noting that trolls charge “a price for authorizing the work of others”); see also Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 TEX. L. REV. 1991, 2009 (2007) (“Defining a patent troll has proven a tricky business, but that does not mean the problem does not exist.”).

7. James F. McDonough III, Comment, *The Myth of the Patent Troll: An Alternative View of the Function of Patent Dealers in an Idea Economy*, 56 EMORY L.J. 189, 190 (2006). See also Shrestha, *supra* note 5, at 118.

8. See Christopher M. Newman, *Patent Infringement as Nuisance*, 59 CATH. U. L. REV. 61, 62–63 (2009).

entitlement (for example, the right to pollute) in exchange for a later payment of money damages.<sup>9</sup> The amount of money to be paid to the entitlement holder is determined by prices that are most typically set by a court.<sup>10</sup> Under this “take now, pay later” rule, interested users or takers of a particular entitlement can unilaterally act so long as they pay the officially determined price for that entitlement.<sup>11</sup> This necessarily assumes that the court is aware of this taking. A court will then also decide in the instance of a conflicting use which use is preferred.<sup>12</sup> A property rule, or “absolute permission rule,” protects the right to exclude and is heavily employed in property law.<sup>13</sup> This rule mandates that the entitlement holder, not a court, is the one who decides whether the entitlement is for sale or use and at what price.<sup>14</sup> The entitlement holder’s right to decide how much the entitlement is worth is enforced in law through the use of injunctions and punitive damages.<sup>15</sup> These enforcement mechanisms encourage interested parties to negotiate directly with the entitlement holder.<sup>16</sup>

Although it appears that NPEs and practicing patent holders in indirect competition with their infringers are now governed by a liability rule, patent law is not most accurately or desirably described as a “take now, pay later” system. The Patent Act requires an interested user to first obtain permission from the patent holder before any use is made of the patented technology. If the patent holder does not consent to the use of its technology but the interested user decides to ignore this refusal and

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9. Guido Calabresi & A. Douglas Melamed, *Property Rules, Liability Rules, and Inalienability: One View of the Cathedral*, 85 HARV. L. REV. 1089, 1105–06 (1972). “In the context of Coasean bargaining, the term ‘entitlement’ can mean anything from the right to pollute to the right to exclude entry to one’s real property.” Amelia Smith Rinehart, *Contracting Patents: A Modern Patent Exhaustion Doctrine*, 23 HARV. J. L. & TECH. 483, 504 n.114 (2010) (citation omitted).

10. See Henry E. Smith, *Property and Property Rules*, 79 N.Y.U. L. REV. 1719, 1720 (2004) [hereinafter Smith, *Property and Property Rules*].

11. See Robert P. Merges, *Contracting into Liability Rules: Intellectual Property Rights and Collective Rights Organizations*, 84 CALIF. L. REV. 1293, 1302 (1996) [hereinafter Merges, *Contracting into Liability Rules*]. Merges finds that property rules are best described as “absolute permission rules” and liability rules as “take now, pay later” rules. *Id.* For a most interesting reply to Merges, see Mark A. Lemley, *Contracting Around Liability Rules*, 100 CALIF. L. REV. 463, 464–65 (2012) [hereinafter Lemley, *Contracting Around*] (arguing that parties contract around inefficient liability rules just like parties contract around inefficient property rules).

12. See also Henry E. Smith, *Exclusion and Property Rules in the Law of Nuisance*, 90 VA. L. REV. 965, 974, 996 (2004) [hereinafter Smith, *Exclusion and Property Rules*] (explaining that nuisance law has transitioned from a pure exclusionary system to one where courts evaluate the reasonableness of property use in deciding to allow a liability rule to protect the entitlement).

13. See Merges, *Contracting into Liability Rules*, *supra* note 12, at 1302.

14. See Calabresi & Melamed, *supra* note 9, at 1105.

15. See Smith, *Property and Property Rules*, *supra* note 10, at 1720.

16. See *id.* at 1720, 1732 (explaining that property rules have long been preferred in the law and are enforced through injunctions and supracompensatory damages).

infringe the patent, then this user may be classified in patent law as a “willful” infringer. This distinction of a willful infringer means that a court may enhance the compensatory damages up to three times the original amount. In essence, the willful infringer has subjected itself to a possible penalty. Courts since *eBay* have brought tension in the system with this shift to a liability rule when also dealing with willful infringers. This tension occurs when an infringer is deemed a willful one that may be subject to enhanced damages, but then that same willful infringer is allowed to continue infringing the patented technology.

In this Article, I argue that patent law can decrease this tension by looking to the law of trespass for guidance on how to best handle NPEs when they strategically engage in holdout behavior that stalls innovation. In short, the law of trespass shows how property rule protection and enforcement can effectively and efficiently handle the potential for holdout without sacrificing a patent holder’s right to exclude. In looking to this common law system for guidance, “[a] unified theory of property—one broad enough to account for the similarities and differences among species of property as diverse as Blackacre and patents—promises to increase rather than to diminish our understanding of property and intellectual property.”<sup>17</sup>

Under this infringement-as-trespass framework, most patent holders will be able to reestablish the right to exclude. Yet like in the law of trespass, patent law provides fertile ground for harmful holdouts. Courts must be both cognizant of this potential harm and of the distinction between patent holder behavior that is unreasonable and that of hard, legitimate bargaining.<sup>18</sup> When courts are faced with harmful patent holder behavior, they can use two readily available mechanisms under my proposed framework.

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17. John F. Duffy, *Intellectual Property Isolationism and the Average Cost Thesis*, 83 TEX. L. REV. 1077, 1078 (2005) (emphasis omitted). See also Richard A. Epstein, *The Disintegration of Intellectual Property? A Classical Liberal Response to a Premature Obituary*, 62 STAN. L. REV. 455, 458 (2010) [hereinafter Epstein, *Disintegration*] (explaining that “huge returns lie from systematizing intellectual property by analogy and extension to successful legal regimes elsewhere”). This is an unsurprisingly analogy because patents have long been classified as property. Fla. Prepaid Postsecondary Educ. Expense Bd. v. Coll. Sav. Bank, 527 U.S. 627, 642 (1999) (“Patents . . . have long been considered a species of property.”). See also Adam Mossoff, *Exclusion and Exclusive Use in Patent Law*, 22 HARV. J.L. & TECH. 321, 322 (2009) (“The status of patents is undisputed: patents are property.”). Compare Mark A. Lemley, *Property, Intellectual Property, and Free Riding*, 83 TEX. L. REV. 1031, 1075 (2005) [hereinafter Lemley, *Free Riding*] (explaining that intellectual property law stands on its own and that property analogies are not helpful), with John F. Duffy, *supra*, at 1078 (disagreeing with Lemley and arguing that intellectual property fits within the broader category of property).

18. See Anne Layne-Farrar & Klaus M. Schmidt, *Licensing Complementary Patents: “Patent Trolls,” Market Structure, and “Excessive” Royalties*, 25 BERKELEY TECH. L.J. 1121, 1122 (2010).

The first mechanism is the grant of an incomplete privilege. In trespass, the defense of necessity limits the right to exclude. A situation of private or public necessity occurs when a grave danger is presented and an actor violates the laws of property in order to avoid such danger.<sup>19</sup> In this situation, the court will switch from a property rule to a liability rule and, in doing so, allow the violator to simply pay the price for the harm it caused (instead of also paying a penalty for the intentional violation). Similarly, patent law should allow for the issuance of an incomplete privilege when a court determines that a patent holder is using its leverage in a way that will cause unreasonable and significant harm to the public. The issued incomplete privilege will allow the infringer to continue using the patent until it has sufficient time to begin designing around the patent or take the infringing component out of production and the market. If this is not reasonably possible, then the court may issue the incomplete privilege for the remainder of the patent term. Under this incomplete privilege, the infringer will pay for its continued use of the patented technology.

A court-ordered stay is a second mechanism that may be used in less compelling situations of harmful patent holder conduct that nevertheless requires some intervention. Courts often stay litigation while a patent is in reexamination by the United States Patent and Trademark Office (“USPTO”) and have also delayed the effective date of an injunction.<sup>20</sup> A court-ordered stay is a relatively familiar idea in patent law when paired with injunctions.<sup>21</sup> In this Article, I propose that this mechanism be used more frequently to ensure that the foundation of patent law is not disturbed and to encourage further innovation by the process of designing around the patent at issue.

Overall, this trespass framework will rebalance the structure of patent remedies within the patent system, while still addressing the potential harm of NPEs and limiting the circumstances that will stall innovation. Section II lays the foundation for this Article by explaining enhanced and injunctive damages, and concludes by highlighting the tension that occurs when a willful infringer is allowed to continue infringing despite the patent holder’s protests. Section III then briefly discusses the differences between liability rules and property rules and employs the systems of nuisance and trespass to demonstrate these differences. Section IV argues that a patent holder’s right to exclude must

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19. See *infra* Section III.B.2.

20. See *i4i Ltd. P’ship v. Microsoft Corp.*, 598 F.3d 831,864 (Fed. Cir. 2010) (delaying the onset of a permanent injunction); *MercExchange, L.L.C. v. eBay Inc.*, 500 F. Supp. 2d 556, 563 (E.D. Va. 2007) (explaining that “court[s] ha[ve] broad discretion to grant or deny a stay pending PTO reexamination of the patents-in-suit”).

21. See, e.g., Lemley & Shapiro, *supra* note 6, at 2035-39.

be preserved for the maintenance of a strong patent system. The law of trespass exemplifies such a system. Section IV also discusses the possible remedial options to solve the tension in the patent remedies system after *eBay* and argues that the most satisfactory and feasible option is to work within the rule of *eBay*. Finally, Section IV presents suggestions for how to reframe the remedies used by courts that will still recognize and minimize the potential for patent holdup. Section V concludes.

## II. JUDICIAL REMEDIES AFFECT SUBSTANTIVE RIGHTS

Patent law is unique. In exchange for the public disclosure of a new, useful, and non-obvious invention, a patent holder, or “patentee,” receives the right to exclude others from making, using, or selling the disclosed invention for the term of the patent.<sup>22</sup> Built into this statement, there are at least three separate bodies of law at work: the Patent Act, property law, and tort law.<sup>23</sup> The Patent Act sets forth the principles of patent law, as well as the remedies available to a patent holder. The Patent Act and resulting patent law is justified as a utilitarian institution by the United States Constitution, which grants Congress the right to create patent laws to “promote the Progress of Science and useful Arts.”<sup>24</sup> Yet within this institution and its utilitarian considerations justifying it as a whole, tort and property law dictate and justify certain

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22. See 35 U.S.C. § 271(a), (c) (2006) (prohibiting any person from making, using, offering to sell, or selling a patented invention, within the United States or imported into the United States, without authority from the patentee); *Graham v. John Deere Co. of Kan. City*, 383 U.S. 1, 12 (1966) (stating that the three patentability requirements are non-obviousness, utility, and novelty);

23. “Patent law is not an island separated from the main body of American jurisprudence.” *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1351 (Fed. Cir. 2004) (en banc) (Dyk, J., concurring in part and dissenting in part). A possible fourth and fifth body of law is that of public administrative law and contract law. See Joseph Scott Miller, *Joint Defense or Research Joint Venture? Reassessing the Patent-Challenge-Bloc’s Antitrust Status*, 2011 STAN. TECH. L. REV. 5, 11 (2011), <http://stlr.stanford.edu/pdf/miller-joint-defense.pdf> (“A patent, unlike the typical contract or tort, affects the rights and obligations of everyone in the United States who would practice the technology claimed in it. Patents are, in this sense, nationwide regulations.”); see also F. Scott Kieff, *Property Rights and Property Rules for Commercializing Inventions*, 85 MINN. L. REV. 697, 699 (2001) [hereinafter *Kieff, Property Rights*] (explaining “that patent law can function as a public policy tool for promoting national economic growth”).

24. U.S. CONST. art. I, § 8, cl. 8; see also Alan Devlin & Neel Sukhatme, *Self-Realizing Inventions and the Utilitarian Foundation of Patent Law*, 51 WM. & MARY L. REV. 897, 901 (2009) (“Almost all commentators and judges agree that utilitarian considerations enjoy hegemonic status in patent jurisprudence . . . .”); Kieff, *Property Rights*, *supra* note 23, at 698 (finding that the “consensus among those studying the American patent system is to focus on utilitarian approaches”); Peter S. Menell, *Intellectual Property: General Theories*, in 2 ENCYCLOPEDIA OF LAW AND ECONOMICS: CIVIL LAW AND ECONOMICS 129, 130 (Boudewijn Bouckaert & Gerrit De Geest eds., 2000) (“The United States Constitution expressly conditions the grant of power to Congress to create patent and copyright laws upon a utilitarian foundation . . . .”).

actions and principles of patent law.<sup>25</sup>

Property law helps define the rights of patent holders and users in relation to a particular patent.<sup>26</sup> Tort law helps define the conduct of patent holders and users.<sup>27</sup> Further, patent and tort remedies largely mirror one another in that the goal of both remedial structures is to restore the aggrieved party to the status quo ante.<sup>28</sup> Patent remedies are designed “to compensate patent owners for their losses, putting them back in the world they would have inhabited but for infringement.”<sup>29</sup> Similar to a party injured in tort law, Congress, courts, and scholars alike have historically stated that a patent holder should be “made whole” for past infringement.<sup>30</sup> The significance of placing the injured patent holder back in the position enjoyed prior to the infringement is founded on the traditional conception of patent protection—that the right to exclude increases profits and incentives for others to invent.<sup>31</sup> The act of infringement is a strict liability tort;<sup>32</sup> if one crosses the

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25. John Rawls articulated this distinction between justifying an institution and justifying a particular action that falls under the institution in his paper, *Two Concepts of Rules*, 64 PHIL. REV. 3 (1955). Rawls uses criminal law to demonstrate this distinction, arguing that utilitarian considerations justify the institution of punishment, while retributivist concerns control and justify a decision to punish a particular crime in a particular way. *Id.* at 4–5. This understanding of how two separate and distinct concepts of rules within one system is helpful for patent law. Patent remedies are designed to place the patent holder in the position it would have been in if the infringement never occurred, yet patent remedies are necessarily intertwined with the public interest. See CRAIG ALLEN NARD & R. POLK WAGNER, PATENT LAW 204 (2008). The court must therefore have concern not only about the patent holder’s interest, but also the best remedy in light of the public benefit of the disclosed patent. See *id.*

26. See Fla. Prepaid Postsecondary Educ. Expense Bd. v. Coll. Sav. Bank, 527 U.S. 627, 642 (1999) (“Patents . . . have long been considered a species of property.”); see also Mossoff, *supra* note 17, at 322. Mossoff explains that the statement that patents are property “may sound surprising, because legal rights derived from constitutional provisions are typically the subject of substantial disagreement on both descriptive and normative grounds. . . . [but this is] [n]ot so for constitutionally-based patents, which Congress, courts, treatise authors, and scholars agree are a unique form of property that secure only a negative right to exclude others from an invention.” *Id.*

27. See DAN B. DOBBS, THE LAW OF TORTS 7 (2000) (stating generally that tort law is centered on people’s conduct).

28. Ted Sichelman, *Purging Patent Law of ‘Private Law’ Remedies* 2–3 (San Diego Legal Studies Paper, No. 11-077, 2011), available at <http://ssrn.com/abstract=1932834>.

29. Mark A. Lemley, *Distinguishing Lost Profits from Reasonable Royalties*, 51 WM. & MARY L. REV. 655, 674 (2009) [hereinafter Lemley, *Distinguishing Lost Profits*]; but see Lemley, *Free Riding*, *supra* note 17, at 1065 (arguing that intellectual property rights should be granted “only to the extent necessary to enable creators to cover their average fixed costs”); Sichelman, *supra* note 28, at 28–30 (arguing patentees should only be compensated the amount needed to keep them inventing).

30. Sichelman, *supra* note 28, at 14 (stating that “like an injured party in tort, Congress has legislated, and courts have held, that patentees are entitled to be ‘made whole’ for any past infringement, with damages compensating them for the full extent of the ‘harm’ inflicted upon them by an infringer”).

31. Lemley, *Distinguishing Lost Profits*, *supra* note 29, at 657.

32. See *Mars, Inc. v. Coin Acceptors, Inc.*, 527 F.3d 1359, 1365 (Fed. Cir. 2008) (“Patent infringement is a tort.” (citation omitted)), *mandate recalled and amended by* 557 F.3d 1377 (Fed.

boundary lines of the patent, as defined by the patent claims, infringement has occurred.<sup>33</sup> This robust protection of the patentee's right to exclude "explains why the normal remedy for infringement of a patent is an injunction against continued infringement."<sup>34</sup>

Prior to receiving an injunction, however, and after a finding of infringement, the patentee is entitled to receive "damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer . . . ."<sup>35</sup> Courts have interpreted this section to authorize two categories of base damages.<sup>36</sup> The first category is lost profits and the second is reasonable royalties.<sup>37</sup>

Briefly, lost profits allow patentees to receive the profits they would have made, requiring patentees to demonstrate a causal connection between the infringement and the lost profits.<sup>38</sup> The lost profits inquiry is controlled by two familiar tests from tort law: "but for" and "proximate causation." In essence, the lost profits category determines whether the claimed lost profits are based on the reasonably foreseeable consequences of the defendant's infringement, or whether they are too

Cir. 2009); *Jurgens v. CBK Ltd.*, 80 F.3d 1566, 1570 n.2 (Fed. Cir. 1996) (stating that patent infringement "is a strict liability offense" (citation omitted)); see also Michael L. Rustad, *Torts as Public Wrongs*, 38 PEPP. L. REV. 433, 514 (2011) ("Patent and copyright have long been regarded as creatures of federal statute, but infringement was historically considered to be a tort. For instance, the infringement of a patent was classifiable as a tort—namely, trespass on the case.").

