REFRAMING PATENT REMEDIES

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The strength of our 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. 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. This shift to a liability rule means that a patent holder loses its right to require consent prior to the use of its 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 and avoiding the risk of a negative answer. Simply, the interested user will take what it wants without the patent holder’s consent and pay market damages later.

In this Article, I argue that patent law should look to the law of trespass to regain the strength of its property roots and the right to exclude, and also to gain a predictable framework for the occasions that merit a switch from a property rule to a liability rule. Under my proposed infringement-as-trespass framework, the vast majority of patent holders will reestablish their near absolute right to exclude. In the event that a patent holder abuses its monopolistic leverage granted to it by the Patent Act to unreasonably and significantly cause public harm, 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 will further innovation, as well 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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I. INTRODUCTION

The strength of the patent system and the incentive to invest in it is diminishing. This is so even after the recently passed America Invents Act ("Act"), which is intended to boost American innovation and give inventors a competitive 21st century patent system. A quick analysis of the Act shows that the step taken towards fostering innovation and bettering of the patent system is quite modest. Most notably, it does not address patent remedies or the new rule of federal courts: not all patent holders have the same rights. The starting point here is that the Patent Act grants one right to all qualifying inventors—the right to exclude others from its invention for twenty years. 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. The Supreme Court in eBay, Inc. v. MercExchange rejected this presumption and instructed federal courts to employ the traditional four-factor test for injunctive relief. This rule change was made in large part because of the

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2. 35 U.S.C. § 271(a) (2011). Notably, the right to exclude is the only right that the Patent Act grants a qualifying inventor (i.e., there is no other right attached like the right to use).
3. See Section II.B. and accompanying notes.
4. 547 U.S. 388, 393-94 (2006). Id. at 89. The four factors that a patentee must demonstrate in order to receive a permanent injunction against the infringer are: "(1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are
growing concern regarding the conduct of many nonpracticing entities ("NPEs"). A NPE is a patent holder that demands a licensing fee or royalty based on patented technology, yet does not actually use the technology itself to provide an end product or service. NPEs have received strong criticism from patent commentators, yet recent research demonstrates that these patent holders also play an important role in the innovation economy. NPEs serve as the go-between inventors and the users of technology, and provide liquidity and needed market clearing. Patent commentators are most concerned when patent holders, most notably 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. The Supreme Court sent a strong message in eBay to patent holders who were bottlenecking the industry: if you holdout, you will not be allowed to keep out. Many infringers have benefited from the rule change in eBay, which allows them to continue infringing the technology despite the patent holder’s request to enjoin them. This loss of the virtually automatic right to injunctive relief has most heavily affecting NPEs. Case law in the past five years has established a near categorical rule that NPEs cannot obtain injunctive relief. Significantly, the ruling in eBay has also prompted courts to similarly establish an unofficial presumption that practicing patent holders who do not directly compete with their infringers in the same market will likewise be unable to enjoin their infringers. The result of is that some patent holders are protected by a liability rule and others are protected by a property rule.

A liability rule allows for a nonconsensual taking of an entitlement (for example, the right to pollute) in exchange for a later payment of money 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.

5. See id. at 396 (“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 by licenses to practice the patent.”) (concurring, J. Roberts). The more pejorative term for a NPE is the so-called “patent troll.” See John M. Golden, “Patent Trolls” and Patent Remedies, 85 TEXAS L. REV. 2111, 2112 (2007) (hereinafter Golden, “Patent Trolls” and Patent Remedies).


The amount of money to be paid to the entitlement holder is determined by prices that are most typically set by a court. Under this “take now, pay later” rule, interested users or takers of a particular entitlement can unilaterally act so as long as they pay the officially determined price for that entitlement. Courts will then decide if there is a conflicting use, then which use is the preferred use. A property rule, or so-called “absolute permission rule,” historically protects the right to exclude and is heavily employed in property law. This rule mandates that the entitlement holder, not a court, is the one that decides whether the entitlement is for sale or use and at what price. The entitlement holder’s right to decide whether and how much the entitlement is worth is enforced in law through the use of injunctions and punitive damages. These enforcement mechanisms encourage interested parties to negotiate directly with the entitlement holder. Scholars are divided on which rule should govern patent law. For example, Professors Mark Lemley and Ted Sichelman lean towards a liability rule system, while Professors Robert Merges and Richard Epstein advocate for the use of property rules. Although it appears that NPEs and practicing patent holders in indirect


12. See Merges, Contracting into Liability Rules, supra note 11, at 1302.

13. See Calabresi & Douglas, supra note 9, at 1105.

14. See Smith, Property and Property Rules, supra note 10, at 1720, 1732 (explaining that property rules have long been preferred in the law and are enforced through injunctions and supracompensatory damages).


competition with their infringers are now governed by a liability rule, patent law is not most accurately described as a “take now, pay later” system. The Patent Act requires ex ante permission from the patent holder before any use is made of its technology. If permission is denied by the patent holder, but the denial is ignored, patent law deems the infringer a willful one. This distinction will earn the infringer a penalty in the form of enhanced damages. Courts since eBay have brought tension in the system with this shift to a liability rule. Namely, that patent holders will gain extracompensatory damages due to the willful infringement but not the right to enjoin the willful infringer.

This Article embraces the view that patent is property, and “[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.” Accordingly, patent law should look to the law of trespass for guidance. 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.