33. See *Dowagiac Mfg. Co. v. Minn. Moline Plow Co.*, 235 U.S. 641, 642 (1915) ("As the exclusive right conferred by a patent is property and infringement of it is a tortious taking of a part of that property, the normal measure of damages is the value of what was taken . . . ."); see also Frank H. Easterbrook, *Intellectual Property is Still Property*, 13 HARV. J.L. & PUB. POL'Y 108, 109 (1990) ("Patents give a right to exclude, just as the law of trespass does with real property."). There is no defense of independent creation or lack of intent. See *Fla. Prepaid Postsecondary Educ. Expense Bd. v. Coll. Sav. Bank*, 527 U.S. 627, 645 (1999) ("Actions predicated on direct patent infringement . . . do not require any showing of intent to infringe; instead, knowledge and intent are considered only with respect to damages." (citation omitted)).

34. Lemley, *Distinguishing Lost Profits*, *supra* note 29, at 657 ("The traditional conception of patent protection is to give patent owners a means of excluding competitors from selling the patented product, thereby increasing their profits and therefore the incentive of putative patent owners to invent. This traditional conception requires exclusivity . . . ."). See also DONALD S. CHISUM, CHISUM ON PATENTS § 16.02[1] (2008) ("A patent . . . grants to the patentee and his assigns the right to *exclude* others from making, using, and selling the invention. It does not grant the affirmative right to make, use or sell.").

35. 35 U.S.C. § 284 (2011).

36. See David W. Opderbeck, *Patent Damages Reform and the Shape of Patent Law*, 89 B.U. L. REV. 127, 132 (2009) (citation omitted).

37. *Id.* (citation omitted).

38. *Id.* at 132–33 ("In all cases, the patentee must prove causation connecting the infringement and the lost profits."). More precisely, the Federal Circuit requires a patentee prove "(1) the extent of demand for the patented product, (2) the absence of noninfringing substitutes for that product, (3) the patentee's ability to meet the additional demand by expanding manufacturing capacity, and (4) the extent of profits the patentee would have made." Lemley, *Distinguishing Lost Profits*, *supra* note 29, at 657.

remote or indirect to be pinned on the defendant's actions. Lost profits fit best within patent law's remedial goal to put the patentees in the same position they would have enjoyed but for the infringement.<sup>39</sup>

Yet oftentimes a patent holder cannot prove that it suffered any lost profits as a result of the defendant's infringement.<sup>40</sup> In this instance, the court turns to the second category of patent damages—reasonable royalties.<sup>41</sup> This serves as the floor that the court may not go below and compensates the patent holder for the value of the use that the infringer received from the patent holder's invention.<sup>42</sup>

### A. *Tension Between Enhanced Damages and Equitable Relief*

In addition to these base monetary damages, the patentee may also receive enhanced damages.<sup>43</sup> And finally, the patentee may request permanent injunctive relief from the defendant's infringement and attorney's fees.<sup>44</sup> The following sections will provide a brief primer on enhanced damages and permanent injunctive relief. As explained below, the two are currently in tension with each other because of recent case law where enhanced damages are awarded but injunctive relief is not.

## 1. ENHANCED DAMAGES

It is a long-standing principle in patent law that a harsher punishment will be given to those who intentionally infringe compared to those who innocently or unknowingly infringe.<sup>45</sup> Section 284 of the Patent Act

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39. See Lemley, *Distinguishing Lost Profits*, *supra* note 29, at 657.

40. See *id.* at 655.

41. See *id.*

42. See *id.* Reasonable royalties are designed like lost profits to compensate patentees for their losses; yet, making the patentee whole here is different because in most cases the patentee is not competing in the market. See *id.* at 655–56. Instead, these NPEs are only interested in selling the rights to the patented technology. See also Opderbeck, *supra* note 36, at 133. There are two ways that reasonable royalty damages may be calculated. “The first is the ‘analytical approach,’ under which the infringer’s profit projections relating to the infringing product or process are apportioned between the patentee and infringer. The second is the ‘willing licensor–willing licensee’ approach. This approach imagines a hypothetical negotiation between the patentee as a willing licensor and a willing licensee.” *Id.* (citations omitted).

43. See 35 U.S.C. § 284 (2006).

44. See *id.* §§ 283, 285.

45. See Mark A. Lemley & Ragesh K. Tangri, *Ending Patent Law's Willfulness Game*, 18 BERKELEY TECH. L.J. 1085, 1089 (2003). The infringer's state of mind is only important in regards to enhanced damages. See Fla. Prepaid Postsecondary Educ. Expense Bd. v. Coll. Sav. Bank, 527 U.S. 627, 645 (1999) (citation omitted). Patent infringement is a strict liability offense in general, so even without knowledge and even with independent creation of the same or similar invention, one can be liable for infringement. See, e.g., Blair v. Westinghouse Elec. Corp., 291 F. Supp. 664, 670 (D.D.C. 1968). See also generally Roger D. Blair & Thomas F. Cotter, *Strict Liability and its Alternatives in Patent Law*, 17 BERKELEY TECH. L.J. 799, 800 (2002) (“Patent infringement is a strict liability tort in the sense that a defendant may be liable without having had

grants courts the discretion to enhance damages up to three times the amount of the base or compensatory award.<sup>46</sup> The Patent Act does not provide guidance as to when courts may treble damages, but the Federal Circuit has interpreted § 284 to require a finding of willful infringement before the enhancement of the patentee's compensatory damages.<sup>47</sup> The Federal Circuit has also established that "enhanced damages may be awarded only as a penalty for an infringer's increased culpability, namely willful infringement."<sup>48</sup> The penalty of supracompensatory damages due to a finding of willfulness in patent law is imposed as an "an economic deterrent to the tort of infringement."<sup>49</sup>

The term of art, "willful," was explained in the Federal Circuit opinion *In re Seagate Technology, L.L.C.*<sup>50</sup> The Federal Circuit created a two-part test for determining when an actor has engaged in willful infringement of a valid patent.<sup>51</sup> The first part requires the patent owner to prove by clear and convincing evidence that the infringer acted despite an "objectively high likelihood" that it would infringe the patent at issue.<sup>52</sup> The second part requires the patent holder to prove that the

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any notice, prior to the filing of an infringement action, that her conduct was infringing." (citations omitted)).

46. 35 U.S.C. § 284.

47. *See Graco, Inc. v. Binks Mfg. Co.*, 60 F.3d 785, 792 (Fed. Cir. 1995) ("Willfulness of the infringement is the sole basis for the court's exercise of its discretion to enhance damages under 35 U.S.C. § 284 (1988)."). *See also In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (holding that "proof of willful infringement permitting enhanced damages requires at least a showing of objective recklessness.").

48. *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1348 (Fed. Cir. 2004). Consequently, enhanced damages have been termed punitive damages. *See Beatrice Foods Co. v. New Eng. Printing & Lithographing Co.*, 923 F.2d 1576, 1580 (Fed. Cir. 1991). *See also Applera Corp. v. MJ Research Inc.*, 372 F. Supp. 2d 233, 235 (D. Conn. 2005) ("The purpose of an enhanced damages award is punitive, and is meant to punish behavior . . . that is properly characterized as 'reprehensible' or 'egregious.'" (citing *Knorr-Bremse*, 383 F.3d at 1348)).

49. *Rite-Hite Corp. v. Kelley Co.*, 819 F.2d 1120, 1126 (Fed. Cir. 1987). *See also Knorr-Bremse*, 383 F.3d at 1342 ("The concept of 'willful infringement' is not simply a conduit for enhancement of damages; it is a statement that patent infringement, like other civil wrongs, is disfavored, and intentional disregard of legal rights warrants deterrence."). As another monetary deterrent, many courts conclude that a finding of willful infringement will also mean that the patentee has met the burden for proving the infringement to be an "exceptional case." *See, e.g., Del Mar Avionics, Inc. v. Quinton Instrument Co.*, 836 F.2d 1320, 1329 (Fed. Cir. 1987). The significance of proving an "exceptional case[]" is that the patentee will also be awarded its attorney's fees at the infringer's cost. 35 U.S.C. § 285.

50. *Seagate*, 497 F.3d at 1370–72. For a thorough discussion of the standards prior to *Seagate*, see Christopher B. Seaman, *Willful Patent Infringement and Enhanced Damages After In re Seagate: An Empirical Study*, 97 IOWA L. REV. 417, 423–28 (2012).

51. *See Seagate*, 497 F.3d at 1371.

52. *Id.* ("The state of mind of the accused infringer is not relevant to this objective inquiry."). Presumably the *Seagate* court here meant for this part of its test to be judged by something akin to the reasonable person standard that is used in tort law. *See generally* RESTATEMENT (THIRD) OF TORTS: PHYSICAL & EMOTIONAL HARM § 3 cmt. a (2005) ("Conduct that displays reasonable care

risk of infringing a valid patent was so obvious that it was known or should have been known to the actor.<sup>53</sup>

Prior to the willfulness standard set in *Seagate*, the Federal Circuit asked simply whether an accused infringer had “prudently conduct[ed] himself with any confidence that a court might hold the patent invalid or not infringed.”<sup>54</sup> One of the problems with this low standard of willfulness is that “actual knowledge” of the patent was not required.<sup>55</sup> This pre-*Seagate* standard of willfulness conflicted with the traditional definition of “‘willful’ in tort law[:] . . . disregard[ ] [of] a known risk of a highly likely result.”<sup>56</sup> Many patent scholars and commentators opined that the standard set in *Seagate*—defining willfulness as requiring objectively reckless conduct instead of merely negligent conduct—would result in fewer findings of willful infringement and, therefore, fewer awards of enhanced damages.<sup>57</sup> Yet in a recent empirical study, it is reported that willfulness findings have only decreased by about ten per-

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is the same as conduct that is reasonable, conduct that shows ‘ordinary care,’ conduct that avoids creating an ‘unreasonable risk of harm,’ and conduct that shows ‘reasonable prudence.’ . . . [A] ‘reasonably careful person’ (or a ‘reasonably prudent person’) is one who acts with reasonable care . . . .”); 57A AM. JUR. 2D *Negligence* § 133 (2004) (“The standard of care [in tort law] is often stated as the ‘reasonably prudent person standard’ . . . . With adults, all of whom are presumed by the law to have adequate experience, intelligence, and maturity to act reasonably, the objective test for negligence is normally stated simply in terms of the reasonably prudent person.”).

53. *Seagate*, 497 F.3d at 1371.

54. *State Indus., Inc. v. Mor-Flo Indus., Inc.*, 883 F.2d 1573, 1581 (Fed. Cir. 1989) (citation omitted) (internal quotation marks omitted).

55. Seaman, *supra* note 50, at 425. Another motivation of the *Seagate* court here in setting this objectively-high reckless standard was to get rid of the previous negligence-based standard. See *Seagate*, 497 F.3d at 1371. Prior to *Seagate*, a potential infringer had an “affirmative duty to exercise due care,” which included a duty to obtain a written opinion of counsel before the accused infringer engaged in any possible infringing behavior. *Id.* at 1368–69. The most troubling aspect of this standard was that the accused infringer was often forced to disclose this opinion in court in order to prove it exercised due care in its conduct. See *id.* at 1368–70. This meant that the accused infringer waived its attorney–client privilege. See *id.*; see also Lemley & Tangri, *supra* note 45, at 1087 (stating that “the accused infringer [would] have to waive its attorney–client privilege in virtually every case”). Much ink was spent discussing the conundrums of this standard, which the Federal Circuit took note of in altering the standard accompanying punitive patent damages. See *Seagate*, 497 F.3d at 1368–71. Ultimately, the Federal Circuit held that with the introduction of the objectively-high reckless standard, it was abandoning the previous affirmative duty of care standard. *Id.* at 1371. Moreover, the Federal Circuit stated it was likewise abandoning the affirmative requirement to receive an opinion from legal counsel prior to engaging in potentially infringing behavior. *Id.*

56. Seaman, *supra* note 50, at 425 & n.57 (a finding of willfulness in tort law occurs “when an ‘actor has intentionally done an act of an unreasonable character in disregard of a risk known to him or so obvious that he must be taken to have been aware of it, and so great as to make it highly probable that harm would follow’” (quoting WILLIAM L. PROSSER, *HANDBOOK OF THE LAW OF TORTS* § 34 (1971))).

57. Seaman, *supra* note 50, at 431–32 (citing examples).

cent (a change that was not statistically significant).<sup>58</sup>

Underlying the willfulness evaluation is the idea that “the doctrine of willfulness is dynamic.”<sup>59</sup> This means that the actor’s conduct will be judged throughout the stages of its potential infringement and that an innocent infringer may become a willful infringer during litigation upon learning that it is in fact infringing a valid patent.<sup>60</sup> This is most significant when a court is faced with a permanent injunction motion.

## 2. PERMANENT INJUNCTIVE RELIEF

After a patentee receives base monetary damages, and potentially enhanced damages if the infringement is deemed willful, the patentee will likely request permanent injunctive relief from the infringement. An injunction protects the right to exclude—the defining characteristic of property.<sup>61</sup> In patent law, the significance of the right to exclude is grounded in the monopolistic nature of the patent;<sup>62</sup> the patent holder would lose the leverage normally granted in exchange for public disclosure.<sup>63</sup> As a result, the patent holder would enjoy just a fraction of the value its invention was intended to have under the Patent Act.<sup>64</sup> Furthermore, an injunction encourages would-be takers or users of the technology to negotiate up front with the patentee and “keeps open the channels

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58. *Id.* at 420, 441 (explaining that “predictions that *Seagate* would have a dramatic impact on willfulness findings in the district courts apparently were incorrect, as willfulness was found only about 10% less often after *Seagate*”). Further, “[a]necdotal evidence suggests that willfulness is still routinely alleged after *Seagate*, so long as the patentee has a nonsanctionable basis for doing so.” *Id.* at 442–43 (footnote omitted).

59. Lemley & Tangri, *supra* note 45, at 1093.

60. *Id.* (stating that “[t]he question is not simply what the accused infringer thought when it adopted the technology, but also what it thinks at every moment since that time”).

61. See *Connell v. Sears, Roebuck & Co.*, 722 F.2d 1542, 1548 (Fed. Cir. 1983) (explaining that “a patent is a form of property right, and the right to exclude recognized in a patent is but the essence of the concept of property”); see also JANICE M. MUELLER, *PATENT LAW* 482 (3d ed. 2009); Thomas W. Merrill, *Property and the Right to Exclude*, 77 NEB. L. REV. 730, 730 (1998) (“Give someone the right to exclude others from a valued resource, i.e., a resource that is scarce relative to the human demand for it, and you give them property. Deny someone the exclusion right and they do not have property.”).

62. See *H.H. Robertson, Co. v. United Steel Deck, Inc.*, 820 F.2d 384, 390 (Fed. Cir. 1987) (recognizing that “the principal value of a patent is its statutory right to exclude”), *abrogated on other grounds by Markman v. Westview Instruments, Inc.*, 52 F.3d 967 (Fed. Cir. 1995).

63. See *Smith Int’l, Inc. v. Hughes Tool Co.*, 718 F.2d 1573, 1577–78 (Fed. Cir. 1983) (“The patent owner would lack much of the ‘leverage,’ afforded by the right to exclude, to enjoy the full value of his invention in the market place. Without the right to obtain an injunction, the right to exclude granted to the patentee would have only a fraction of the value it was intended to have, and would no longer be as great an incentive to engage in the toils of scientific and technological research.”).

64. See *id.* From a competitor’s viewpoint, the threat of an injunction motivates a thorough analysis of the patent’s validity and enforceability. Kieff, *Property Rights*, *supra* note 23, at 712. A competitor will avoid both liability and being enjoined from using the patented technology if it can prove the patent should not have been issued or should not be enforced. *Id.*

for voluntary exchange.”<sup>65</sup> Although the right to exclude others from making or using the patented technology has never been absolute, a denial of permanent injunctive relief was a rare exception.<sup>66</sup> This has been true for over a hundred years, dating back to at least 1908 when the Supreme Court explained that patents are property and that patent holders should accordingly in most instances be entitled to permanent injunctive relief.<sup>67</sup> The Federal Circuit embraced this robust protection of the right to exclude and as a general rule would grant a permanent injunction to a requesting patent holder after the patent was proved valid and infringed.<sup>68</sup>

However, the Supreme Court struck down the Federal Circuit’s general rule and opened the door for dramatic change in the law of equitable remedies in *eBay, Inc. v. MercExchange, L.L.C.*<sup>69</sup> The plaintiff patent holder, MercExchange, alleged that the “Buy-It-Now” feature on eBay’s online auctions infringed its patented technology.<sup>70</sup> MercExchange brought suit against eBay after licensing negotiations broke down between the two parties.<sup>71</sup> The *district court* found that eBay willfully infringed MercExchange’s patents, although it denied MercExchange’s request for a permanent injunction after stating that injunctions should be weighed in equity.<sup>72</sup> The district court emphasized in this decision that the patents seemed to be weak business method patents and also that MercExchange did not itself use the patented technology.<sup>73</sup> The district court gave much weight to the fact that MercExchange is an NPE; its business is based on the enforcement of patents, rather than the use of patented technology.<sup>74</sup>

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65. Epstein, *Disintegration*, *supra* note 17, at 488–89 (explaining that injunctive relief (paired with punitive damages) in theory “mak[es] it impossible for individuals to circumvent the basic rules of property law for their short-term private advantage”).

66. One of the most infamous cases is *City of Milwaukee v. Activated Sludge, Inc.*, 69 F.2d 577 (7th Cir. 1934). In this case, the Seventh Circuit refused to stop the infringement even after affirming the damages award because a permanent injunction “would close the sewage plant, leaving the entire community without any means for the disposal of raw sewage other than running it into Lake Michigan, thereby polluting its waters and endangering the health and lives of that and other adjoining communities.” *Id.* at 593.

67. See generally *Cont’l Paper Bag Co. v. E. Paper Bag Co.*, 210 U.S. 405 (1908).

68. See *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1247 (Fed. Cir. 1989) (“It is the general rule that an injunction will issue when infringement has been adjudged, absent a sound reason for denying it.”). See also MUELLER, *supra* note 61, at 483.

69. *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006). eBay’s subsidiary, Half.com was also named as defendant. *Id.* at 390. This article refers to both eBay and Half.com collectively as “eBay.”

70. See *MercExchange, L.L.C. v. eBay, Inc.*, 275 F. Supp. 2d 695, 719 (E.D. Va. 2003), *aff’d in part, rev’d in part*, 401 F.3d 1323 (Fed. Cir. 2005), *vacated*, 547 U.S. 388 (2006).

71. See *eBay*, 547 U.S. at 390.

72. See *MercExchange*, 275 F. Supp. 2d at 711–15.

73. See *id.* at 712.

74. See *id.* This type of NPE is sometimes referred to pejoratively as a patent troll, culling the

On appeal, the Federal Circuit disagreed with the district court and reasserted its general rule that an injunction should be denied only in very rare circumstances.<sup>75</sup> In doing so, the Federal Circuit stated that the patent holder's right to exclude is "the essence of the concept of property" and that this case was not "sufficiently exceptional" to justify the denial of prospective injunctive relief.<sup>76</sup> Further, it explained that the concern over the type of patents at issue and MercExchange's willingness to license its patented technology did not warrant a departure from the general rule regarding injunctive relief.<sup>77</sup>

Ultimately, the Supreme Court disagreed with both courts finding that "[j]ust as the District Court erred in its categorical denial of injunctive relief, the Court of Appeals erred in its categorical grant of such relief."<sup>78</sup> The Supreme Court then struck down the Federal Circuit's general rule that an injunction should almost always be granted and instead endorsed the district court's emphasis on weighing equitable considerations.<sup>79</sup> However the Supreme Court also rejected the district court's reasoning of its decision because of the district court's improper categorical position against issuing permanent injunctions to patent holders that license instead of practice their patented technology.<sup>80</sup> The Supreme Court concluded by endorsing a four-factor test that a patent holder must now demonstrate in order to receive a permanent injunction: "(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."<sup>81</sup> The

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imagery of a Scandinavian troll from folklore that demanded a toll for those crossing a bridge that it did not itself build. See Christopher A. Harkins, *Fending Off Paper Patents and Patent Trolls: A Novel "Cold Fusion" Defense Because Changing Times Demand It*, 17 ALB. L.J. SCI. & TECH. 407, 410–11 (2007). See also Golden, *supra* note 5, at 2112 (explaining that a "patent troll" is "one of a class of patent owners who do not provide end products or services themselves, but who do demand royalties as a price for authorizing the work of others").

75. *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1338–39 (Fed. Cir. 2005), *vacated*, 547 U.S. 388 (2006).

76. *Id.*

77. *Id.* at 1339.

78. *eBay*, 547 U.S. at 394.

79. See *id.* at 393–94.

80. See *id.* at 393. The Court stated that self-made inventors and university research programs are two types of NPEs that courts should be careful of when assessing injunctive relief. *Id.*

81. *Id.* at 391, 394. For a recent and engaging explanation of the history behind the supposed "well-established" test used in *eBay* and how the "brusque opinion [of *eBay*] has launched a revolution in the law of equitable remedies," see Mark P. Gergen, John M. Golden & Henry E. Smith, *The Supreme Court's Accidental Revolution? The Test for Permanent Injunctions*, 112 COLUM. L. REV. 203, 203 (2012).

Supreme Court then remanded the case to the district court so that it could apply the four-factor framework without any categorical rules.<sup>82</sup>

At the time of this decision, 2006, and for years leading up to it, there was a growing concern in the intellectual property community that patent holders had become overly aggressive and unreasonably strategic in their licensing tactics. Justice Kennedy and three other justices in a concurring opinion expressed their concerns that the general rule of injunctive relief needed to be reconsidered in part because “[a]n industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees.”<sup>83</sup> Patent holders were using their patents as swords and extracting value from their patented technology that far exceeded the true value of the technology by engaging in unreasonable “holdup” behavior. Holdup occurs when the patentee opportunistically leverages its right to exclude (enforced by an injunction) over another party’s interest in using the patented technology.<sup>84</sup> The Supreme Court sent a strong message in *eBay* to patent holders who were bottlenecking the industry: if you holdout during negotiations and holdup innovation, you won’t be allowed to exclude.

### B. *The Impact of eBay and Resulting Change*

Although the impact of *eBay* is not yet fully realized, there are at least two discernible post-*eBay* effects. The first is that after *eBay*, courts now frequently deny injunctive relief. In a study that was conducted following the one-year anniversary of *eBay*, it was concluded that district courts denied permanent injunctions approximately twenty-three percent of the time.<sup>85</sup> Another study reports that prior to *eBay* district courts granted injunctions in ninety-five percent of patent cases, and after *eBay* in seventy-two percent of cases.<sup>86</sup> And although the Supreme

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82. *eBay*, 547 U.S. at 394.

83. *Id.* at 396 (Kennedy, J., concurring).

84. See Newman, *supra* note 8, at 62–63. If a technology company is putting together an electronic product, one that requires obtaining licenses from a hundred different patent holders, the last patent holder to agree to license the technology has a great advantage. The company has already spent significant money and resources in developing the electronic product and obtaining ninety-nine licenses. Because of this input, the company is likely willing to spend more to obtain that last license than it would have spent to obtain that license earlier in the game. A patent holder’s behavior in strategically holding out until the last minute may stall innovation while the company is not able to build upon that patented technology.

85. Virginia K. Demarchi, *Injunctions after eBay v. MercExchange*, FENWICK & WEST LLP (July 31, 2007), [http://www.fenwick.com/FenwickDocuments/Injunctions\\_After\\_eBay.pdf](http://www.fenwick.com/FenwickDocuments/Injunctions_After_eBay.pdf). Out of 30 reported cases where district courts were asked to permanently enjoin an infringer, seven times the courts refused to do so. *Id.*

86. See Lily Lim & Sarah E. Craven, *Injunctions Enjoined: Remedies Restructured*, 25 SANTA CLARA COMPUTER & HIGH TECH. L.J. 787, 798 (2009) (citations omitted).

Court instructed district courts to weigh each case individually and avoid categorical rules, “district courts have responded in apparent lockstep to Justice Kennedy’s concerns about trolls.”<sup>87</sup> In particular, NPEs are hard-pressed to get an injunction.<sup>88</sup> The denial of injunctive relief has also spread to patentees that practice their technology but do not compete in the same market as their infringers.<sup>89</sup> The developing case law is in conflict with the Supreme Court’s warning against the “categorical denial of injunctive relief.”<sup>90</sup> Another area of tension within the structure of patent remedies is in cases where a willful infringer is permitted to continue engaging in behavior that was deemed punish-worthy.

The beginning signs of this tension between equitable and enhanced damages are evident in the remand of *eBay* where the Eastern District of Virginia was faced with implementing the four-factor test.<sup>91</sup> The district court started the litigation by reopening discovery, allowing each party to update the court on events occurring in the previous three years.<sup>92</sup> The most notable event was that the USPTO had issued non-final office actions in the reexamination of both patents at issue indicating that each patent was invalid as obvious.<sup>93</sup> Because these were non-final but consistent findings by the USPTO, eBay filed a motion to stay the proceedings until the USPTO issued a final ruling.<sup>94</sup> The district court granted the stay for one of the two patents.<sup>95</sup> It did not stay for both patents because a jury had already found one patent to be valid and infringed, which was affirmed by the Federal Circuit.<sup>96</sup> Although the district court reopened discovery, it did not allow parties to re-litigate previously decided issues or try to recast facts more favorably.<sup>97</sup> One

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87. Golden, *supra* note 5, at 2113.

88. *See id.*

89. *See id.* (“Since the Supreme Court issued its opinion in *eBay*, district courts appear to have consistently denied permanent injunctions in cases where an infringer has contested the patent holder’s request for such relief and the infringer and patent holder were not competitors.”) (citations omitted).

90. *Id.* at 2113–14 (quoting *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 394 (2006)) (internal quotation marks omitted).

91. *MercExchange, L.L.C. v. eBay, Inc.*, 500 F. Supp. 2d 556, 568 (E.D. Va. 2007).

92. *Id.* at 560.

93. *Id.* These rulings of invalidity as to both patents at issue here, once final, would be appealable to the Board of Patent Appeals and Interferences (“BPAI”) and then the Federal Circuit. *Id.* at 562–63.

94. *Id.* at 562–63.

95. *Id.* at 563, 565, 567.

96. *Id.* at 563 (“The court reaches differing conclusions regarding the two patents due to the vastly differing procedural postures of such discrete infringement disputes. Tellingly, unlike the alleged infringement of the ‘051 patent, which never reached a jury, after a five-and-a-half week jury trial, the ‘265 patent was deemed valid and [willfully] infringed . . .”). *See also id.* at 563–65, 67.

97. *Id.* at 560.

such attempt was eBay's assertion that it had never willfully infringed MercExchange's '265 patent.<sup>98</sup> The district court ignored this assertion based upon the jury's finding that eBay was a willful infringer and the Federal Circuit's affirmation of the finding.<sup>99</sup> Similarly, the district court ignored MercExchange's assertions that it had tried to commercially develop the '265 patent and enforce its right to exclude others from infringing.<sup>100</sup>

The district court applied the facts of the case with the each equitable factor as mandated by the Supreme Court.<sup>101</sup> The first factor—that the plaintiff has suffered irreparable harm—weighed in favor of eBay because the court found MercExchange's behavior inconsistent regarding its willingness to license versus its desire to defend its right to exclude. MercExchange had consistently made statements to the public that it was seeking monetary damages and not an injunction.<sup>102</sup> MercExchange's president also made specific statements about its willingness to license the patents at issue to eBay and that "the eBay community was the natural home for the patents."<sup>103</sup> The court found that this statement weakened MercExchange's assertion that it would be "irreparably harmed" without an injunction.<sup>104</sup> MercExchange also did not establish that injunctive relief was needed to protect intangibles such as goodwill, reputation, and brand name.<sup>105</sup>

As to the second factor—whether the remedies at law were inadequate—the court noted that although MercExchange had "every right"

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98. *Id.*

99. *Id.*

100. *Id.* at 560–61. The court explained that this argument contradicted the district court's earlier and repeated findings that MercExchange demonstrated "a 'willingness to license its patents,' a 'lack of commercial activity in practicing the patents,' and that MercExchange's 'numerous comments to the media before, during, and after th[e] trial indicat[e] that it did not seek to enjoin eBay but rather sought appropriate damages for the infringement.'" *Id.* (alteration in original) (citation omitted). Furthermore, the district court noted that, after the first trial, MercExchange had licensed its patented technology to uBid, Inc., a direct competitor of eBay, further demonstrating its willingness to license and lack of firm belief regarding its right to exclude. *Id.* at 561.

101. *See id.* at 568 (stating that "this court is required to apply 'the four-factor test historically employed by courts of equity'" (quoting *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 390 (2006))).

102. For example, MercExchange's counsel stated to the media: "We are seeking reasonable royalties as permitted under the patent laws. It's not our goal to put eBay out of business. It's our goal to provide just compensation for the patent owner." Troy Wolverton, *Patent suit could sting eBay*, CNET News (Sept 5, 2002, 4:00AM), <http://news.cnet.com/2100-1017-956638.html>, quoted in *MercExchange*, 500 F. Supp. 2d at 572.

103. Ina Steiner, *eBay-Contested MercExchange Patents Are on the Block*, ECOMMERCEBYTES (May 30, 2003), <http://www.ecommercebytes.com/cab/abn/y03/m05/i30/s01>, quoted in *MercExchange*, 500 F. Supp. 2d at 572.

104. *See MercExchange*, 500 F. Supp. 2d at 572.

105. *Id.* at 570.

to establish a pattern of using its patents “as a sword to aid in litigation or threatened litigation against infringers or potential infringers,” this aggressive brandishing of its patents demonstrated that MercExchange was most concerned about money.<sup>106</sup> The district court also noted that because enhanced damages are similar to punitive damages in that they seek to punish and deter egregious conduct, MercExchange may in fact be overcompensated by monetary damages.<sup>107</sup> Accordingly, in this instance the enhanced or punitive damages worked against MercExchange receiving its requested injunctive relief.<sup>108</sup> Although this may be in accord with concerns about overcompensating, it is odd that the fact the infringer is a willful one may work against reestablishing the right to exclude.

Balancing of the hardships, the third factor, did not favor eBay or MercExchange.<sup>109</sup> The court first found that because eBay was determined to be a willful infringer, it eased the court’s “conscience” that issuing an injunction against eBay using the patented technology might substantially harm eBay’s business.<sup>110</sup> The court also noted that eBay claimed publicly that it had designed around the patent; leading it to a similar conclusion that eBay’s business would not be ruined because of an injunction.<sup>111</sup> In regard to MercExchange, the court noted that there was great uncertainty as to the validity of the patent at issue and that MercExchange existed entirely on licensing fees.<sup>112</sup> Therefore, forcing MercExchange to engage in one more licensing arrangement should not cause it great hardship.<sup>113</sup>

The last factor in this four-factor test concerns the public interest in

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106. *Id.* at 582 (“Although the court recognizes that MercExchange has every right to utilize its patents in such manner, such behavior suggests that an injunction against eBay may also be used to obtain similar ends. Utilization of a ruling in equity as a bargaining chip suggests both that such party never deserved a ruling in equity and that money is all that such party truly seeks . . .”). The court noted up front that the first and second factor are largely the same inquiry, but that to adhere to the Supreme Court’s four-factor test, it would analyze each separately. *Id.* at 569. n.11.

107. *Id.* at 583.

108. *See id.* An idea worth pursuing in a subsequent article is that if a court is concerned about overcompensation and therefore not willing to grant injunctive relief in addition to the compensatory and enhanced damages, the court can allow the patentee to choose either injunctive relief or the enhanced damages. *Cf.* Paul J. Heald, *Permanent Injunctions as Punitive Damages in Patent Infringement Cases* (Ill. Pub. Law & Legal Theory Research Paper Series, PaepR No. 10-38, 2011), available at <http://ssrn.com/abstract=1851681> (arguing that injunctions in patent cases may be akin to punitive damages).

109. *MercExchange*, 500 F. Supp. 2d at 583, 585–86.

110. *Id.* at 583–84.

111. *Id.* at 584.

112. *Id.* (“MercExchange’s specialization in obtaining fees through threatened litigation suggests that it will not suffer a hardship from a similar resolution of the instant matter.”).

113. *Id.* at 584–85.

the issuance of an injunction.<sup>114</sup> Although this factor most often favors the patent holder because the public has an interest in maintaining the integrity and strength of the patent system, the court found this was not true in this case.<sup>115</sup> The district court focused on the parties and their respective impact on the public in general.<sup>116</sup> In regard to eBay, the court stated that it “unquestionably has a substantial impact on the United States’ economy.”<sup>117</sup> In comparison, MercExchange is a two-person company that “appear[s] to specialize in litigation and obtaining royalties for licenses based on the threat of litigation.”<sup>118</sup> And although a strong patent system is needed to protect a small patent holder that is being overtaken and infringed upon by a multi-billion dollar company, the court stated the best equity argument is when that small patent holder is using his invention to benefit the public or using licensing to further that technology.<sup>119</sup> The court found that MercExchange was not that type of small inventor; rather, MercExchange is a small company that was brandishing its patents for the sole purpose of making money, neither benefiting the public nor furthering the evolution of technology.<sup>120</sup> So although eBay was a willful infringer in this case, the court found that the public interest would still be better served by eBay continuing unaffected in its business operations.<sup>121</sup> This result was appealed and, ultimately, the parties reached a settlement in which eBay purchased the MercExchange patents.<sup>122</sup>

### C. *Reduced Access to Remedies for Patent Holders*

The decision detailed above was heavily impacted by the fact that MercExchange was an NPE and eBay was a large company that was already using the patented technology in its daily business.<sup>123</sup> Although the court admonished eBay for willfully infringing the patented technology, it decided to allow eBay to continue using the technology against

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114. *Id.* at 586.

115. *Id.*

116. *See id.* at 586–90.

117. *Id.* at 587. eBay supports an online marketplace consisting of tens of millions of buyers and sellers, and it was successful long before its infringement of MercExchange’s business method patents. *Id.*

118. *Id.*

119. *Id.*

120. *Id.* at 587–88.

121. *Id.* at 590.

122. *See* Linda Rosencrance, *EBay, MercExchange settle long feud over several patents*, COMPUTERWORLD (FEB. 28, 2008, 12:00 PM), [http://www.computerworld.com/s/article/9065618/EBay\\_MercExchange\\_settle\\_long\\_feud\\_over\\_several\\_patents](http://www.computerworld.com/s/article/9065618/EBay_MercExchange_settle_long_feud_over_several_patents) (last visited September 16, 2012).

123. *See id.*

MercExchange's wishes.<sup>124</sup> This district court opinion after the Supreme Court decision served as the beginning of a now near-categorical rule that NPEs do not receive injunctions.<sup>125</sup> This opinion by itself is not a worrisome result. MercExchange was a company built on licensing prior to the infringement and after the infringement it still was able to license its technology.<sup>126</sup> If money is the greatest priority, then under these particular facts and with this patentee there appears no need for concern.<sup>127</sup>

However, the path that the district court paved here is one involving an arduous and labor intensive process of attempting to evaluate the companies at issue, the value of their respective uses of the patented technology, and the value of the patented technology with respect to each company. The difficulty of determining base damages (lost profits or reasonable royalties) has already prompted the Federal Circuit to remark that the valuation task is "a difficult judicial chore, seeming often to involve more the talents of a conjurer than those of a judge."<sup>128</sup>

Further, there is nothing in the Patent Act that demands a patentee use its patented technology and, in fact, the opposite is true. After a patentee discloses its technology to the world, it is free to go into hiding and not allow anyone to make, sell, or use the technology for twenty years.<sup>129</sup> It is allowed to do so because the public already reaps the benefit due to the disclosure of the invention. Of course, MercExchange is not a particularly sympathetic patentee. MercExchange was not simply an inventor who wanted to use his technology in his company and let no one else use it, or simply elect not to use it and yet still others from using it. MercExchange was actively seeking licensing fees and attempting to gain leverage with eBay due to the costs already invested in eBay's online business with the "Buy-It-Now" feature.<sup>130</sup> Although the patents were weak, MercExchange was a holdup threat. Accordingly, the outcome and analysis of the district court opinion has not caused much unfavorable commentary.