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 provides fertile ground for harmful holdouts. Courts must be cognizant of this potential harm, yet also distinguish between patent holder behavior that is unreasonable and that of hard, legitimate bargaining. The framework of patent remedies can be reshaped from that which currently resembles nuisance to that of trespass by working within the laws of patent, property, and tort. When courts are faced with unreasonable patent holder behavior, courts can use two readily available mechanisms. These mechanisms should not be used if infringement is willful unless the public is going to be significantly harmed by the granting of an injunction. The times that this will occur are few.


18. Duffy, supra note 17, at 1078. See also Richard A. Epstein, supra note 16, at 458 (explaining that “huge returns lie from systematizing intellectual property by analogy and extension to successful legal regimes elsewhere”); [cf Lemley (explaining that patent law stands on its own and the property analogies are not helpful) with Duffy (disagreeing with Lemley and arguing that intellectual property fits within the broader category of property and understanding each component of the system at large betters our understanding of such components).]

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.\textsuperscript{20} 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. 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 either at
least begin designing around the patent or taking the infringing component out
of production and the market. Under this incomplete privilege, the infringer
will pay for its continued use of the patented technology.

A court ordered stay is a similar mechanism that may be used in less
compelling situations of unreasonable 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,\textsuperscript{21} and have
also delayed the effective date of an injunction.\textsuperscript{22} This mechanism should 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 limit 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.
It also analyzes the systems of nuisance and trespass that are protected by these
rules. Section IV argues that a patent holder’s right to exclude should be
preserved in a strong patent system, and that this right is best protected by a
property rule. The law of trespass exemplifies such a system. Section IV
discusses the possible remedial options to solve the tension in the patent
remedies system after \textit{eBay} and argues that the most satisfactory and feasible
option is to work within the rule of \textit{eBay}. Finally, Section IV presents
suggestions for changes in order to reframe the approach used by courts that
will still minimize the potential for holdup problems. Section V concludes.

\textsuperscript{20} See infra Section III.
\textsuperscript{21} \textit{MercExchange v. eBay}, 500 F. Supp.2d 556 (E.D. VA 2007) (explaining courts have
broad discretion to grant or deny a stay pending PTO reexamination of the patents-in-suit).
\textsuperscript{22} See, e.g., \textit{z4 Techs., Inc. v. Microsoft, Corp.}, 507 F.3d 1340, 1342 (Fed. Cir. 2007)
(delaying the onset of the permanent injunction).
II. JUDICIAL REMEDIES AFFECT SUBSTANTIVE RIGHTS

Patent law is unique. In exchange for the public disclosure of a new, useful and nonobvious invention, a patent holder (also known as a “patentee”) receives the right to exclude others from making, using, or selling the disclosed invention for twenty years.23 Built into this deceivingly simple statement, there are at least three separate bodies of law at work: the Patent Act, property law, and tort law.24 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.”25 Yet within this institution and its utilitarian (sometimes termed “incentive”) considerations justifying it as a whole, tort and property law dictate and justify certain actions and principles of patent law.26

23. This statement is a bit incomplete and imprecise. See Graham v. John Deere Co. of Kansas City, 383 U.S. 1, 12 (1966) (stating that the three patentability requirements are nonobviousness, utility, and novelty); see also 35 U.S.C. § 271(a),(c) (2011) (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).


25. See U.S. CONST., art. I, § 8, cl. 8 (granting Congress the power to create patent laws to “promote the progress of science and useful arts”); Peter S. Menell, Intellectual Property: General Theories, in 2 ENCYCLOPEDIA OF LAW AND ECONOMICS: CIVIL LAW AND ECONOMICS 129, 130-48, 155-56 (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.”); see also Alan Devlin & Neel Sukhatme, Self-Realizing Inventions and the Utilitarian Foundations 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 and Property Rules, supra note 24, at 698 n.2 (finding the “consensus among those studying the American patent system is to focus on utilitarian approaches”).

26. 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, 63 THE PHILOSOPHICAL REVIEW 3-32 (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. This understanding of how two separate and distinct concepts of rules within one system is helpful for patent law. There are at least two important themes to understand when analyzing and
Property law helps define the rights of patent holders and users in relation to a particular patent. Tort law helps define the conduct of patent holders and users. Further, patent and tort remedies largely mirror one another in that the goal of both remedies structures is to restore the aggrieved party to the status quo ante. Patent remedies are designed “to compensate patent owners for their losses, putting them back in the world they would have inhabited but for infringement.” 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. 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 incentive for others to invent. The act of infringement is a strict liability tort; if one crosses the boundary rights of the patent, as defined by discussing patent remedies. First, patent remedies are designed to place the patent holder in the position it would have been if the infringement never occurred. Second, patent remedies are necessarily intertwined with the public interest. 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 Craig Allen Nard & R. Polk Wagner, Patent Law 204 (2007).

27. Fla. Prepaid Postsecondary Educ. Expense Bd. v. Coll. Sav. Bank, 527 U.S. 627, 642 (1999) (“[P]atents . . . have long been considered a species of property”); see also Mossoff, supra note 17, at 322. Professor 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 that it is not 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.


29. See Sichelman, supra note 16, at 2-3 (2011) (“In the United States, the goal of patent law is to promote technological innovation.”).

30. Mark A. Lemley, Distinguishing Lost Profits from Reasonable Royalties, 52 Wm. & Mary L. Rev. 655, 674 (2009) [hereinafter Lemley, Distinguishing Lost Profits]; cf. Mark A. Lemley, Property, Intellectual Property, and Free Riding, 83 Texas L. Rev. 1031, 1065 (2005) (arguing that intellectual property rights should be granted “only to the extent necessary to enable creators to cover their fixed costs”) (hereinafter Lemley, Free Riding); Sichelman, supra note 16, at 29 (arguing patentees should only be compensated the amount needed to keep those patentees inventing).