Another concern is that *eBay's* rule is not limited to cases with NPEs like MercExchange. Courts are now denying injunctive relief to patentees using the technologies when the patentee is not in direct com-

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124. *Id.* at 590–91.

125. See Shrestha, *supra* note 5, at 134–36.

126. See *MercExchange*, 500 F. Supp. 2d at 588.

127. See *id.*

128. *Fromson v. W. Litho Plate & Supply Co.*, 853 F.2d 1568, 1574 (Fed. Cir. 1988), *overruled on other grounds by Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004).

129. See 35 U.S.C. § 154(a)(1)-(2) (2006).

130. See *MercExchange*, 500 F. Supp. 2d at 581.

petition with their respective infringer(s).<sup>131</sup> For example, in *z4 Technologies, Inc. v. Microsoft Corp.*, z4 was a software-based company owned by David Colvin, who was also the inventor of the two patents at issue.<sup>132</sup> The company used this patented technology in its product activation software, designed to limit the unauthorized use of software.<sup>133</sup> The jury found that Microsoft's software products, Office and Windows, infringed z4's patents and that Microsoft infringed willfully.<sup>134</sup> After this finding of willful infringement, z4 sought a permanent injunction from the court.<sup>135</sup> The district court analyzed this request in light of the Supreme Court's ruling in *eBay* and denied the request.<sup>136</sup>

The first factor—irreparable harm—weighed against the plaintiff, z4.<sup>137</sup> z4 argued that Microsoft's infringement prevented it from knowing or being able to calculate the level of success it would have achieved in the product activation software market absent the infringement.<sup>138</sup> The court did not find this argument persuasive because Microsoft and z4 were not direct competitors.<sup>139</sup> Microsoft does not produce or sell product activation software like z4; the patented technology is just one part of Microsoft's programs.<sup>140</sup> The court found this fact significant because in theory Microsoft was not preventing or disrupting z4's ability to market, sell, or license its patented software.<sup>141</sup> Accordingly, the court held that because z4 did not prove that it would lose any future brand name recognition, market share, or profits, it did not show that its injuries were irreparable.<sup>142</sup>

The second factor—adequacy of remedies available at law—likewise did not favor permanent injunctive relief.<sup>143</sup> z4 argued that losing the right to exclude could never be adequately compensated by monetary damages.<sup>144</sup> The district court cited *eBay* in stating “that the right to exclude alone is not sufficient to support a finding of injunctive relief”; however, it went on to explain when that loss of a right is accompanied with another intangible loss, such as market position, this “can present a

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131. See, e.g., *z4 Techs., Inc., v. Microsoft Corp.*, 434 F. Supp. 2d 437, 440, 444 (E.D. Tex. 2006), *aff'd*, 507 F.3d 1340 (Fed. Cir. 2007).

132. See *z4 Techs., Inc. v. Microsoft, Corp.*, 507 F.3d 1340, 1344 (Fed. Cir. 2007).

133. *z4 Techs.*, 434 F. Supp. 2d at 438.

134. *Id.* at 438–39.

135. *Id.*

136. *Id.* at 439, 444.

137. *Id.* at 441.

138. *Id.* at 440.

139. See *id.*

140. *Id.*

141. *Id.*

142. *Id.* at 440–41.

143. *Id.* at 441–42.

144. *Id.* at 441.

situation where monetary damages cannot adequately compensate the patent holder for that injury.”<sup>145</sup> Because the court here did not find that z4 suffered a loss of goodwill, market place, or brand recognition, and that this patented technology was a very small portion of the technology that Microsoft used in its programs, a reasonable royalty would fairly compensate z4.<sup>146</sup> Further, the district court found Microsoft’s statement convincing that in the next version of its software (to be released shortly after the issuance of the court’s opinion), it would no longer be infringing z4’s patented methods.<sup>147</sup> This signaled to the court that compensating for future royalties would not be as difficult as in some other situations where there were many years left of patent enforcement and no plan by the defendant to design around the patent.<sup>148</sup>

The third factor—the balance of hardships—weighed against injunctive relief due to Microsoft’s convincing arguments that it would be costly to redesign its current products and halt the infringing of software that was already being used by Microsoft’s consumers.<sup>149</sup> For example, Microsoft stated that it would need “to re-release its current versions of Office, with 450 separate variations in thirty-seven different languages, and Windows, with 600 separate variations in over forty languages.”<sup>150</sup> Further, both Office and Windows “would have to be re-engineered, tested, repackaged, and then placed into the appropriate distribution channels.”<sup>151</sup> This potential design around cost, especially in light of the upcoming non-infringing product to be released shortly, was too much when compared to z4’s hardship of only receiving monetary damages.<sup>152</sup>

The last factor—the public interest—again weighed in Microsoft’s favor and against the granting of injunctive relief.<sup>153</sup> The court noted the wide, pervasive use of Microsoft Windows and Office, and that although the picture that Microsoft painted of massive havoc across the world may not be true, the court stated that the public would suffer “some

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145. *Id.* (citing *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 392 (2006)).

146. *Id.* (noting that *eBay* instructs courts to be weary of the situation where a “patented invention is but a small component of the product the companies seek to produce” and that monetary damages in that situation are sufficient and that the public interest would not be served by an injunction (quoting *eBay*, 547 U.S. at 396–97 (Kennedy, J., concurring) (internal quotation marks omitted))).

147. *See id.* at 442.

148. *See id.*

149. *Id.* at 442–43.

150. *Id.* at 442.

151. *Id.*

152. *Id.* at 442–43 (finding that “Microsoft’s use of z4’s intellectual property is not to the exclusion of z4 in any major sense and, to the extent it is, can be remedied in the form of monetary damages”).

153. *Id.* at 443–44.

negative consequences” if it were to issue an injunction.<sup>154</sup> The court then denied z4 its requested injunction.<sup>155</sup>

The court was strongly swayed by the size and influence of the parties involved in the litigation. Unlike the remand court of *eBay*, this court gave little attention to the fact that Microsoft was a willful infringer or that z4 was a practicing entity. The z4 court instead focused on the pervasive use of Microsoft’s products; and perhaps at a surface level this is warranted. If Microsoft was going to lose millions and millions of dollars, we might worry about what is called “economic waste” in other areas of law. For example, in contract law, a diminution of value rule will sometimes replace the normal cost of repair rule when there is a vastly disproportionate difference between the two.<sup>156</sup> The court might also have worried that if it granted an injunction to z4, the injunction would put z4 in a position of holdup with Microsoft. All these concerns are valid in patent law, yet they were not of particular relevance or real concern in this case. Microsoft was on the record that it had another non-infringing version of Office and Word that was coming out shortly.<sup>157</sup> As will be discussed below, there are easy tools at the court’s disposal to use in this type of situation.

Instead of staying the injunction until the new version is out, for example, the end result here creates bad precedential law. Microsoft is precisely the type of company that can afford to either license the patented technology or design around the patent technology to create its own noninfringing technology that furthers innovation. Patent law is supposed to encourage innovation by companies of such size and with as much money as Microsoft, not allow these companies to circumvent established property rules. z4 is not an NPE like MercExchange. It is the small patentee that the *eBay* District Court mentioned that needs protection from a strong patent system. Not many companies can compete with Microsoft’s market power and influence in its industry. If this is a major factor in balancing the reasonableness and utilities of patent use, small inventors and companies will lose every time.

Another case, again involving Microsoft, will help further explain why this precedent of not granting injunctions is troubling.<sup>158</sup> In *i4i Ltd. v. Microsoft*, the evidence showed that Microsoft made statements that it wanted to make the patentee’s product “obsolete,” and that it would ensure that “there won’t be a need for [the patentee’s] product.”<sup>159</sup>

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154. *Id.*

155. *Id.* at 444.

156. RESTATEMENT (SECOND) OF CONTRACTS § 348(2) (1981).

157. *See z4 Techs.*, 434 F. Supp. 2d at 442.

158. *i4i Ltd. P’ship v. Microsoft Corp.*, 598 F.3d 831 (Fed. Cir. 2010).

159. *Id.* at 860. *i4i* is the owner of a patent relating to editing custom XML, and sells software

Although the court did provide the small, practicing entity with a “narrow” injunction, Microsoft’s size and widespread use played a bigger role than did its willful infringement or its ability to have a new product out in five months from the original order (thereby giving Microsoft more months by the time the final ruling on the injunction was affirmed).<sup>160</sup>

My point here is not to argue that Microsoft is a bad actor or that industry giants are preying on smaller inventors and companies. Rather, my point is that we must have a strong patent system that provides incentives for companies, no matter the size, to play by the rules. Although in many cases courts appear to be concerned about parties circumventing the rules and displaying conduct that is unacceptable under the patent laws,<sup>161</sup> it also appears that courts are increasingly engaging in an analysis of which party would best use the technology.<sup>162</sup> Certainly we should be concerned about stalling innovation because of holdup conduct and about a company such as z4 that uses just one patented component within Microsoft’s multi-component technology, yet parties such as z4 and i4i are not the type of patentee that threatens to “derail a major enterprise.”<sup>163</sup> Further, no court has yet allowed this massive

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that practices this technology. *Id.* at 839. Notably, this company is not a patent troll like MercExchange. It actively expends resources to further its technology and uses its patented technology in its business as a software consulting company. *Id.* Versions of Microsoft Word since 2003 have had XML editing ability, and in 2007 i4i filed suit against Microsoft arguing that the XML editor in certain versions of Word infringed its patented technology. *Id.* at 840. The jury agreed with i4i, awarding it \$200 million in damages, and further finding that Microsoft was a willful infringer. *Id.*

160. *Id.* at 864. The district court did not treble the damages as allowed to by statute, but instead granted i4i an extra \$40 million based on Microsoft’s willful infringement. *Id.* at 841, 858. It also granted i4i a “narrow” injunction. *Id.* at 861. The Federal Circuit affirmed the damages, only changing the effective date of the injunction. *Id.* at 864. Microsoft presented evidence that it would likely need five months to be able to comply with the injunction, and so the district court’s limiting of the injunction’s effective date to 60 days was an abuse of its discretion. *Id.* The Federal Circuit affirmed the injunction, but set the new effective date as January 11, 2010. *Id.* This allowance of extra time demonstrates how narrow the injunction that was placed on Microsoft is, even though it seemed the court wanted to send the signal that willful infringers will be punished and should not be able to continue to use the patented technology against the patentee’s wishes.

161. Courts appear to be concerned about the conduct of infringers in describing their actions. *See, e.g.,* Imonex Servs., Inc. v. W.H. Munzprufer Dietmar Trenner GmbH, 408 F.3d 1374, 1377 (Fed. Cir. 2005) (finding that willful conduct is evinced by “egregious conduct”); IVAC Corp. v. Terumo Corp., 18 U.S.P.Q.2d 1637, 1639 (S.D. Cal. 1990) (finding the infringer demonstrated a “complete disregard of . . . patents,” “total absence of any evidence of good faith at the time the infringement commenced,” and “no evidence of any effort to seek and follow the advice of competent patent counsel or to alter the infringing design despite . . . knowledge of [the asserted] patent rights”).

162. *See, e.g.,* z4 Techs., Inc. v. Microsoft Corp., 434 F. Supp. 2d 437, 443–44 (E.D. Tex. 2006) (discussing the positive effects that Microsoft products have on society), *aff’d*, 507 F.3d 1340 (Fed. Cir. 2007).

163. *See* Epstein, *Disintegration*, *supra* note 17, at 490.

derailing to occur.<sup>164</sup> Patent damages are meant to put patent holders in the position they enjoyed prior to infringement, not in a better position.<sup>165</sup> Courts (imperfectly at times) are aware of this distinction. If the practicing entity wants to reestablish its right to exclude, that should be granted. This fact may be taken into account when assessing what enhanced damages to grant. Unfortunately, courts are not making this distinction between the types of patentees and so access to equitable relief may be limited for all patent holders.

The *eBay* opinion has played a large role in the ongoing debate in patent law regarding how the patent system operates and how it should operate. In particular, *eBay* has created a heightened focus on the behavior of NPEs and the problem of patent holdup, as well as what rule-based system intellectual property should employ.<sup>166</sup> This increased focus on NPEs and holdup problems has prompted scholars to advocate that patent law should shift toward a liability rule-based system.<sup>167</sup>

### III. EXISTING FRAMEWORKS

For many years now patent scholars have been debating how to best change the way that patent damages are calculated.<sup>168</sup> Congressional patent damage reform has also been seeking to alter the technical rules of patent law.<sup>169</sup> Yet these debates about how to change the way patent remedies are determined are just the surface level debates; there is a deeper one in patent law that has only recently surfaced.<sup>170</sup> In short, many scholars and reformers feel that the patent itself has grown too large and too powerful.<sup>171</sup> With high dollar damage awards continuing to attract public attention, coupled with the potential for aggressive

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164. *See id.* (“The nightmare example is the holder of a single small patent who wants to shut down the latest Microsoft word-processing program. The fear here is that the price demanded to waive injunctive relief far exceeds the value that the patentee could have obtained if it had licensed the product to the defendant before the defendant developed its new product. This consideration carries a good deal of weight, at least in these extreme cases. Yet it is instructive that there is no decided case in the Federal Circuit that granted an injunction under such extreme conditions, *eBay* included.”).

165. *See NARD, supra* note 25, at 204.

166. *See, e.g., James M. Fischer, What Hath eBay v. MercExchange Wrought?*, 14 *Lewis & Clark L. Rev.* 555, 556–58 (2010).

167. *See id.* at 561; Opderbeck, *supra* note 36, at 131.

168. *See, e.g., Opderbeck, supra* note 36, at 131.

169. *Id.* *See also* Patent Reform Act of 2008, S. 3600, 110th Cong. § 4 (2008); Patent Reform Act of 2007, H.R. 1908, 110th Cong. § 5 (2007); Patent Reform Act of 2007, S. 1145, 110th Cong. § 5 (2007).

170. *See Opderbeck, supra* note 36, at 131 (“At a deeper level, arguments about changing the shape of patent damages calculations are arguments about changing the shape of patent law itself.”).

171. *See Golden, supra* note 5, at 2112 (“Academics, policymakers, and even sitting judges have suggested that patent law may have overleaped its proper bounds, or at least become too

NPEs and harmful holdups, many commentators have been advocating for a shift toward a patent system based on a liability rule.<sup>172</sup> There is no doubt that this has started to occur because of *eBay*, yet this rule change in patent law—a shift away from a strong property rights system—should be analyzed from multiple angles.

Patent scholars, courts, and reformers must decide whether the current direction of patent law should be continued, or whether another road should be selected. This Article takes one step in that direction by analyzing how established property systems have historically struggled with concerns such as holdout and balancing the most efficient use of property. As Richard Epstein recently explained, there are “huge returns [that] lie from systematizing intellectual property by analogy and extension to successful legal regimes elsewhere.”<sup>173</sup> The legal regime that is most applicable to intellectual property is the one it is already within—property.<sup>174</sup> That said, we must learn from and apply these analogies with caution, as there are also significant differences between real property and patents.<sup>175</sup>

Within the framework of property, there are two subspecies that highlight the differences and objectives of property rules from liability rules. The first is nuisance law (imperfect liability rule) and the second is the law regarding trespass to land (property rule). I do not argue here that patent law should be structured precisely like nuisance or trespass, but rather that we can learn from both systems and provide tools for courts to use that are familiar and have been proven effective. The following subsections will establish the general framework of property rules and liability rules, and then further that framework by discussing the different systems of nuisance and trespass. “By [understanding and] following rules of proven worth in other areas, each new articulation of

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likely to frustrate, rather than to fulfill, its constitutional purpose of ‘promot[ing] the Progress of Science and useful Arts.’” (alteration in original) (quoting U.S. CONST. art. I, § 8, cl. 8)).

172. See, e.g., Daniel A. Crane, *Intellectual Liability*, 88 TEX. L. REV. 253, 253, 256 (2009); Ben Depoorter, *Property Rules, Liability Rules and Patent Market Failure*, 4 ERASMUS L. REV. 59, 59 (2008); Mark A. Lemley & Philip J. Weiser, *Should Property or Liability Rules Govern Information?*, 85 TEX. L. REV. 783, 793–96 (2007) (identifying pitfalls of property rules and exploring the potential of liability rules).

173. Epstein, *Disintegration*, *supra* note 17, at 458.

174. *Id.* at 461 (“The basic principles of property law are alive and well, and they are capable of reasonable extension to all forms of intellectual property.”); cf. Lemley, *Free Riding*, *supra* note 17, at 1031–32 (“The absolute protection or full-value view draws significant intellectual support from the idea that intellectual property is simply a species of real property rather than a unique form of legal protection designed to deal with public goods problems.”); Robert P. Merges, *Of Property Rules, Coase, and Intellectual Property*, 94 COLUM. L. REV. 2655, 2661 (1994) [hereinafter Merges, *Of Property Rules*]. (“[T]he overall goal of intellectual property law is often described in allocational efficiency terms (i.e., to increase economic output by overcoming market failures associated with the public goods quality of creative works) . . .”).