31. Sichelman, supra note 16, at 13 (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”) (citations omitted).

32. Lemley, Distinguishing Lost Profits, supra note 30, at 657.

33. See Mars, Inc. v. Coin Acceptors, Inc., 527 F.3d 1359, 1365 (Fed. Cir. 2008) (“Patent infringement is a tort.”); Jurgens v. CBK Ltd., 80 F.3d 1566, 1576 n.2 (Fed. Cir. 1996) (stating patent infringement “is a strict liability offense”) (citations omitted)); see also Michael L. Rustad, Symposium: Does the World Still Need United States Tort Law? Or Did it Ever?, 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.”).
the patent claims, she has infringed.\textsuperscript{34} 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.”\textsuperscript{35}

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.”\textsuperscript{36} The Patent Act does not provide guidance on the meaning of “adequate” or “reasonable royalty,” nor how a court should calculate these damages. Courts have interpreted § 284 to authorize two categories of base damages that adequately compensate the patent holder.\textsuperscript{37} The first is lost profits and the second is reasonable royalties.\textsuperscript{38}

Lost profits allow patentees to receive the profits they would have made, requiring patentees to demonstrate a causal connection between the infringement and the profits lost because of the infringement.\textsuperscript{39} The lost profits inquiry is controlled by two familiar tests from tort law: “but for” and “proximate causation.” In essence, the lost profit category determines whether the claimed lost profits are based on the reasonably foreseeable consequences of the defendant’s infringement, or whether they are too remote or indirect to be pinned on the defendant’s actions. Lost profits fit best within patent law’s remedy goal to put the patentees in the same position they would have enjoyed but for the infringement.\textsuperscript{40}

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\item \textsuperscript{34} See Dowagiac Mfg. Co. v. Minnesota Moline Plow Co., 235 U.S. 641, 648-49 (“As the exclusive right conferred by the patent was property, and the infringement was a tortious taking of a part of that property, the normal measure of damages was 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.
\item \textsuperscript{35} See 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.”); see also Lemley, Distinguishing Lost Profits, supra note 32, 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. . . .”).
\item \textsuperscript{36} U.S.C. § 284 (2011).
\item \textsuperscript{38} Id.
\item \textsuperscript{39} Id. (“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.” Id.
\item \textsuperscript{40} Lemley, Distinguishing Lost Profits, supra note 32, at 657 (“Giving patentees the profits they would have made absent the infringement effectively puts them in the same position as if they had had an injunction in place all along.”).
\end{itemize}
Oftentimes a patent holder cannot prove that it suffered any loss profits as a result of the defendant’s infringement.\footnote{See id. at 655.} In this instance, the court turns to the second category of patent damages—reasonable royalties.\footnote{Id. (“As the statutory language suggests, reasonable royalties exist as a floor or backstop for those who cannot prove that they have lost profits as a result of infringement.”).} 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.\footnote{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. Id. Instead, they are the NPEs that are only interested in selling the rights to the patented technology.} Courts have interpreted the Patent Act’s use of “reasonable royalty” as the actual licensing rate that the patent holder and a licensee would have negotiated and upon which they would have agreed entirely apart from any litigation.\footnote{Opderbeck, supra note 37, 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.” Id. And the second is the “willing licensor-willing licensee approach,” which “imagines a hypothetical negotiation between the patentee as a willing licensor and a willing licensee.” Id.} In order to arrive at this post-infringement price, courts engage in a hypothetical licensing negotiation.\footnote{Id.} These two categories, lost profits and reasonably royalties, serve as the base monetary damages a patentee may receive from an infringer.

A. Tension Between Enhanced Damages and Equitable Relief

In addition to these base monetary damages, the patentee may receive enhanced damages.\footnote{See U.S.C. § 284 (2011).} These damages are often termed punitive damages and are linked to the infringer’s conduct. Finally, the patentee may request permanent injunctive relief from the defendant’s infringement and attorneys fees.\footnote{See id. at § 283, 285.} The following sections will provide a brief primer on enhanced damages and permanent injunctive relief. As explained below, the two are currently at odds with one another because of recent case law where punitive 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. A “willful” infringer in patent law is one who recklessly enters the protected space of the patentee. Willful infringers are subject to the enhanced damages provision under the Patent Act, which grants courts the discretion to treble the compensatory damages. These enhanced damages are often termed punitive damages because the purpose of these extra-compensatory damages in patent law is to punish “reprehensible” or “egregious” behavior. This behavior occurs when the infringer is aware of a valid patent that likely covers its technology, but nevertheless decides to avoid the ordinary channels of bargaining and use the patented technology without authorization.

Similar to other intellectual property regimes, patent law provides a harsher punishment for those who intentionally infringe compared to those who innocently or unknowingly infringe. Section 284 of the Patent Act grants courts the discretion to enhance damages up to three times the amount of the base or compensatory award. This statute 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. The Federal Circuit has also established that “enhanced damages may be awarded only as a penalty for an infringer’s

49. In re Seagate Technology, LLC, 497 F.3d 1360 (Fed. Cir. 2007).
50. See 35 U.S.C. § 284; see also Graco, Inc. v. Binks Mfg., 60 F.3d 785, 792 (Fed. Cir. 1995) (“willfulness of the infringement is the sole basis for the court’s exercise of discretion to enhance damages under § 284).”
51. See Applera Corp. v. MJ Research Inc., 372 F.Supp.2d 233, 235 (D.Conn.2005) (internal citations removed) (“The purpose of an enhanced damage award is punitive, and is meant to punish behavior, such as willful infringement, that is properly characterized as ‘reprehensible’ or ‘egregious.’”). The Federal Circuit has established the “enhanced damages may be awarded only as a penalty for an infringer’s increased culpability, namely willful infringement.” Beatrice Foods Co. v. New England Printing & Litho. Co., 923 F.2d 1576, 1579 (Fed. Cir. 1991).
52. See Lemley & Tangri, supra note 48, at 1089. Note, however, that the state of mind is only important in regards to enhanced damages. 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 Corp., 291 F. Supp. 664, 670 (D.D.C. 1968) (“It is, of course, elementary that infringement may be entirely inadvertent and unintentional and without knowledge of the patent.”). See 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 any notice, prior to the filing of an infringement action, that her conduct was infringing.”) (citations omitted).
53. 35 USC § 284 (permitting enhancement up to three times the compensatory damages for willful infringement).
54. See Graco, 60 F.3d at 792 (“willfulness of the infringement is the sole basis for the court’s exercise of discretion to enhance damages under [§] 284).
increased culpability, namely willful infringement.”

The penalty of supracompensatory damages in patent law is imposed as an “an economic deterrent to the tort of infringement.” In other words, “[t]he purpose of an enhanced damages award is punitive, and is meant to punish behavior, such as willful infringement, that is properly characterized as ‘reprehensible’ or ‘egregious.’”

The term of art, “willful,” is explained in the recent opinion In re Seagate Technology, LLC. The Federal Circuit in this opinion created a two-part test for determining when an actor has engaged in willful infringement of a valid patent. The first part requires the patent owner to prove that the infringer acted despite an “objectively high likelihood” that it would infringe the patent at issue. The second part requires the patent holder to prove by clear and


56. Rite-Hite Corp. v. Kelley Co., 819 F.2d 1120, 1125 (Fed. Cir. 1987). See also Appler Corp., 372 F.Supp.2d at 235 (“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 cases that conclude in a judgment of willful infringement will also mean that the patentee will meet the burden for proving the infringement to be an “exceptional case.” See 35 U.S.C. § 285 (permitting attorney fees for willful patent infringement). The significance of proving an “exceptional case” is that the patentee will also be awarded its attorney fees at the infringer’s cost. See Del Mar Avionics, Inc. v. Quinto Instruments Co., 836 F.2d 1320, 1329 (Fed. Cir. 1987) (“The finding of willful infringement is legally sufficient to meet the criterion of ‘exceptional case’, and in such cases it is within the court’s discretionary authority to award attorney fees.”).


59. Seagate, 497 F.3d at 1371.

60. Id. (“The state of mind of the accused infringer is not relevant to this objective inquiry.”). Presumably the Seagate Court here meant for his part to be judged by something akin to the reasonable person standard that is used in tort law. See generally 57A AM. JUR. 2D NEGLIGENCE § 133 (2011) (“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.”); RESTATEMENT (THIRD) OF TORTS: PHYS. & EMOT. HARM § 3 cmt. a (2010) (“Conduct that displays reasonable care 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 . . .”).
convincing evidence that the risk of infringing a valid patent was so obvious that it was known or should have been known to the actor.\textsuperscript{61}

Prior to the willfulness standard set in \textit{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.”\textsuperscript{62} One of the problems with this low standard of willfulness is that “actual knowledge” of the patent was not required.\textsuperscript{63} This pre-\textit{Seagate} standard of willfulness conflicted with the traditional definition of “willful” in tort law: an intentional or unreasonable disregard of a known risk.\textsuperscript{64} Recognizing the willfulness standard in patent law did not comport with that of tort and other civil laws, the \textit{Seagate} Court looked to the meaning of “willfulness” outside the patent context in punitive damage claims.\textsuperscript{65} The \textit{Seagate} Court noted that courts working under the Copyright Act and the Fair Credit Act defined willful “as including reckless behavior” and that the “‘standard civil usage’ of ‘willful’ includes reckless behavior.”\textsuperscript{66} The \textit{Seagate} Court ended its survey of other civil liability contexts with a citation to Prosser and Keeton on Law of Torts that reiterated that a “reckless disregard” is treated in the law as a “willful violation.”\textsuperscript{67}

Many patent scholars and commentators opined that the standard set in \textit{Seagate}—defining willfulness as requiring objectively reckless conduct instead

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\item \textsuperscript{61} Id.
\item \textsuperscript{62} State Industries, Inc. v. Mor-Flo Industries, Inc., 883 F.2d 1573, 1581 (Fed. Cir. 1989) (citations omitted).
\item \textsuperscript{63} Seaman, \textit{Willful Patent Infringement}, supra note 58, at 9. Another motivation of the \textit{Seagate} Court here in setting this objectively-high reckless standard was to get rid of the previous negligence-based standard. \textit{Seagate}, 497 F.3d at 1371. Prior to \textit{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 forced to disclose this opinion in court in order to prove it exercised due care in its conduct. This meant that the accused infringer waived its attorney-client privilege. \textit{Id.} at 1368-70; see also Lemley & Tangri, supra note 48, 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. 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. \textit{Id.} 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. \textit{Id.}
\item \textsuperscript{64} Id. (citing W. Prosser, \textit{Handbook of the Law of Torts} § 34 (1971) (a finding of willfulness in tort law occurs when an “actor has intentionally done an act of 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”).
\item \textsuperscript{65} \textit{Seagate}, 497 F.3d at 1370 (finding that the willfulness standard represented a “lower threshold” than the Supreme Court’s standard). \textit{See also} Opderbeck, supra note 37, at 156.
\item \textsuperscript{66} Id.
\item \textsuperscript{67} Id. at 1371.
\end{itemize}
\end{footnotesize}
of merely negligent conduct—would result in fewer findings of willful infringement and therefore fewer awards of enhanced damages. Yet in a recent empirical study, it is reported that willfulness findings have only decreased by about ten percent (a change that was not statistically significant). This study also finds that patentees are still routinely alleging willfulness post-Seagate. Underlying the willfulness evaluation is the idea that “the doctrine of willfulness is dynamic.” 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. This is most significant when a court is faced with a permanent injunction motion.