175. See generally Lemley, *Free Riding*, *supra* note 17.

property rights need not be a voyage into the unknown.”<sup>176</sup>

### A. *Property and Liability Rules*

In their foundational article on legal entitlements, Guido Calabresi and A. Douglas Melamed set forth a framework for defining and understanding various types of remedies that protect entitlements.<sup>177</sup> They distinguish property and liability rules and identify the remedies that enforce these rules in subject areas such as tort, property, and criminal law.<sup>178</sup> In their article, Calabresi and Melamed explain that some remedies are set at such a high price that deters the taking of an entitlement without obtaining consent from the owner (the one who decides the value of the entitlement).<sup>179</sup> These remedies are protected by property rules, which are enforced through the use of injunctions and punitive damages.<sup>180</sup> Although “property rules abound in the law” and a traditional preference evidenced by courts still exists, scholars have for many years advocated for more use of liability rules in the law.<sup>181</sup> Patent law scholars have contributed to this trending debate.<sup>182</sup> In contrast to a property rule, a liability rule allows for a nonconsensual taking of an entitlement in exchange for a payment of money damages.<sup>183</sup> The amount of money to be paid to the entitlement holder is determined by non-market “prices” that are most often officially set by a court in the form of monetary damages.<sup>184</sup> Epstein has explained a key economic difference between property and liability rules:

Because property rules give one person the sole and absolute power

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176. Epstein, *Disintegration*, *supra* note 17, at 458 (“Instead, it can avoid the pitfalls for new forms of property rights by incorporating the salient features of established regimes. That incorporation cannot be slavish, however, because the information that lies at the core of intellectual property exhibits characteristics that are not shared by physical assets.”).

177. *See generally* Calabresi & Melamed, *supra* note 9. “In the context of Coasean bargaining, the term ‘entitlement’ can mean anything from the right to pollute to the right to exclude entry to one’s real property.” Rinehart, *supra* note 9, at 504 n.114 (citation omitted).

178. *See* Calabresi & Melamed, *supra* note 9, at 1089–93. The Calabresi-Melamed framework explains four remedial choices (set in a 2x2 matrix) for the allocation and protection of property. *See id.* at 1115–16. These four individual rules, two property and two liability, will not be specifically discussed in this article as they are not important to the thesis of this paper.

179. *Id.* at 1092 (“An entitlement is protected by a property rule to the extent that someone who wishes to remove the entitlement from its holder must buy it from him in a voluntary transaction in which the value of the entitlement is agreed upon by the seller.”).

180. *See* Smith, *Property and Property Rules*, *supra* note 10, at 1723.

181. *Id.* at 1732 (“The arguments for liability rules challenge a long tradition of preference for property rules in the law and a line of traditional commentary that still resonates today.”).

182. *See id.* (“The arguments for liability rules challenge a long tradition of preference for property rules in the law and a line of traditional commentary that still resonates today.”); *Id.* at 1723 (“The new wisdom in favor of liability rules also runs counter to strong tendencies in the law.”)

183. *See id.* at 1720.

184. *See id.*

over the use and disposition of a given thing, it follows that its owner may hold out for as much as he pleases before selling the thing in question. In contrast, by limiting the owner's protection to a liability rule, that holdout power is lost, and in its stead the owner of the thing receives some right to compensation for the thing that has been taken away from him against his will.<sup>185</sup>

Many scholars have applied these rules to intellectual property law.<sup>186</sup> In patent terms, a court enforces a property rule remedy when it awards the patentee with an injunction against the defendant's continued infringement, as well as when the patentee's damages are enhanced based on the conduct (the willful infringement) of the defendant. A court enforces a liability rule when it denies injunctive relief and sets a licensing rate itself (or demands that the parties do so) for the defendant's continued use of the patented technology. Scholars are divided on how patents are best protected. Some scholars argue that patents are property and should be protected by a property rule in order to commercialize innovations and provide incentives for negotiation with the threat of an injunction,<sup>187</sup> and other scholars argue that a liability rule may be best in patent law because of high transaction costs and the potential for holdup.<sup>188</sup>

### B. Frameworks Protected By Different Rules

Henry Smith extended the property rule and liability rule literature by reframing this conversation as one of an "exclusion strategy" or "governance strategy."<sup>189</sup> The exclusion strategy, most heavily apparent

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185. Richard A. Epstein, *A Clear View of The Cathedral: The Dominance of Property Rules*, 106 YALE L.J. 2091, 2091 (1997) [hereinafter Epstein, *A Clear View*].

186. See, e.g., Blair & Cotter, *supra* note 45, at 821; Lemley & Weiser, *supra* note 172, at 793–97; Merges, *Of Property Rules*, *supra* note 174, at 2664–67; Rinehart, *supra* note 9, at 503–09.

187. See, e.g., F. Scott Kieff, *IP Transactions: On the Theory & Practice of Commercializing Innovation*, 42 HOUS. L. REV. 727, 735–743 (2005) [hereinafter Kieff, *IP Transactions*] ("In contrast to the reward theories of patents, the commercialization theory sees patents as enforced by a property rule to help facilitate commercialization of the invention, after it has been made.") (citation omitted). See also *id.* at 735 ("Providing a focal point, or beacon, the publicly recorded IP right helps each of these individuals find each other, and then by cracking the Arrow Information Paradox otherwise facing them, facilitates negotiations among them.") (citations omitted); Merges, *Contracting into Liability Rules*, *supra* note 12, at 1303–06 (arguing that property rules are preferred over liability rules when private bargaining is to take place in the IP context). But see Dan L. Burk, *Muddy Rules for Cyberspace*, 21 CARDOZO L. REV. 121, 179 (1999) (arguing that imprecise or "muddy" rules are favorable in online entitlements as a means of inducing private-ordered solutions).

188. See, e.g., Lemley & Shapiro, *supra* note 6, at 2044 (arguing in favor of a reasonable royalty for patent damages to avoid patent holdup).

189. See Smith, *Exclusion and Property Rules*, *supra* note 12, at 975–90; Henry E. Smith, *Intellectual Property as Property: Delineating Entitlements in Information*, 116 YALE L.J. 1742, 1745–46 (2007) [hereinafter Smith, *Intellectual Property as Property*]; Smith, *Property and*

in property law with trespass to land as the quintessential example, best protects property holders' interests by sending a signal to potential trespassers.<sup>190</sup> The signal is the boundary line that is established when one becomes an unauthorized trespasser—the sign that says “keep out.”<sup>191</sup> The property owner's right to exclude is enforced through the threat of injunctive relief and punitive damages.<sup>192</sup> The exclusionary strategy is best implemented by property rules.<sup>193</sup> This strategy is based on the idea that the right to exclude is valuable because of an interest in use, and the invasion of space is a (very) rough “proxy” for harmful use.<sup>194</sup>

The governance strategy, with nuisance law as an example, allows a person the right to engage in a particular behavior.<sup>195</sup> The delineation effort is focused on the person's action, such as emitting odors into a neighborhood.<sup>196</sup> Accordingly, the governance strategy is much more concerned with proper use of an entitlement, where “something close to a use-by-use basis” of analysis occurs.<sup>197</sup> Although nuisance law is not as pure of an example of the governance strategy that is often protected by liability rules as trespass is of the exclusion strategy, many scholars have focused on the increasing trend away from injunctive relief in nuisance law and more toward monetary relief and adjudication based on analyzing the competing uses of the property.<sup>198</sup> Trespass to land, imple-

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*Property Rules*, *supra* note 10, at 1755–57. Smith finds that the close relationship between property and intellectual property is because of “the role that information costs play in the delineation and enforcement of rights.” Smith, *Intellectual Property as Property*, *supra* note 189, at 1745. I will not be delving into even a mere fraction of Smith's literature here, as it is heavily based on economic theory and therefore outside the scope of this article, but suffice it to say that there is much here that is of great interest.

190. See Smith, *Intellectual Property as Property*, *supra* note 189, at 1745.

191. Smith, *Property and Property Rules*, *supra* note 10, at 1728 (“Property gives the right to exclude from a ‘thing,’ good against everyone else. On the dutyholder side, the message is a simple one—to ‘keep out.’”).

192. Smith, *Exclusion and Property Rules*, *supra* note 12, at 973 (“Because such an exclusion regime builds on simple on/off signals such as boundary crossings, rights to exclude are typically protected with injunctions and supracompensatory damages. Exclusion is associated with . . . ‘property rules,’ under which a remedy is strong enough to deter nonconsensual takings . . .”).

193. Smith, *Property and Property Rules*, *supra* note 10, at 1728 (“[A]rgu[ing] that property rules have an advantage in implementing the exclusion strategy so that, where an exclusion strategy is called for, property rules will generally be superior to liability rules.”).

194. See *id.*

195. Smith, *Exclusion and Property Rules*, *supra* note 12, at 973.

196. *Id.*

197. Smith, *Property and Property Rules*, *supra* note 10, at 1728 (explaining that “rights are delineated using signals (sometimes called ‘proxy variables’ or ‘proxies’ in the economic literature) that pick out and protect individual uses and user behavior”).

198. Smith, *Exclusion and Property Rules*, *supra* note 12, at 984 (recognizing that in nuisance law “the balancing of utilities approach . . . has been gaining favor, especially among commentators”). See also *id.* at 980 (“Liability rules tend to be associated with governance rules . . .”).

mented by the exclusion strategy, and nuisance law, increasingly being implemented by a governance strategy, are both fields that embody at different levels the right to exclude and the competing interests of the property owner, the infringer/violator, and the public. These subspecies of property are instructive for the direction that patent law has come from and is currently headed.

### 1. NUISANCE

Famously described as an “impenetrable jungle,”<sup>199</sup> the many paths of nuisance law have largely been cleared and proven reasonably coherent.<sup>200</sup> The law of nuisance focuses on the use and enjoyment of one’s land and generally involves indirect intrusions such as odor, noise, smoke, and vibrations by an adjacent landowner.<sup>201</sup> There have been several variations of nuisance standards employed over the years by courts and discussed by scholars. The two polar ends of the spectrum consist of an older, more rigid view of nuisance and a modern, balancing approach of nuisance.<sup>202</sup> On the left is the more bright-line view of nuisance that looks very similar to trespass.<sup>203</sup> This approach focuses on the indirect invasion of the owner’s space and often ends in injunctive relief for the aggrieved property owner.<sup>204</sup> On the right of the spectrum is the modern approach, which focuses on the harms and benefits of the defendant’s conduct and attempts to remedy the harm through monetary damages.<sup>205</sup> This flexible approach has allowed previous trespassing actions to fall under the doctrine of nuisance when there is a public good at stake.<sup>206</sup> Under this modern approach, a court is tasked with analyzing and weighing the use announced by the owner against the conflicting use announced by the (most often) adjacent owner.<sup>207</sup> In this Article, the adjacent owner is the taker; in the classic nuisance case the taker is the polluter.<sup>208</sup>

Under all of the variations on the spectrum, the complaining property owner must demonstrate both a substantial and unreasonable non-

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199. See W. PAGE KEETON et al., PROSSER & KEETON ON THE LAW OF TORTS, § 86, at 616 (W. Paige Keeton ed., 5th ed. 1984) [hereinafter PROSSER & KEETON ON TORTS].

200. DOBBS, *supra* note 27, at 1320–1321 (arguing that this “jungle” is not that impenetrable).

201. See *id.* at 1322 (citing various examples).

202. See Smith, *Exclusion and Property Rules*, *supra* note 12, at 992, 996–97.

203. See *id.* at 990–92.

204. See *id.* at 992.

205. See *id.*

206. An example is in the case of overflights. See *supra* notes 222–33 and accompanying text.

207. See Smith, *Exclusion and Property Rules*, *supra* note 12, at 985, 992.

208. See *id.* at 985 (“Under governance rules, a court has to weigh the value of various uses, the ones announced by the owner and the conflicting one of the taker—the polluter in the classic nuisance example.”).

trespassory invasion of the right to use and enjoy her land.<sup>209</sup> This means that not just any annoyance caused by a nearby taker will constitute an actionable nuisance. It must be a substantial and unreasonable invasion of a property owner's use and enjoyment of her land.<sup>210</sup> This "reasonableness" inquiry is defined not by the negligence of the reasonable person, but by the reasonable use of one's property in light of the surrounding circumstances.<sup>211</sup>

For example, in *Boomer v. Atlantic Cement Co.*, eight owners of property, located near the new and large cement facility of Atlantic Cement Co., sued seeking injunctive relief and damages against the cement company.<sup>212</sup> The trial court found that the Atlantic Cement Co., in its operation of this new plant, created a legally recognizable nuisance due to the "large quantities of dust" and "excessive vibration from blasting" that substantially and unreasonably interfered with the plaintiffs' use and enjoyment of their property.<sup>213</sup> Finding that a permanent injunction would do comparatively little good for the plaintiffs and would create great public hardship, the trial court denied injunctive relief, issuing only monetary damages based on the loss of the value of the land.<sup>214</sup> In

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209. *Id.* at 992 n.83 ("[N]uisance is a substantial nontrespassory invasion of use and enjoyment of land that is caused either by intentional and unreasonable activities, or negligent, reckless, or ultrahazardous activities." (citing RESTATEMENT (SECOND) OF TORTS §§ 821F, 822 (1979))).

210. This is different from the law of trespass where even those that can show no damage to the land may still recover nominal damages and in the rare case punitive damages. See *Jacque v. Steenberg Homes, Inc.*, 563 N.W.2d 154, 159 (Wis. 1997) (recognizing "that in certain situations of trespass, the actual harm is not in the damage done to the land, which may be minimal, but in the loss of the individual's right to exclude others from his or her property"); Smith, *Exclusion and Property Rules*, *supra* note 12, at 995 (stating that "there is no de minimis exception in trespass" like there is in nuisance law).

211. See *Dobbs*, *supra* note 27, at 1326 (explaining that reasonableness in nuisance law is not defined as it is in negligence law, which refers to risk-creating behavior, but rather reasonableness in nuisance law refers to the expectations of a property owner occupying the plaintiff's land).

212. *Boomer v. Atl. Cement Co.*, 287 N.Y.S.2d 112, 113-115 (N.Y. Sup. Ct. 1967), *aff'd*, 294 N.Y.S.2d 452 (N.Y. App. Div. 1968), *rev'd*, 257 N.E.2d 870 (N.Y. 1970). The Atlantic Cement Company spent "more than \$40,000,000 in the erection of one of the largest and most modern cement plants in the world." *Id.* at 113. For a thorough analysis of *Boomer* and its effects on nuisance law, see generally Jeff L. Lewin, *Boomer and the American Law of Nuisance: Past, Present, and Future*, 54 ALB. L. REV. 189 (1990).

213. *Boomer*, 287 N.Y.S.2d at 114.

214. *Id.* The following "public" factors were listed: "The defendant's immense investment in the Hudson River Valley, its contribution to the Capital District's economy and its immediate help to the education of children in the Town of Coeymans through the payment of substantial sums in school and property taxes." *Id.* Further, the court found that "[t]he company installed at great expense the most efficient devices available to prevent the discharge of dust and polluted air into the atmosphere." *Id.* at 113. The appellate court affirmed the trial court rulings on injunctive relief and monetary damages. See *Boomer v. Atlantic Cement Co.*, 294 N.Y.S.2d 452, 453-54 (N.Y. App. Div. 1968), *rev'd*, 257 N.E.2d 870 (N.Y. 1970). The New York Court of Appeals held that an injunction should be granted temporarily and vacated once the cement company paid the plaintiff's permanent damages. See *Boomer v. Atlantic Cement Co.*, 257 N.E.2d 870, 875 (N.Y. 1970).

doing so, the court protected the plaintiffs' right to the use and enjoyment of their property by using a liability rule. Consequently, the plaintiffs were not able to force the Atlantic Cement Co. to stop indirectly invading their property through vibrations and dust. It is this type of factual situation regarding a dispute over a legal entitlement that a liability rule is invoked. In the end, the plaintiffs were monetarily compensated and both property owners were able to continue in their daily lives and activities.

The law of nuisance is also used at times to reach a balanced and flexible remedy when a direct trespass (instead of indirect as in *Boomer*) involves the public at large, or a significant monetary investment. These former trespasses are (re)classified as nuisances.<sup>215</sup> An example of this is plane overflights.<sup>216</sup> Under an older view of trespass and nuisance, a high-altitude overflight would be classified as a trespass.<sup>217</sup> The plane physically invades the *ad coelum* principle that property ownership includes space above the real property; therefore, the overflight would ordinarily be classified as a trespass.<sup>218</sup> Under a property-rule regime, the property owner should be able to receive injunctive relief as well as nominal damages and punitive damages if applicable. However, courts were hesitant to apply this rule due to the potential of high transaction costs and opportunities for holdout.<sup>219</sup> Instead, courts have applied the law of nuisance to this area of law.

An example of this is *Atkinson v. Bernard, Inc.*, where residents from a neighborhood just north of a small airport sued under a theory of trespass.<sup>220</sup> Although the planes were invading the plaintiffs' space above their homes, the plaintiffs' actual complaint was about the noise level and vibrations from the flights taking off and landing.<sup>221</sup> The plaintiffs also were concerned about the risk and fear of planes crashing into their homes.<sup>222</sup> The defendant argued the "coming to the nuisance" theory because it had operated the small airport, servicing mainly single-engine, non-commercial planes, for many years prior to the building of

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215. See *Dobbs*, *supra* note 27, at 1320–22.

216. See *id.* at 1320.

217. *Id.*

218. See *Smith*, *Exclusion and Property Rules*, *supra* note 12, at 1026.

219. *Id.* ("When high-altitude overflights conflicted with strict application of the *ad coelum* principle that ownership extended indefinitely upward from a parcel of land, courts were ready to define the property rights away from the owner in the face of the enormous transaction costs (and perhaps holdout potential) facing airlines if they had to negotiate with all those owning land lying under the flight path of their airplanes.").

220. *Atkinson v. Bernard, Inc.*, 355 P.2d 229, 230, 232 (Or. 1960).

221. See *id.* at 230.

222. See *id.*

the neighborhood.<sup>223</sup>

The Oregon Supreme Court noted that while Oregon courts had not directly answered the question of whether the “ancient and formal doctrine of trespass or the more flexible concept of nuisance” should apply, anytime a discussion of “reasonableness” is commenced the court is necessarily “tak[ing] leave of trespass and steer[ing] into the discretionary byways of nuisance.”<sup>224</sup> Accordingly, the court looked at the competing interests—protecting the exclusionary rights of the property owners and the public interest in protecting the freedom of air travel—as well as the level of the noise and vibration as a result of the overflights of the planes.<sup>225</sup> The court held that the proper cause of action here was nuisance, but that ultimately acoustical studies needed to be performed to determine if the noise was unreasonable.<sup>226</sup> Finally, the Oregon Supreme Court instructed the trial court to be careful to narrowly enjoin the airport, if at all, due to the highly valued public benefit of flight.<sup>227</sup>

This shift in nuisance law toward a liability rule regime has also moved nuisance law away from the enforcement mechanism of punitive damages. When punitive damages are granted in nuisance law (normally also accompanied by an adjudication of trespass), the tort was committed with a certain level of intent to harm another.<sup>228</sup> This is in line with the original understanding of property and liability rules. A liability rule allows the interested taker the option to take or use the entitlement it wants and to later pay officially determined damages.<sup>229</sup> These damages “are designed to mimic a hypothetical market price, but they may be pegged at average harm or some other nonpunitive level.”<sup>230</sup>

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223. See *id.* at 230, 232.

224. *Id.* at 232. The court further noted William Harvey’s observation that “some decisions range freely over both the trespass and the nuisance rationales—the airspace zone in which intrusion by aircraft would be a nuisance apparently being considered in certain opinions as coterminous with that in which it would constitute a trespass . . . while others which rely upon nuisance as the ground of decision might easily be interpreted in trespass terms.” *Id.* (quoting William B. Harvey, *Landowners’ Rights in the Air Age: The Airport Dilemma*, 56 MICH. L. REV. 1313, 1315 (1958)) (internal quotation marks omitted).

225. See *id.* at 232–34.

226. *Id.* at 233–34.

227. See *id.* at 234.

228. Smith explains that “[i]ntentional torts are another matter; the suspicion here is that there is more going on than a missed transaction.” Smith, *Property and Property Rules*, *supra* note 10, at 1733. “In the liability rule literature it is common to identify punitive damages as implementing a property rule, because punitive damages aim at deterring rather than pricing nonconsensual transfers.” *Id.* at 1733 n. 40.

229. See *id.* at 1749.

230. *Id.* (explaining that property rules and liability rules are generally associated with different remedies, with property rules representing a sanction and liability rules representing a price).

## 2. TRESPASS

Regarding real property, where we sometimes view “property ownership [as being] comprised of numerous ‘sticks in a bundle of rights,’” the right to exclude is arguably the most important stick.<sup>231</sup> We can also view property ownership as simply giving an owner the right to exclude from a “thing.”<sup>232</sup> Either way, if this right to exclude is violated and an infringer enters the property of another, the property owner has a cause of action against the infringer sounding in tort: trespass.<sup>233</sup> Trespass is a (relatively) straightforward cause of action. Simply, one may not enter land belonging to someone else without permission from the landowner. And like infringement in patent law, the tort of trespass is a strict liability tort.<sup>234</sup> No specific intent to cause wrongful harm or loss is needed.<sup>235</sup> Rather, there has to be an intention to enter the property,<sup>236</sup> and the property owner needs to show rightful ownership or possession

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231. Georgette Chapman Phillips, *Boundaries of Exclusion*, 72 MO. L. REV. 1287, 1289–90 (2007). *But see id.* at 1289 n.4 (citing Wesley Newcomb Hohfeld, *Fundamental Legal Conceptions as Applied in Judicial Reasoning*, 26 YALE L.J. 710, 745–47 (1917)) (explaining that the theory of nominalism values all the sticks equally).

232. Smith, *Property and Property Rules*, *supra* note 10, at 1728 (“Property gives the right to exclude from a ‘thing,’ good against everyone else.”).

233. *See* Gideon Parchomovsky & Alex Stein, *Reconceptualizing Trespass*, 103 Nw. U. L. REV. 1823, 1823–24 (2009) (“Ex ante, the owner’s right to exclude others from her property receives the highest degree of protection. . . . Ex post, however, things change dramatically. After a trespass ends, the typical remedy an aggrieved owner can receive in court is compensation measured by the market value of the unauthorized use. Courts ordinarily set the compensation amount equal to the rent that owners of similar properties can obtain on the market. This measure applies to all trespass cases except the most egregious ones, where courts are authorized to grant punitive damages. Ex post, therefore, the owner must suffice herself with lesser protection than she originally had, namely, market-value compensation. Under current law, the trespasser effectively holds a call option on the owner’s property.”).

234. *See* *Thomas v. City of Kan. City*, 92 S.W.3d 92, 97–98 (Mo. Ct. App. 2002) (“Trespass has its origin in an intentional act, even though the actor may not intend to invade the property of another.”) (quoting *Looney v. Hindman*, 649 S.W.2d 207, 212 (Mo. 1983)); *see also* *Peasley Transfer & Storage Co. v. Smith*, 979 P.2d 605, 616 (Idaho 1999) (stating that “where there has been a positive act of dominion over another’s property, unauthorized by the owner, it is not necessary that the actor intend to commit a trespass or a conversion”).

235. *See* *Cleveland Park Club v. Perry*, 165 A.2d 485, 487–88 (D.C. 1960) (noting that “[w]here . . . the cause of action is based on trespass the cases hold unequivocally that since recovery under that theory is based on force and resultant damage,” the intent to injure is irrelevant); DOBBS, *supra* note 27, at 98 & n.1.

236. DOBBS, *supra* note 27, at 98 n.1 (“Although neither deliberation, purpose, motive, nor malice are necessary elements of intent, the defendant must intend the act which in law constitutes the invasion of the plaintiff’s right.” (citation omitted) (internal quotation marks omitted)). This act may be one of mistake or misunderstanding. *See* *Golonka v. Plaza at Latham, LLC*, 704 N.Y.S.2d 703, 706 (N.Y. App. Div. 2000) (“[A] person entering upon the land of another without permission, ‘whether innocently or by mistake, is a trespasser.’” (internal citation and quotation marks omitted)).

of the property and an unauthorized entry<sup>237</sup> or direct injury to her property.<sup>238</sup> Under the law of trespass, the property owner does not have to show that the trespasser caused any significant damage; nominal damages may be awarded.<sup>239</sup> If a trespasser enters in a particularly egregious manner, punitive damages may be awarded as well to punish the infringer and deter similar behavior in the future.<sup>240</sup> Further, if the trespass is likely to continue again an injunction may be entered by the court to prohibit future trespasses.<sup>241</sup>

The textbook case of a trespass with punitive damages attached is *Jaque v. Steenberg Homes, Inc.*<sup>242</sup> The Jacques sued Steenberg, a mobile home company, for crossing over their land to deliver a mobile home.<sup>243</sup> Prior to this intentional trespass, Steenberg had asked for the Jacques' permission and offered compensation to cut across their property in order to save themselves time and money as well as avoid a steep snow bank.<sup>244</sup> The Jacques repeatedly told Steenberg that it may not cut across their property, and the court noted that the Jacques were sensitive about allowing others on their land because of a previous adverse possession action that caused the loss of their property valued at over \$10,000.<sup>245</sup>

After an unofficial mediation where the Jacques again refused to grant permission for Steenberg to traverse across their property, Steenberg delivered the mobile home in the most efficient and safest route—trespassing on the Jacques' land in the process.<sup>246</sup> Steenberg intention-

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237. Phillips, *supra* note 230, at 1291 ("Possession and unauthorized entry form the prongs of the prima facie proof of the tort.").

238. RICHARD A. EPSTEIN, TORTS 24 (1999) [hereinafter EPSTEIN, TORTS] (stating that the action for trespass covers unlawful entry as well as when "D uses force to 'directly' injure P's property"); see also Smith, *Exclusion and Property Rules*, *supra* note 12, at 992 ("The law of trespass applies to gross physical invasions by visible objects, applies a test of strict liability, and routinely allows for injunctions."). As stated above, an indirect injury, such as a foul odor, is not actionable through trespass, but rather through the law of nuisance. See, e.g., *Penland v. Redwood Sanitary Sewer Serv. Dist.*, 956 P.2d 964, 966 (Or. 1998) (explaining that injury is inherent in a tort claim).

239. See Smith, *Exclusion and Property Rules*, *supra* note 12, at 995 ("Unlike in nuisance, there is no de minimis exception in trespass. One reason for the lack of a de minimis exception in trespass follows from its nature as an exclusion regime.").

240. See EPSTEIN, TORTS, *supra* note 238, at 23 ("Finding nominal damages could therefore serve as the predicate for punitive damages, which are not normally available unless D has committed some recognized tort.").

241. See *id.*

242. *Jaque v. Steenberg Homes, Inc.*, 563 N.W.2d 154 (Wis. 1997).

243. *Id.* at 156.

244. See *id.* at 157.

245. *Id.* See also Smith, *Exclusion and Property Rules*, *supra* note 12, at 983 n.52 (explaining that the Jacques' "belief was mistaken because permission negates the hostility required for adverse possession or prescription").

246. *Jaque*, 563 N.W.2d at 157.

ally trespassed, with the court noting that the frustrated foreman allegedly used colorful language when directing his workers to cross the Jacques' land.<sup>247</sup> Ultimately, the Wisconsin Supreme Court upheld a jury award of nominal compensatory damages in the amount of \$1, and a jury award of \$100,000 in punitive damages.<sup>248</sup> This punitive award seems quite extreme (and certainly the discrepancy between the amount of nominal damages and punitive damages is extreme). There was no harm done to the land, and it appears that the Jacques were holding out for a somewhat irrational reason.<sup>249</sup> Yet "the court allowed punitive damages in order to vindicate the right to exclude and noted that without them, intentional violations of the right to exclude could not be deterred."<sup>250</sup> The court here protected the Jacques' right to exclude with a property rule.<sup>251</sup> It did not inquire about the best use of the property or the Jacques' reasonableness in refusing to grant permission.<sup>252</sup> Simply, the court honored the Jacques' right to be the "gatekeeper" of their property.<sup>253</sup>

Although the Jacques' were able to enforce what seemed like an absolute right to exclude, this is not always the case. A longstanding exception to a property owner's right to exclude is that of "necessity."<sup>254</sup> The doctrine of necessity dates back to at least the sixteenth century<sup>255</sup> and serves to legally excuse a guilty trespasser.<sup>256</sup> The necessity privilege is invoked by the trespasser who chooses the "lesser of two evils"—the action that avoids the greatest harm.<sup>257</sup> By choosing this

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247. *See id.*

248. *See id.* at 158, 166.

249. The Jacques were concerned about adverse possession, which was not at issue here because the claimant has to be in possession of the property without the owner's consent. *See Smith, Exclusion and Property Rules, supra* note 12, at 983 n.54 ("A claim of adverse possession or prescription must be hostile; the claimant must possess or use the property without the owner's permission.").

250. *Id.* at 983 (citing *Jacque*, 563 N.W.2d at 158–62).

251. *See id.*

252. *See id.* at 983–84.

253. *Id.* at 984 (arguing "that this strong form of delegation of the 'gatekeeper' right to owners—even in the face of facts like those of *Jacque*—makes sense on an information-cost theory"). In this case if the Jacques could show that Steenberg Homes had another mobile home to deliver and was apt to cross the same path, the court would also have likely issued a permanent injunction against Steenberg. *But see Parchomovsky & Stein, supra* note 233, at 1823–24 (arguing that ex post property owners do not have the same strong rights, notably the right to exclude, that they do ex ante).

254. *See* EPSTEIN, *TORTS, supra* note 238, at 59. *See also* WILLIAM B. STOEBUCK & DALE A. WHITMAN, *THE LAW OF PROPERTY* 411 (3d ed. 2000) (explaining "others [may] enter with the rightful possessor's permission but [also] in a few cases, against his will").

255. *See* Shaun P. Martin, *The Radical Necessity Defense*, 73 U. CIN. L. REV. 1527, 1532–33 (2005) (citations omitted).

256. *See* Phillips, *supra* note 230, at 1292–93.

257. John Alan Cohan, *Private and Public Necessity and the Violation of Property Rights*, 83

lesser evil, thereby avoiding great harm, an act that would otherwise be wrongful and punished by the law is in essence deemed legal.<sup>258</sup> However, the harm being avoided must be in the form of a grave risk, such as the risk of death, serious bodily injury, or a significant loss of property.<sup>259</sup> Significantly, the need for immediate and illegal action must not arise out of the defendant's own action.<sup>260</sup>

There are two categories of necessity: private necessity and public necessity.<sup>261</sup> The difference between private and public necessity is whom the grave danger or imminent harm will affect. An example where a public necessity privilege arises is when a defendant enters the plaintiff's land and destroys the plaintiff's house to prevent the spread of a fire that would have otherwise destroyed an entire city.<sup>262</sup> Absent the imminent harm to the city because of the spreading fire, the defendant would be liable for intentionally trespassing on the plaintiff's land.

Jules Coleman has constructed an example of private necessity. Hal, a diabetic loses his insulin in an accident and enters the unoccupied home of another diabetic, Carla, and takes the insulin that he needs to prevent his impending death.<sup>263</sup> In doing so, he ensures that there is enough insulin for Carla's own daily dose.<sup>264</sup> In this example, Hal is justified in trespassing on Carla's land and taking what he needed for his own survival.<sup>265</sup> Accordingly, he is not liable for trespass though he most likely must pay for the insulin that he took.<sup>266</sup> We would call this necessity an incomplete privilege. It is not a complete privilege because the defendant, Hal in the insulin case, must pay for the damage he caused. He is, however, not liable legally for his trespassory conduct.

N.D. L. REV. 651, 654 (2007) (citing GLANVILLE WILLIAMS, *THE SANCTITY OF LIFE AND THE CRIMINAL LAW* 198 (Alfred A. Knopf, Inc. 1957)). See also Martin, *supra* note 255, at 1527-28; Phillips, *supra* note 230, at 1292-93.

258. Cohan, *supra* note 257, at 653-54 (citing WILLIAMS, *supra* note 257, at 198).

259. See EPSTEIN, *TORTS*, *supra* note 238, at 59.

260. *Id.* (stating that "[n]ecessity cases, pure and simple, never arise out of P's wrong").

261. See Phillips, *supra* note 230, at 1292.

262. DOBBS, *supra* note 27, at 251. This particular instance stems from an early example in English history where the Lord Mayor of London refused to order or consent to forty houses or their furniture being removed in order to save the city from the spreading fire. See *Respublica v. Sparhawk*, 1 U.S. 357, 363 (1788) (recounting story). The reason given for the Lord's refusal to order or consent to the destruction of property was that he feared he would be charged with trespass, and, as a result of his fear, half of London was burned. *Id.*

263. JULES L. COLEMAN, *RISKS AND WRONGS* 282 (1992).

264. *Id.*

265. *Id.* at 282-83 (Coleman finds that Hal is justified both legally and morally); but see George C. Christie, *The Defense of Necessity Considered from the Legal and Moral Points of View*, 48 DUKE L.J. 975, 978 (1999) (arguing that there is little support in Coleman's view that Hal has not violated Carla's rights but only infringed them and therefore has not committed a wrong but only caused a wrongful loss that he must pay).

266. See COLEMAN, *supra* note 263, at 282-83.

A well known case involving the defense of public necessity is *Vincent v. Lake Erie Transportation Co.*<sup>267</sup> Although the defense of necessity is most easily justified when used to defend or save life, it may also be used to save the significantly more valuable property.<sup>268</sup> The defendant's steamship, the *Reynolds*, was tied to the plaintiff's dock while goods were being unloaded.<sup>269</sup> During the unloading process a storm developed, ultimately producing winds of fifty miles per hour.<sup>270</sup> The captain of the *Reynolds* decided to stay moored at the plaintiff's dock rather than attempt to face the tumultuous sea.<sup>271</sup> Throughout the course of the storm, the crew replaced worn and frayed lines to ensure that the steamship stayed at the dock.<sup>272</sup> The result of the *Reynolds* being tossed against the dock by the heavy rain and waves during the course of the storm was five hundred dollars' worth of damage to the dock.<sup>273</sup> The court held that the defendants had not acted negligently in keeping the steamship moored at the dock during the storm, and it instead found that the captain and crew "exercised good judgment and prudent seamanship."<sup>274</sup> Nevertheless, the court held that the defendants were responsible for the damage, stating:

Theologians hold that a starving man may, without moral guilt, take what is necessary to sustain life; but it could hardly be said that the obligation would not be upon such person to pay the value of the property so taken when he became able to do so. And so public necessity, in times of war or peace, may require the taking of private property for public purposes; but under our system of jurisprudence compensation must be made.<sup>275</sup>

The dock owner's right to exclude is ordinarily protected by a property rule, yet when such facts as these are present a court may elect to not enforce a property rule. Instead, it may order that the dock owner's right to exclude is supported only by a liability rule.<sup>276</sup> During the time of necessity, a ship in the position of the *Reynolds* is permitted to "take now, and pay later."<sup>277</sup> However, as soon as the imminent risk of grave danger passes—the storm in this case—the property owner's right to

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267. *Vincent v. Lake Erie Transp. Co.*, 124 N.W. 221 (Minn. 1910).

268. Christie, *supra* note 265, at 981–82 (arguing that "*Vincent* cannot support most of the broad conclusions that have been drawn from it").

269. *Vincent*, 124 N.W. at 221.