2. Permanent Injunctive Relief

Injunctive relief is one of the most fundamental remedies in the Patent Act. An injunction protects the right to exclude, the defining characteristic of property. In patent law, the significance of the right to exclude is grounded in the monopolistic nature of the patent; the patent holder would lose the leverage normally granted in exchange for public disclosure. As a result, the patent holder would enjoy only a fraction of the value its invention was intended to have, and would no longer be as great an incentive to engage in the toils of scientific and technological research.

69. Id. at 4 (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 ten percent less often [post] Seagate
70. Id. at 24 (“Anecdotal evidence suggests that willfulness is still routinely alleged after Seagate, so long as the patentee has a non-sanctionable basis for doing so.”)
71. Id. at 1093.
72. Id. (stating that “the 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.”).
73. In 1908, the Supreme Court stated that patents are property and, therefore, as a general rule, patentees are entitled to permanent injunctive relief as a prospective remedy for infringement. Continental Paper Bag Co. v. Eastern Paper Bag Co., 201 U.S. 405 (1908).
74. 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 is recognized in a patent is but the essence of the concept of property.”); see also JANICE M. MUELLER, AN INTRODUCTION TO 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.”).
75. See H.H. Robertson, Co. v. United Steel Deck, Inc., 820 F.2d 384, 390 (Fed. Cir. 1987) (recognizing “the principal value of a patent is its statutory right to exclude”).
76. See Smith Int’l, Inc. v. Hughes Tool Co., 718 F.2d 1573, 1577 (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”).
intended to have under the Patent Act.\textsuperscript{77} Furthermore, an injunction encourages would-be takers or users of the technology to negotiate upfront with the patentee\textsuperscript{78} and “keeps open the channels for voluntary exchange.”\textsuperscript{79} 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.\textsuperscript{80} The Federal Circuit embraced this robust protection of the right to exclude and supported a presumption that a patent holder would receive injunctive relief upon request after the patent was proved valid and infringed.\textsuperscript{81}

It was this general rule that the Supreme Court struck down in \textit{eBay, Inc. v. MercExchange, LLC}.\textsuperscript{82} MercExchange in this case alleged that the “Buy It Now” feature on eBay’s online auctions infringed its patented technology.\textsuperscript{83} eBay and its subsidiary Half.com (collectively “eBay”) refused to license MercExchange’s technology for the price demanded, leading MercExchange to file a patent infringement suit. eBay was found to be a willful infringer at the district court level, and MercExchange moved for a permanent injunction.\textsuperscript{84} The district court noted that injunctions are an equitable remedy and concluded that eBay could continue using the patented technology.\textsuperscript{85} In making this decision, the district court emphasized that the patents-in-suit seemed to be weak and that MercExchange did not personally use its technology.\textsuperscript{86} MercExchange’s business is based on the enforcement of patents, rather than

\textsuperscript{77} \textit{Id.} From a competitor’s viewpoint, the threat of an injunction motivates a thorough analysis of the patent’s validity and enforceability. Kieff, \textit{Property Rights and Property Rules, supra} note 24 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. \textit{Id.}

\textsuperscript{78} Epstein, \textit{The Disintegration of Intellectual Property, supra} note 16, at 488.

\textsuperscript{79} \textit{Id.} (explaining that injunctive relief (paired with punitive damages) in theory makes “it impossible for individuals to circumvent the basic rules of property law for their short-term private advantage”).

\textsuperscript{80} One of the most infamous cases is \textit{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 the 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.” \textit{Id.} at 593.

\textsuperscript{81} See Richardson v. Suzuki Motor Co., 868 F.2d 1226, 1247 (Fed. Cir. 1989) (stating “[i]t is the general rule that an injunction will issue when infringement has been adjudged, absent a sound reason for denying it). \textit{See also Mueller, supra} note 74, at 483.

\textsuperscript{82} MercExchange, LLC v. eBay, Inc., 547 U.S. 388 (2006).

\textsuperscript{83} eBay, 547 U.S. at 390. The two patents at issue here are U.S. Patent Nos. 6,085,176 and 5,845,265. These patents respectively cover a method for searching an online market for products and a method for creating a trusting relationship between consignor and bailee in the online auction environment.


\textsuperscript{85} See \textit{id.} at 714.

\textsuperscript{86} \textit{Id.} at 712.
the use of patented technology.\textsuperscript{87} Accordingly, the court found that MercExchange lacked any commercial activity.\textsuperscript{88} The district court decided monetary damages were sufficient to make MercExchange whole.