270. *Id.*

271. *Id.*

272. *Id.*

273. *Id.*

274. *Id.* at 221.

275. *Id.* at 222.

276. See Smith, *Property and Property Rules*, *supra* note 10, at 1735.

277. See *id.*

exclude is again protected by a property rule, and a trespasser will be subject to an injunction and punitive damages if applicable.<sup>278</sup>

The mechanism of switching from a property rule to a liability rule in time of grave danger is useful in the patent context. I propose under my trespass-as-infringement framework that the role of an incomplete privilege, one akin to that of necessity, should be utilized in situations of public harm resulting from the public's loss of access to technology or to prevent significant economic waste like in *Vincent v. Lake Erie*. The use of an incomplete privilege will prevent the problem of holdup being a constant threat to the patent industry and yet also allow patentees consistent access to injunctive relief.

#### IV. REFRAMING PATENT REMEDIES

The rule change in *eBay v. MercExchange* and subsequent case law has changed the structure of patent remedies. An NPE and practicing patent holder that is in indirect competition with its infringer no longer has meaningful access to the equitable remedy of injunctive relief. There is also tension in the structure of patent remedies after *eBay* and the subsequent case law. When a defendant is judicially determined to have willfully infringed, if the defendant can show that it will be substantially harmed if an injunction is issued or that it will put the patented technology to better use than the patent holder, it may be allowed to continue to infringe the patented technology. Concerns about patent holdout may be solved without weakening the foundation of patent law. This next section will demonstrate how this can be accomplished.

##### A. Property Rules Protect the Right to Exclude

Patents are (a species of) property,<sup>279</sup> and patent law is justified as an institution with the ultimate goal of promoting innovation, with the

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278. See *id.* (“The one in peril can take and pay, but after the peril passes, the property rule reasserts itself.”).

279. See Duffy, *supra* note 17, 1078 (“I, along with others, believe that intellectual property should be treated as a species of property.”); Mossoff, *supra* note 17, at 322 (“The status of patents is undisputed: patents are property.”); Smith, *Intellectual Property as Property*, *supra* note 189, at 1745 (arguing “that intellectual property’s close relationship to property stems from the role that information costs play in the delineation and enforcement of rights”). Yet there are some scholars who believe that patent law stands on its own and is more akin to a public good than a piece of property. See, e.g., Lemley, *Free Riding*, *supra* note 17, at 1075 (arguing that intellectual property “no longer needs to turn to some broader area of legal theory to seek legitimacy” and that there is no reason to analogize intellectual property to property); Sichelman, *supra* note 28, at 9, 11 (defending his view that patentees are private attorneys general and patent law is a public regulatory regime). Smith finds that “[s]keptics of intellectual property rights criticize unjustified formalistic use of property metaphors and doctrines and advocate fewer exclusive rights and greater tailoring of the legal regime around valued uses.” Smith, *Intellectual Property as Property*, *supra* note 189, at 1756 (citing examples of “[s]keptics of intellectual property rights”).

parties within the patent system playing an integral role in the successful functioning of the system. Accordingly, spending time focusing on the actions and compensation of the parties within the patent system is just one step scholars must take in efforts to achieve the optimal level of investment in intellectual property.

Property rights are most often protected in the law by a property rule.<sup>280</sup> This is true even though the use of property rules in recent years has received relatively little support in legal scholarship.<sup>281</sup> The gap between the strong support for property rules in the law prior to *eBay* and weak support for property rules in the legal academy is seemingly demonstrative of a split between the courts and the academy.<sup>282</sup> In patent law, scholars are (rightfully) concerned that NPEs are strategically holding out when negotiating with potential users of their technology, as well as waiting until their patent is almost expired to enforce their rights to garner high damages from those in the same field.<sup>283</sup>

This line of literature was most recently furthered by scholars who have either proposed a nuisance-type model for patent infringement or who have argued that patent law is akin to nuisance law (where the once property-rule regime is transitioning into a liability-rule regime, with the focus on the utilities and reasonableness of the property use).<sup>284</sup> Although holdout behavior and strategic bargaining are two valuable concerns in patent law, I argue here that these problems can be handled without altering or giving up a patent holder's right to exclude.<sup>285</sup>

The framework of patent infringement remedies should be shifted toward the structure of trespass. Both trespass and patent infringement are strict liability regimes; a cause of action exists as soon as a party steps into the boundary lines owned by the property holder. Although the costs and mechanisms of defining boundary lines in patent law are

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280. See Smith, *Property and Property Rules*, *supra* note 10, at 1723 (proposing a theory of the advantages of property rules that seeks to account for "why property rules tend to be associated with entitlements that we label 'property'").

281. *Id.* at 1721–22 (arguing "that the preference for liability rules rests on certain overly simple assumptions about how assets and activities are individuated and evaluated").

282. *Id.* at 1723 (describing the gap between law and theory in property).

283. See *supra* Section III.A.

284. See, e.g., Janet Freilich, Comment, *A Nuisance Model for Patent Law*, 2011 U. ILL. J.L. TECH. & POL'Y 329, 331 (2011) (arguing "that the patent system should be reformed by creating a nuisance-type model for intellectual property" that "would build off the real property system of private nuisance, which encourages courts to conduct a test that balances harm and utility, both to the parties and to society, to determine whether damages or an injunction would be the better remedy"); Newman, *supra* note 8, at 105.

285. This right to exclude "is the obvious place to begin because it is a central component of any system of private property." Epstein, *Disintegration*, *supra* note 17, at 486 ("Indeed, the right to exclusive possession and use is the only element of the traditional bundle of property rights that receives full-fledged constitutional protection under the Takings Clause.").

higher and more costly due to the nature of patent claims (as opposed to a fence), a party is liable for its encroachment regardless of knowledge or intention of crossing those boundary lines.<sup>286</sup> Further, just like in the law of trespass, an infringer is held responsible for its actions even if the damage caused is minimal. Even though injunctions are arguably less requested and less needed in the law of trespass due to the exactness of the boundary lines and nature of the harm, the tool of injunctive relief remains valuable.<sup>287</sup>

The most important aspect of injunctive relief is with respect to future harms: “[I]t keeps open the channels for voluntary exchange.”<sup>288</sup> Injunctive relief forces interested users of the patented technology to negotiate directly with the property owner and in theory “mak[es] it impossible for individuals to circumvent the basic rules of property law for their short-term private advantage.”<sup>289</sup> This is furthered by the added layer of protection of enhanced damages under the Patent Act. If the taking is deemed willful, the court has the option of awarding both an injunction and damages above the base monetary remedies of lost profits or reasonable royalties.

In regard to the importance of injunctive relief in trespass, “[w]hy would third parties even attempt to negotiate with owners and risk a negative answer when they can simply take matters into their own hands, act unilaterally, and pay the official market price after the fact?”<sup>290</sup> Likewise, property rules in patent law encourage parties to interact and reach a mutually beneficial bargain. Take away the patentee’s right to be protected by a property rule (enforced through injunctive relief and enhanced damages) and the system becomes weaker. Patentees will seemingly have less of an incentive to invest in and seek

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286. See *id.* at 486–87 (recognizing that “[t]he sharp boundary lines in physical space cannot be duplicated with intellectual property” and that “[t]he fuzzy boundaries inherent in the description of patent claims invite, of course, new entrants to game the system by coming as close to the original patent description without crossing the line”). Epstein further explains that there is not a strong argument for unawareness in patent law’s strict liability system, stating: “it would be easy in a strict liability regime to show some solicitude to those who came close to the line that they did not cross. But all patent claims are constructed by professionals who have an intimate knowledge of the relevant space.” *Id.* at 487.

287. See Parchomovsky & Stein, *supra* note 233, at 1824–26 (explaining that the law of trespass often does not provide the same level of protection *ex post* the trespass versus the protection the owner enjoys *ex ante* the trespass, and arguing for “[p]roprietized compensation [that] seeks to reinstate, to the extent feasible, the owner’s right to exclude others and to set any price for occupation and use of her property”).

288. Epstein, *Disintegration*, *supra* note 17, at 488 (finding that this is the “best answer” to why the Federal Circuit adopted a presumption in favor of granting injunctions in patent cases).

289. *Id.* at 488. This fundamental rule in property law prevents “the exercise of a private power of eminent domain” and an injunction “prevents the circumvention of voluntary transactions that work to the benefit of both sides.” *Id.* at 488–89.

290. See Parchomovsky & Stein, *supra* note 233, at 1825.

protection from patented inventions. Further, patentees may be less likely to share their technology because one of the major pieces of evidence courts analyze *ex post eBay* in deciding whether to grant injunctive relief or not is whether the patentee regularly licensed its technology and for what price. Parties need to have expectations managed effectively, and this is most easily and historically done in patent law by reestablishing the right to exclude after infringement to the majority of patentees.

Liability rules and nuisance law do not achieve this same level of expectation and incentive to negotiate and play by the rules. Smith has explained that “[u]nder a liability rule, a would-be taker or user can violate the entitlement and pay officially determined damages, as opposed to facing injunctions or punitive damages under a property rule that protects an owner’s right to insist on a voluntary transaction or no transaction at all.”<sup>291</sup> This taker has a private power of eminent domain and is able to seek out undervalued or developed technology and pay the current market price instead of what the patent holder believes it will be worth once fully developed.<sup>292</sup> This is in direct contradiction with patent law, where if an infringer willfully makes, uses, or sells patented technology it may be subject to enhanced damages that are aimed at punishing and deterring future infringing actions. The strict liability structure and the recognition of the harm, regardless of the amount of damages, are also both inconsistent with the law of nuisance.

Further, nuisance law involves two property owners, where one property owner invades the other property owner’s space indirectly through dust or noise. The invading property owner is not liable for such invasion until it substantially and unreasonably interferes with the plaintiff’s right to use her property.<sup>293</sup> Because there are not two property owners in patent law, the very basis for balancing the use and reasonableness of such use of the property does not exist. This balancing of use occurs in nuisance law because of the two equal, yet conflicting, property rights at stake.<sup>294</sup>

Robert Merges has explained that the foundation of strong “prop-

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291. Smith, *Intellectual Property as Property*, *supra* note 189, at 1757.

292. Cf. Epstein, *Disintegration*, *supra* note 17, at 488–89 (discussing how an “injunction prevents the exercise of a private power of eminent domain”). A liability rule therefore encourages experts in the field to seek out patented technology that has not yet been introduced to the market or fully implemented in a successful product, and have the ability to pay a market price that may not take into account that in just another six months the patented technology will be valued at several times the current amount. Of course the patentee arguably knows (or at least believes) this to be true of her technology and so demands a price that the future infringer refuses to pay knowing he can “take and pay later.”

293. See RESTATEMENT (SECOND) OF TORTS §§ 821F, 822 (1979).

294. See Freilich, *supra* note 284, at 343.

erty rule entitlements drive IPR [intellectual property rights] holders in high transaction industries into repeat-play bargaining which leads to the formation of CROs [private Collective Rights Organizations].”<sup>295</sup> For example, patent holders voluntarily join patent pools in industries and “contract around” potentially inefficient property rules.<sup>296</sup> Merges describes the growing phenomenon in which intellectual property holders join together, agree to give up their rights to injunctive relief, collectively license their patents or copyrights, and split the profits.<sup>297</sup> Recognizing that parties efficiently contract around property rules when an injunction is not the end goal presents one more reason to have a patent system based on property rules. Patent law may not need courts to set licensing rates for it when parties are doing it themselves and already avoiding potential problems of holdup. In a market economy, parties that set the price for the entitlements are generally more trusted to do so at the right price than courts or legislatures.<sup>298</sup> The preference for property rules over liability rules is significantly bolstered by Merges’s evidence that parties within the intellectual property system will come together and avoid problems of holdup.<sup>299</sup>

So how can we decrease the tension in the patent remedies structure and revert back to strong property rules after *eBay* and over five years of developing case law that is moving in the wrong direction? In the next section, I propose that the most realistic and helpful option at this point is to accept *eBay* and work within the current framework to do what is possible to shift the current trajectory of patent remedies.

### B. Options After eBay

There are several possible approaches to decreasing the tension within the structure of patent remedies. One response may be that we should do nothing—that we simply should embrace the current path of equitable relief. The thought here is that the direction of patent law toward a liability rule is overdue and that for too long the patent system has promoted sky-high awards. This response of “wait and see” is certainly the easiest to adopt, yet it is unlikely that under the evolving liability rule system the standard of willful infringement could be sustained or the incentive to negotiate upfront with the patent holder before the taking of the patented technology. A liability system encourages just the

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295. Merges, *Contracting into Liability Rules*, *supra* note 12, at 1296.

296. *See id.* at 1340–42, 1357.

297. Merges, *Contracting into Liability Rules*, *supra* note 12, at 1319, 1340–42. For example, copyright owners forego their injunctive rights and collectively license their rights to copyright licensing organizations such as ASCAP and BMI. *See id.* at 1295.

298. *See* Lemley, *Contracting Around*, *supra* note 11, at 470.

299. *See id.* (discussing Merges, *Contracting into Liability Rules*, *supra* note 13).

opposite. Further, it seems there are few (if any) scholars that are completely satisfied with *eBay*. The two arguments serving as endpoints on the spectrum of when to grant injunctive relief are that patentees should always receive injunctive relief versus that patentees should never receive injunction relief.

Most scholars are well within these endpoints. For example, John Golden has argued against a near-categorical rule that denies patentees in indirect competition (whether through commercialization itself or licensing to a company that is in direct competition with the infringer) the ability to receive an injunction.<sup>300</sup> He explains that district courts seem to be moving toward a “per se rule of discrimination based on a patent holder’s business model,” and that such a per se rule “could act as an undesirable drag on the efficiency and competitiveness of markets for innovation.”<sup>301</sup> Golden further identifies the actors that are harmed by this rule and states that “[b]y discouraging innovation, and the ownership of rights in innovation, by independent inventors, universities, technology start-ups, research-oriented spin-offs, and patent holding companies, a categorically discriminatory market for patent rights may slow, rather than promote, progress.”<sup>302</sup>

Epstein has criticized the *eBay* factors as not taking into account the “serious institutional damage” that occurs when a court allows an infringer to “circumvent the voluntary market by creating what is in essence a compulsory license whose terms are set by a court, not the parties.”<sup>303</sup> Epstein also points out flaws within the test itself, such as the extremely similar first two factors—irreparable injury and inadequate damages at law—and the unhelpfulness of the last two factors.<sup>304</sup> He finds that the third factor regarding relative hardship of the parties requires the court to play a guessing game as to which party will suffer the most harm.<sup>305</sup> And as for the fourth factor—the impact of the injunction on the public—Epstein argues “[i]n order for this factor to carry real weight, it is necessary to show that there will be cases in which the injunction seems justified between the parties but will be denied because of its adverse effects on third persons.”<sup>306</sup> Accordingly, he finds that the

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300. Golden, *supra* note 5, at 2116.

301. *Id.* at 2117.

302. *Id.* (Golden persuasively states that “[e]ven a well-justified belief that patent rights may, in some instances, produce excessive rewards does not necessarily justify devaluing those rights whenever they are held by a broad class of patent owners”).

303. Epstein, *Disintegration*, *supra* note 17, at 490.

304. *Id.* at 490–91. See also Gergen, Golden & Smith, *supra* note 81, at 233 (noting that the irreparable harm and inadequacy of legal remedies factors overlap).

305. Epstein, *Disintegration*, *supra* note 17, at 491.

306. *Id.* at 491.

“touchstone” of a court’s inquiry will be the irreparable harm factor.<sup>307</sup>

Other scholars have likewise found problems with *eBay* and have generally argued that patent law should either deny more injunctions<sup>308</sup> or reframe the way that injunctive relief is currently being handled by the district courts,<sup>309</sup> and that intellectual property may be more aptly dubbed “intellectual liability.”<sup>310</sup> With these criticisms of *eBay* already lodged, and the newly identified tension between courts using deterrence and blameworthy language and allowing such an infringer to continue using the patent, this first response is unsatisfactory.

Another response to *eBay* is to simply reject it and start anew. This response may seem attractive at first glance given all of the complaints, yet the harder question of course is what to replace it with. The debates—past and current—between academics, reformers, and judges demonstrate that there are many varying perspectives on not only how to shape patent law, but also more fundamentally, on what the purpose and focus of patent law should be. Putting differing views aside, there is a more concrete problem with this option. *eBay* is deeply entrenched within the court systems. In a recent article, Mark Gergen, John Golden, and Henry Smith analyze the spreading (and perhaps unintentional) influence of *eBay*.<sup>311</sup> They demonstrate that federal courts across the nation have adopted *eBay* and its rule change that stripped away the presumption of injunctive relief following adjudication.<sup>312</sup> This is true not only for patent cases, but also for almost all types of cases (for example, actions under federal anti-discrimination statutes and actions based on diversity involving state tort, contract, or statutory law).<sup>313</sup> And while several courts have found *eBay* disruptive of many long-settled presumptions,<sup>314</sup> it does not seem realistic at this point to hope that this spreading influence of *eBay* will be curtailed anytime soon. This leaves the most satisfactory and feasible option to resolve the current tension between equitable and injunctive remedies in the patent system: to work within the existing law.

A positive starting point in the existing law is that there are several situations that generally result in an award of injunctive relief for the

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307. *Id.*

308. *See* Sichelman, *supra* note 28, at 13.

309. *See, e.g.*, Lemley & Shapiro, *supra* note 6, at 2035–37 (citing the potential problem of patent holdout and arguing in favor of granting stays on permanent injunctions in cases where the infringing party will be able to design around the patent).

310. *See* Crane, *supra* note 172, at 254.

311. *See* Gergen, Golden & Smith, *supra* note 81, at 205.

312. *Id.*

313. *Id.* at 215 & nn.51–54 (listing exemplary case law).