The Federal Circuit disagreed with the district court, stating that an injunction should be denied in only very rare circumstances and that this was not “sufficiently exceptional” to justify the denial of prospective injunctive relief.\textsuperscript{89} Further, the Federal Circuit found 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 that an injunction should be granted following a finding of patent infringement.\textsuperscript{90} The Supreme Court disagreed with both courts.

The Supreme Court stated 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.”\textsuperscript{91} Accordingly, the Supreme Court 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. Yet the Supreme Court also rejected the district court’s reasoning, stating that a categorical prohibition against issuing permanent injunctions to those that license instead of practice their patented technology is unacceptable.\textsuperscript{92} The Supreme Court specified that the traditional four factors used in other civil liability cases when faced with motions for injunctive relief should likewise be used in determining injunctive relief in patent cases.\textsuperscript{93} These four factors that a plaintiff must demonstrate in order to be entitled to permanent injunctive relief are:

\begin{itemize}
\item \textsuperscript{87} This type of NPE is sometimes referred pejoratively as a patent troll, culling the imagery of a Scandinavian troll from folklore that demanded a toll for those crossing a bridge that it did not itself build. Christopher A. Harkins, \textit{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). \textit{See also} Golden, \textit{“Patent Trolls”} and Patent Remedies, 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”).
\item \textsuperscript{88} For example, the court found persuasive that MercExchange had repeatedly made statements to the media that it was seeking damages and not an injunction. MercExchange, L.L.C. v. eBay, Inc., 275 F. Supp. 2d at 715.
\item \textsuperscript{89} MercExchange, L.L.C. v. eBay, Inc., 401 F.3d 1323, 1338 (Fed. Cir. 2005) (stating that a injunction should be denied when “‘a patentee’s failure to practice the patented invention frustrates an important public need for the invention,’ such as the need to use an invention to protect public health.”).
\item \textsuperscript{90} \textit{Id.} at 1340.
\item \textsuperscript{91} \textit{eBay}, 547 U.S. at 394.
\item \textsuperscript{92} \textit{Id.} at 393. The Court stated that self-made inventors and university research programs are two types of NPEs that courts should be careful when assessing injunctive relief. \textit{Id}.
\item \textsuperscript{93} \textit{See id.} at 391-93.
\end{itemize}
(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.\textsuperscript{94}

The Supreme Court did not itself come to a conclusion about this particular factual situation, instead vacating the Federal Circuit’s judgment and remanding the case to the district court so that it could apply the four-factor framework.\textsuperscript{95}

The backdrop of this decision is important. At the time of this decision and for years leading up to it there was a growing concern, especially among scholars and patent reformers, that patent holders had grown too aggressive in their strategic licensing tactics. Justice Kennedy and three other justices in their concurring opinion expressed their concerns that the general rule of injunctive relief needed to be in part reconsidered because “a[n] industry has developed in which firms use patents not as a basis for producing or selling goods but, instead, primarily for obtaining licensing fees.”\textsuperscript{96} 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 “holdout” behavior. Holdouts occur when the patentee opportunistically leverages the right to exclude granted to her by the Patent Act over another party’s interest in using the patented technology.\textsuperscript{97} The Supreme Court sent a strong message in eBay to NPEs and other patent holders who were bottlenecking the industry: if you holdout, you won’t be allowed to exclude.

\textbf{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 frequently refuse to grant injunctive relief. In a study that was conducted following the

\textsuperscript{94} Id. at 391 (omitting citing sources).
\textsuperscript{95} Id. at 394.
\textsuperscript{96} Id. at 1842 (Kennedy, J., concurring).
\textsuperscript{97} Newman, \textit{Patent Infringement as Nuisance}, supra note 8, at 62-63. If a technology company is putting together an electronic product, one that requires obtaining licenses from 100 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 99 licenses. Because of this input, the company is likely willing to spend more to obtain that last license then it would have spent to obtain that license earlier in the game. A patent holder’s behavior in strategically holding out may also stall innovation while the company is not able to build upon that patent technology.
one-year anniversary of eBay, it was concluded that district courts denied permanent injunctions approximately twenty-three percent of the time.\textsuperscript{98} Professor Golden has explained that although the Supreme 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.”\textsuperscript{99} In particular, NPEs are hard-pressed to get an injunction.\textsuperscript{100} The denial of injunctive relief has also spread to patentees that practice their technology but that do not compete in the same market as their infringers.\textsuperscript{101} In denying this requested relief, courts are taking away the patentee’s right to exclude and are also allowing the infringer to willfully infringe. The developing case law is in conflict with the Supreme Court’s warning against the “categorical denial of injunctive relief.”\textsuperscript{102} Cases where a willful infringer is permitted to continue engaging in behavior that was deemed punish-worthy provides another area of tension within the structure of patent remedies.

An example of this tension between equitable and punitive damages in patent law is the remand of eBay, where the Eastern District of Virginia was faced with implementing the new standard and equitable factors.\textsuperscript{103} The district court started the litigation by reopening discovery, allowing each party to update the court on events occurring in the previous three years. The most notable event was that the United States Patent and Trademark Office (“USPTO”) had issued nonfinal office actions in the reexamination of both patents at issue indicating that each patent was invalid as obvious.\textsuperscript{104} Because these were nonfinal but consistent findings by the USPTO, eBay filed for a motion to stay until a final ruling by the USPTO. The district court granted the stay for one of the two patents.\textsuperscript{105} It did not stay for both patents because a jury

\textsuperscript{98} Virginia K. Demarchi, \textit{Injunctions After eBay v. MercExchange, LLC}, at 1 (2007), available at http://www.fenwick.com/docstores/publications/litigation/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. This is seemingly a large impact, when injunctive relief just a year earlier was thought to be nearly automatic. \textit{Id.}


\textsuperscript{100} \textit{Id.}

\textsuperscript{101} \textit{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.”).

\textsuperscript{102} \textit{Id.} at 2113-14.

\textsuperscript{103} MercExchange, L.L.C. v. eBay, Inc., 500 F. Supp. 2d 556 (E.D. Va. 2007).

\textsuperscript{104} See \textit{id.} at 560. 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. \textit{Id.} at 562-63.

\textsuperscript{105} See \textit{id.} at 563 (“The court reaches differing conclusions regarding the two patents due to the vastly differing procedural postures of each discrete infringement dispute. 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….”).
had already found one patent to be valid and infringed, which was affirmed by the Federal Circuit.\textsuperscript{106} Although the district court reopened discovery, it did not allow parties to re-litigate previously decided issues or try to recast facts more favorably.\textsuperscript{107} One such attempt was eBay’s assertion that it had never willfully infringed MercExchange’s ‘265 patent.\textsuperscript{108} 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. 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.\textsuperscript{109}

The district court applied these old and new facts to each factor of the four-factors as mandated by the Supreme Court.\textsuperscript{110} 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. For example, MercExchange had consistently made statements to the public that it was seeking monetary damages.\textsuperscript{111} MercExchange 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.”\textsuperscript{112} The court found that this statement weakened MercExchange’s assertion that monetary damages were not adequate.\textsuperscript{113} The court also found that MercExchange did not establish that injunctive relief was needed to protect intangibles such as goodwill, reputation

\begin{itemize}
\item \textsuperscript{106} Id.
\item \textsuperscript{107} Id.
\item \textsuperscript{108} Id. (explaining that it ignored eBay’s assertions that it never willfully infringed the ‘265 patent because the jury’s verdict, affirmed by the Federal Circuit, establishes that at the time of trial eBay was a willful infringer of plaintiff’s valid and enforceable ‘265 patent).
\item \textsuperscript{109} This argument contradicts 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 the trial indicated that it did not seek to enjoin eBay but rather sought appropriate damages for the infringement.” Id. at 560-61. Furthermore, after the first trial in 2003, the district court noted that 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.
\item \textsuperscript{110} See id. at 568 (stating that “this court is required to apply ‘the four-factor test historically employed by courts of equity’”).
\item \textsuperscript{111} For example, MercExchange 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.com, Sept 5, 2002, http://news.com.com/2100-1017-956638.html (quoting MercExchange’s counsel).
\item \textsuperscript{112} 500 F.Supp.2d at 572 (quoting Thomas Woolston).
\item \textsuperscript{113} Id. at 572.
\end{itemize}
and brand name. Therefore, it found that monetary damages sufficiently compensated MercExchange.

As to the second factor—whether the remedies at law were inadequate—the court noted that although MercExchange had “every right” to establish a pattern of using its patents “as a sword to aid in litigation or threatened litigation against infringers or potential infringer,” this aggressive brandishing of its patents demonstrated that MercExchange was most concerned about money. Part of the discussion of this factor included the fact that eBay was a willful infringer. The district court 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. It is interesting that punitive damages in this instance worked against MercExchange receiving its requested injunctive relief.

Balancing of the hardships, the third factor, did not favor eBay or MercExchange. The court first found that because eBay was determined to be a willful infringer, it eased its “conscience” that issuing an injunction against eBay using the patented technology might substantially harm eBay’s business. 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. In regards to MercExchange, the court noted that there was great uncertainty as to the validity of the patent at issue and that MercExchange already existed entirely on licensing fees. Therefore, forcing MercExchange to engage in one more

114. Id. at 570.

115. The court noted upfront that the first and second factor are largely the same inquiry, but that to adhere to the Supreme Court’s four-factor test that it would analyze each separately. Id. at 569, n.11.

116. Id. (“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....)

117. Id.

118. 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. See also Paul J. Heald, Permanent Injunctions as Punitive Damages in Patent Infringement Cases (May 24, 2011), Illinois Public Law Research Paper No. 10-38, available at SSRN: http://ssrn.com/abstract=1851681 (arguing that injunctions in patent cases may be akin to punitive damages).

119. Id. at 585-86.

120. Id. at 583-83.

121. Id. at 584.

122. 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.”).
licensing arrangement should not cause it great hardship. On the other hand, the court in this instance knew there was a strong chance the patents would both be declared invalid by the USPTO, and that eBay may have already designed around the patents as it claimed. I argue below that patent reexamination and court ordered stays to litigate the validity of the design around are great tools and should be used more frequently by courts. Simply, if the patents are about to be invalidated or the defendant no longer needs to use the patented technology, why disturb long standing principles of intellectual property law to gain such a short-term benefit?

The last factor in this four-factor framework concerns the public interest in the issuance of an injunction. 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. The district court focused on the parties and their respective impact on the public in general. In regards to eBay, the court stated that it “unquestionably has a substantial impact on the United States’ economy.” 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.” And although a strong patent system is needed to protect a small patent holder that is being overtaken and infringed by a multi-billion dollar company, the best equity argument is when that small patent holder is using his invention to benefit the public or furthering the technology evolution. 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, not benefiting the public or furthering the technology evolution. The court found that MercExchange had been protected by the strong patent system in the amount of tens of millions of dollars. So although eBay is 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. Overall, the district court denied MercExchange its requested permanent injunction.