314. *Id.* at 215–16 (citing courts that have explicitly found *eBay* as disruptive to presumptions such as a presumption of irreparable injury in light of continuing harms).

patentee. These situations, representing a near per se award of injunctive relief for the patent holder, occur when patent holders directly compete with the accused infringers.<sup>315</sup> This includes those in direct competition, as well as those that exclusively license their patented technology to another that competes with the infringer. However, this is just a starting point because many patentees do not license their patent to just one company, and still many others are not in direct competition with their infringer. Another issue that courts and scholars must be aware of ex post *eBay* and the decline of the economy is that some inventors and small companies (who may have attempted to commercialize their own technology) may now choose to license or assign their patents to patent holding companies that will then enforce these patent rights. Consequently, a categorical prohibition against NPEs having access to equitable relief is increasingly going to affect individual inventors and small companies.

Although NPEs are most often viewed negatively, patent scholars have also recently asserted that NPEs serve a useful role. For example, scholars have recently argued that NPEs enhance innovation by creating a market for patents and inventions to capital-poor inventors.<sup>316</sup> Similarly, NPEs may “act as a market intermediary in the patent market” and “provide liquidity, market clearing, and increased efficiency to the patent markets—the same benefits securities dealers supply capital markets.”<sup>317</sup> It is also important, especially with NPEs, to “distinguish between a hold-up and aggressive, but legitimate, bargaining.”<sup>318</sup> The time-limited leverage granted to inventors by the Patent Act is a strong incentive for innovation, and an integral part of that incentive is the ability to bargain hard and put oneself in the best position to extract value from the patented technology.<sup>319</sup>

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315. See *TruePosition Inc. v. Andrew Corp.*, 568 F. Supp. 2d 500, 505, 534 (D. Del. 2008) (granting injunctive relief against a direct competitor); *TiVo, Inc. v. EchoStar Commc'ns Corp.*, 446 F. Supp. 2d 664, 670–71 (E.D. Tex. 2006) (same). See also Brief *Amici Curiae* of 52 Intellectual Property Professors in Support of Petitioners at 9, *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006) (No. 05-130) (identifying those that generally garner injunctive relief as the “patent owners who participate in the market, whether by selling the patented invention, exclusively licensing it to someone else who sells it, or selling a product not covered by the patent but which competes with the infringing product”). Mark A. Lemley was the principle author here, with Richard Epstein, F. Scott Kieff, R. Polk Wagner, and David Teece writing a response brief. See Epstein, *Disintegration*, *supra* note 17, at 491 n.128 (citing Brief of Various Law & Economics Professors as *Amici Curiae* Supporting Respondent, *eBay*, 547 U.S. 388 (No. 05-130)).

316. Shrestha, *supra* note 5, at 117–18.

317. McDonough III, *supra* note 7, at 190. See also Marc Morgan, *Stop Looking Under the Bridge for Imaginary Creatures: A Comment Examining Who Really Deserves the Title Patent Troll*, 17 FED. CIR. B.J. 165, 172–76 (2008).

318. Layne-Farrar & Schmidt, *supra* note 18, at 1122.

319. See Newman, *supra* note 8, at 66.

I am not advocating in this Article for or against NPEs, but there is a concern that courts are allowing too much change in patent law because of overstated concerns about NPEs and holdout behavior.<sup>320</sup> As Epstein has explained, “[n]othing in the traditional principles of equity requires the radical revision of the right to exclude that *eBay* seems to invite.”<sup>321</sup> The current path of *eBay* is forcing inventors to make business decisions based on a right that has historically been granted by the Patent Act. Yet why should a patentee’s use of its patent dictate the type of relief it will receive if the patent is infringed? Simply:

There is no reason to tilt the willingness to license, or the choice of licensees, by the selective availability of injunctive relief. Whether a patentee has one patent or a thousand in its portfolio, the choice of legal relief should never depend on how a patentee chooses to exploit his invention.<sup>322</sup>

Within the law of *eBay* and its equitable principles, there is room to alter this trajectory and regain the strength of property rules in the patent system.<sup>323</sup> Instead of relying on a forced license, the next section argues that courts should turn to readily available mechanisms when there is concern about the particular behavior of a patent holder. This will enable courts to reframe patent remedies to resemble that of the traditional, long-standing structure of trespass with a new emphasis and awareness of potential for public harm.

### C. *Ordering an Incomplete Privilege or Stay*

Courts can act within the current framework of *eBay* and still alleviate the tension between equitable and punitive damages. In order to do this, patent law needs to shift away from the current nuisance-like structure, in which courts are engaging in an analysis of what is the most reasonable and efficient use of the patented technology. This current framework can be bettered by courts in at least two ways: by the increased use and broadening of an incomplete privilege and by the increased use of court-ordered stays. These changes will decrease the perceived need to deny injunctive relief and take a step away from the near categorical denial of injunctive relief when the patentee is an NPE

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320. See Epstein, *Disintegration*, *supra* note 17, at 493–94 (“The case of the tiny patent[ee] who exercises the exorbitant holdup does need some attention at the margins, but it should never be the tail that wags the patent dog.”).

321. *Id.* at 494.

322. *Id.* at 493 (“The make-or-license decision should not be skewed by making the strong remedy dependent on choosing one form of business transaction.”).

323. I am not arguing that patent law be morphed into something that it never was. For example, the short term of the patent is an important necessity that I am not seeking to alter. Rather, my proposal works within the current patent laws and understanding of property rights.

or an indirect competitor. This reframing will confirm the message of *eBay*—hold out and you will not be allowed to keep out—while also clarifying that patent law is not most desirably governed by a liability rule. A potential taker must abide by the property rule, no matter the size of the company or the use of the patented technology, and negotiate up front with the patent holder at all possible times.

The first mechanism is a grant of an incomplete privilege, akin to the material discussed above regarding public and private necessity. Under this incomplete privilege, the court would allow the defendant to use the patented technology when patentee behavior threatens to cause unreasonable harm to the public. This harm most likely will occur in the following ways: by causing the public to lose access to technology it is already using or by causing significant economic waste in light of the disproportionate gain to the patent holder compared to the infringer. While the defendant continues to use the technology, it must continue to likewise pay for its infringement at the adjudicated reasonable royalty or a price agreed upon by the patentee and infringer.<sup>324</sup> This relief is similar to that of a compulsory license and what courts post-*eBay* are currently doing, yet this approach gets to this relief less often and without discarding the historically valued right to exclude.

A “nightmare example” of a patent holder that causes significant and unreasonable harm is where a single patent holder is able to pull products off the shelf that the public is already widely using—for example, the iPad.<sup>325</sup> This theoretically could happen, and while it is cringe-worthy thinking about the possibility of having iPads suddenly stripped from the public’s possession, or at least rendered inoperable or unsupported, “it is instructive that there is no decided case in the Federal Circuit that has granted an injunction under such extreme conditions.”<sup>326</sup>

There is a recent case that was somewhat close to creating this sort of nightmare in the field of hybrid car technology. With a little manipulation, the facts of *Paice LLC v. Toyota Motor Corp.* could tell the story of a patentee who used its patent to unreasonably and significantly harm the public.<sup>327</sup> It is a case where the court would use the mechanism of an incomplete privilege to avoid an impending social nightmare. In the *actual* case, the NPE plaintiff, Paice, wanted too much money in Toyota’s opinion to license Paice’s patents covering hybrid electric

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324. An example of this type is a compulsory license.

325. I use a very similar example of the “nightmare example” that Epstein has described. See Epstein, *Disintegration*, *supra* note 17, at 490.

326. *Id.*

327. *Paice LLC v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, 2006 WL 2385139, at \*2–4 (E.D. Tex. Aug. 16, 2006) (*Paice I*), *aff’d in part, vacated in part*, 504 F.3d 1293 (Fed. Cir. 2007) (*Paice II*).

vehicle drive train technology.<sup>328</sup> Toyota and Paice discussed Toyota licensing the patents, but negotiations broke down and Paice sued for patent infringement. The jury found that Toyota infringed, but did not do so willfully.<sup>329</sup> Paice then sought permanent injunctive relief, yet was instead granted an ongoing royalty for every car that Toyota sold with the infringing drive train technology.<sup>330</sup> The denial of injunctive relief was affirmed by the Federal Circuit, which remanded the case to the district court to determine how to set the price of each car that infringed.<sup>331</sup>

In deciding to deny injunctive relief, the district court, affirmed by the Federal Circuit, used the four-factor test of *eBay*.<sup>332</sup> The district court first found that Paice failed to demonstrate it would be irreparably harmed without an injunction.<sup>333</sup> This was because Paice did not show that it was in direct competition with Toyota, that ongoing royalties would harm its goodwill or reputation, or that its licensing program had or would in the future be harmed by adding another licensee to it.<sup>334</sup> The district court further found that monetary damages were relatively easily calculable and that adding more royalties to Paice's licensing program would affirm its rights to the patented technology just as well as an injunction would affirm the rights to the patented technology.<sup>335</sup> The district court noted that as to the third factor, the balancing of hardships, there would be significant time, effort, and disruption to Toyota's business if an injunction were issued.<sup>336</sup> In light of the Patent Act's ultimate goal to promote innovation, the court explained that "[t]he burgeoning hybrid market could also be stifled."<sup>337</sup> A bit in contradiction, the court then found Toyota's argument unpersuasive under the public interest factor: that the public would suffer a great loss if Toyota were enjoined from using this particular patented technology.<sup>338</sup> The court cited as its reason that other hybrid cars were available.<sup>339</sup>

Overall, however, the court was convinced that Toyota should be

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328. See *Paice II*, 504 F.3d at 1296–99.

329. See *Paice I*, 2006 WL 2385139 at \*1.

330. *Paice I*, 2006 WL 2385139 at \*6.

331. See *Paice LLC v. Toyota Motor Corp.*, 609 F. Supp. 2d 620, 631 (E.D. Tex. 2009) (*Paice III*).

332. *Paice I*, 2006 WL 2385139 at \*1.

333. *Id.* at \*4–5.

334. *Id.* (finding that there was “evidence in the record . . . that potential licensees may have declined business deals because of Plaintiff’s misrepresentations and improper business tactics,” not because of the prospect that Toyota would acquire a licensee from it).

335. See *id.* at \*5.

336. See *id.* at \*6.

337. *Id.*

338. *Id.*

339. *Id.*

allowed to continue to infringe despite Paice's requests.<sup>340</sup> This example of injunctive relief is less troubling than *eBay*, *z4*, or *i4i* because Toyota was not a willful infringer. Further, Toyota did not purport to have designed around the patent like eBay allegedly had, and Microsoft said it was close to in its new versions of its software in *z4* and *i4i*. Perhaps a counter argument here is that the damages awarded in this case were relatively small—\$4,269,950 in compensatory fees—with more to be awarded for each car that infringed during the remaining life of the patent that was found to be valid and infringed.<sup>341</sup> These are not the amount of damages that come to mind in the “nightmare case” of patent holdout, yet perhaps the design-around cost and recall cost would hit a higher, more concerning number.

Now if the facts were changed to Toyota being the only hybrid manufacturer in the market, or if this case occurred a decade or two earlier when hybrid cars were still in the infancy stages, the holdup potential in this field of technology would be significantly greater. With these manipulated facts, a denial of a permanent injunctive relief would prevent the stalling of hybrid technology. Significantly, however, these were not the facts of this case and while the problem of tension between equitable relief and enhanced damages did not exist, the fundamentals of patent law were altered to gain a short-term advantage. This created poor precedent and has helped to open the door for future cases to deny injunctive relief when patentees are in fact using their patented technology.

I posit that the law of incomplete privilege would grant this same advantage of not creating economic waste and stall in hybrid vehicle innovation. Accordingly, this long-standing property framework is equipped “to handle the case that is calculated to cause it [patent law] the greatest embarrassment.”<sup>342</sup> The court would use a mechanism akin to that demonstrated in *Vincent v. Lake Erie Transportation Co.* The court in essence would permit Toyota, through an incomplete privilege based on the patentee's unreasonable and harmful use of the patent, to have a grace period during which Toyota would have time to create a component that effectively designed around the minor component covered by the patent. This is a case-by-case analysis that is only needed in the rarest cases where the public's general welfare is at stake.

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340. *See id.*

341. *See Paice III*, 609 F. Supp. 2d at 622.

342. Epstein, *Disintegration*, *supra* note 17, at 490 (explaining that “[i]t would have been quite possible for the Supreme Court to have affirmed the Federal Circuit rule by announcing that these cases of massively disparate stakes were inappropriate for injunctive relief . . . [and that] [t]he traditional framework [of necessity] appears to be able to handle” the patent holdout cases that scholars are most concerned about).

The second proposed mechanism available for a court's use is the grant of a court-ordered stay. This is most likely to be invoked by the parties or the court because the patent at issue is going through a reexamination at the USPTO or because the defendant needs a short grace period to be able to comply with the injunction order. There are several early cases after *eBay* where a stay could have been used to send the message to patent holders that they would not be allowed to holdup innovation, while still maintaining the integrity of the patent system. The district court case of *eBay* on remand is exemplary.

One of the new facts the district court addressed after the Supreme Court's remand was that the USPTO granted *eBay*'s request for patent reexamination of the patents-in-suit—the '265 and the '051.<sup>343</sup> This occurred while the appeal of the original district court's opinion was pending at the Federal Circuit and Supreme Court.<sup>344</sup> By the time of the remand to the district court, the USPTO issued non-final office actions indicating that both patents were invalid as obvious.<sup>345</sup> Every claim of the '265 patent was rejected twice in non-final actions as obvious.<sup>346</sup> The reexamination of the '051 resulted in the claims being similarly rejected as obvious, although *MercExchange*'s response to the non-final action included a submission of more claims that the USPTO examined.<sup>347</sup> These additional claims were withdrawn, but at the time of the opinion of the district court it appeared that a couple of the original claims might indeed survive the reexamination (and a second reexamination was likely to occur).<sup>348</sup>

Based upon the status of these reexaminations, paired with a jury finding of validity and infringement of the '265 patent and no jury trial on the '051 patent, the district court stayed the proceedings only in regard to the '051 patent.<sup>349</sup> Consequently, it continued in assessing whether to issue an injunction as to the '265 patent.<sup>350</sup> In arriving at this conclusion, the district court cited supporting precedent that staying during a parallel reexamination will "avoid inconsistent results, narrow the issues, obtain guidance from the PTO, or simply . . . avoid the needless waste of judicial resources, especially if the evidence suggests that the

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343. See *MercExchange, L.L.C. v. eBay, Inc.*, 500 F. Supp. 2d 556, 560 (E.D. Va. 2007).

344. *Id.*

345. *Id.* at 560 After a final office action of invalidity, the patentee may appeal to the Board of Patent Appeals and Interferences and ultimately to the Federal Circuit. *Id.* at 562–63.

346. *Id.* at 561 n.1, 563.

347. *Id.* at 561, n.1.

348. *Id.* (explaining that "it now appears that a handful of the '051 patent's original claims may ultimately survive the initial reexamination; however, a second reexamination regarding the few surviving claims was recently granted by the PTO.").

349. See *id.* at 563, 565, 567.

350. See *id.* at 568.

patents-in-suit will not survive reexamination.”<sup>351</sup> The problem here is that the district court was not comfortable overlooking the overwhelming majority of case law that demonstrated that stays are most frequently granted prior to trial, not after trial.<sup>352</sup> The district court was concerned that if it granted the stay of the ‘265 patent after the jury found it valid and infringed (affirmed by the Federal Circuit) that it “would create the incentive for adjudicated infringers to seek to circumvent an otherwise enforceable jury verdict by utilizing an alternate forum.”<sup>353</sup>

The district court’s analysis here was thorough and thoughtful, yet the district court did not appear to consider the fact that a stay could also be used to delay the onset of an injunctive order. The defendant, eBay, announced that it had successfully designed around the ‘265 patent and was no longer infringing.<sup>354</sup> The district court noted that it did not consider this development because it had insufficient information before it to fully explore eBay’s contention of its successful design-around.<sup>355</sup> The district court could have affirmed the patentee’s right to exclude, one that for the moment was valid and enforceable given the Federal Circuit’s affirmation of the validity of the ‘265 patent and infringement by eBay, by granting an injunction and then staying the effective date for a few months to give eBay and MercExchange a chance to contest (if needed) the assertion of the successful design-around. This would also have given the USPTO more time to issue a final action regarding the ‘265 patent, and perhaps in the end render the same result to eBay. Although MercExchange might be an unsympathetic plaintiff, the facts of the case do not make this an exemplary case warranting such a drastic change in how district courts award relief to all patent holders.

## V. CONCLUSION

The court-ordered mechanisms of an incomplete privilege and stay can reframe patent infringement remedies to become like that of a trespass-like infringement model. This will allow courts to regain the strong property protection in patent law, remain within the boundaries of *eBay v. MercExchange*, and yet still be aware of and prepared for potential holdup situations. Perhaps the next step here is providing guidance to

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351. *Id.* at 563 (citing *Gould v. Control Laser Corp.*, 705 F.2d 1340, 1342 (Fed. Cir. 1983)).

352. *See id.*

353. *Id.* at 565 (explaining that “although the PTO may ultimately ‘correct’ a trial court by determining that the patents-in-suit are invalid, this court need not subvert itself to the administrative timetable based upon such possibility”).

354. *Id.* at 575 n.16.

355. *Id.* at 561 n.2 (stating that “because the court does not have sufficient evidence before it to fully explore such contention, the instant opinion is not premised upon such purported design-around”).

courts regarding certain industries and types of patents that are more likely to create consistent holdups in innovation. However, until that research data is collected, studied, and presented, patent remedies can be reshaped by district courts to decrease the current tension within the system. A categorical approach to NPEs and patent holders in indirect competition loses focus on the basic foundation of patent law. The current categorical approach also fails to appreciate the aspect of social harm or benefit of the equitable remedy. Courts should be focused not on the infringer's harm or benefit when faced with injunctive relief, but rather on the public's gain or loss.