123. Id.
124. See id.
125. Id. at 586.
126. 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. at 586.
127. Id.
128. Id.
129. Id. at 587-88.
130. Id. at 588.
C. Reduced Access to Remedies for Patent Holders

The decision detailed above was heavily impacted by the fact that MercExchange was a NPE and eBay was a large company that would use the patented technology in its daily business. Although the court admonished eBay for willfully infringing the patented technology, it decided to allow eBay to continue using the technology against MercExchange’s wishes. This district court opinion demonstrates the current near-categorical rule that NPEs do not receive injunctions. Yet perhaps this is not a worrisome result by itself. MercExchange was a company built on licensing prior to the infringement and after the infringement it still was able to license its technology. If money was its greatest concern, then under these particular facts and with this patentee there is not much to be concerned about.

Yet there are two concerns about the result of this case. First, the path that the district court paved here is one involving an invasive process of evaluating the companies at issue and the value of their respective uses of the patented technology. 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. Of course, MercExchange is not a particularly sympathetic patentee, and so this aspect of the district court opinion has not caused much unfavorable commentary.

The second concern is that eBay is not limited to NPEs like MercExchange. Rather, courts are now denying injunctive relief to patentees using the technologies that are not in direct competition with their respective infringers. An exemplary case of this growing trend is z4 Technologies, Inc. v. Microsoft Corp.131 z4 is a software-based company owned by David Colvin, who is also the inventor of the two patents at issue.132 Colvin decided to assign his patents to his company z4.133 These patents disclose methods for “limiting the unauthorized use of computer software”; the patented technology is known as “product activation software.”134 The jury found that Microsoft’s software products Office and Windows infringed z4’s patents, and that Microsoft infringed willfully. After this finding of willful infringement, z4 sought a permanent injunction from the court. The district court analyzed this request in light of the Supreme Court’s ruling in eBay.

The first factor—irreparable harm—weighed against the plaintiff z4. 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 software product

132. See z4 Techs., Inc. v. Microsoft, Corp., 507 F.3d 1340, 1342 (Fed. Cir. 2007).
133. Id.
134. 434 F. Supp. 2d at 438.
activation and security market absent the infringement. The court did not find this argument persuasive because Microsoft did not directly compete with z4 in the software business. This is because Microsoft does not produce or sell product activation software. 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. Accordingly, the court held that because z4 did not prove that it would lose brand name recognition, market share, or loss profits, it did not show that its injuries were irreparable.

The second factor—remedies at law are inadequate to compensate for the suffered injuries—likewise did not favor permanent injunctive relief. z4 argued that losing the right to exclude could never be adequately compensated by monetary damages. The district court cited to eBay in stating “that the right to exclude alone is not sufficient to support a finding of injunctive relief,” yet then went on to explain when that loss of a right is accompanied with another intangible loss, such as market position, that this “can present a situation where monetary damages cannot adequately compensate the patent holder for that injury.” Because the court here did not find that z4 suffered a loss of goodwill, market place, or brand recognition, and further that this patented technology was a very small portion of the technology that Microsoft used in its Office and Windows programs, that a reasonable royalty would fairly compensate it. 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 this opinion), it would no longer be infringing z4’s patented methods. This signaled to the court that compensating for future royalties would not be as difficult in some other situations where there were many years left of patent enforcement and no plan by the defendant to design around the patent. Interestingly, the court did not consider using a stay to simply delay the onset of an injunction to allow the new version to get to the market.

The third factor—the balance of hardships—weighed against injunctive relief due to Microsoft’s convincing arguments that it would cost a lot in order to redesign its current products and halt the infringing of software that was already being used by Microsoft’s consumers. For example, Microsoft stated that it would need “to release current versions of Office, with 450 separate

135. Id. at 440.
136. Id.
137. Id.
138. Id. at 441.
139. Id.
140. Id.
141. Id. (citing Justice Kennedy in his concurrence in eBay that courts should be weary of the situation where a ‘patented invention is but a small component of the product that 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).
142. Id. at 442.
variations in thirty-seven different languages, and Windows, with 600 separate variations in over forty languages.” Further, both Office and Windows would have “to be re-engineered, tested, repackaged, and then placed into the appropriate distribution channels.” This potential design around cost, especially in light of the upcoming noninfringing product to be released shortly, was too much in the court’s view when compared to z4’s hardship of only receiving monetary damages.

The last factor—the public interest—again weighed in Microsoft’s favor and against the granting of injunctive relief. 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 negative consequences” if it were to issue an injunction. Notably absent from this opinion is any reference or consideration of the jury’s finding of willful infringement by Microsoft. This is contrary to the example set by the eBay district court, which noted several times the fact that eBay was a willful infringer worked in favor of granting an injunction to the aggrieved patentee.

It seems here the court was strongly swayed by the size and influence of the parties involved in the litigation. The court barely mentioned that the fact that Microsoft was a willful infringer; instead, it focused on the size and pervasive use of Microsoft’s products. I find this troubling because Microsoft is precisely the type of company that can afford to either license the patented technology or create its own. Patent law is supposed to encourage innovation by companies of such size and money as Microsoft, not allow these companies to circumvent established property rules. z4 is the small patentee 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 small companies will lose every time.

This result is even more troubling in a subsequent case again involving Microsoft. In this case, 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.”

143. Id.
144. Id.
145. Id. at 443 (finding that “Microsoft’s 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).
146. i4i v. Microsoft Corp., 598 F.3d 831 (Fed. Cir. 2010).
147. Id. at 860. i4i is the owner of a patent relating to editing custom XML, and sells software 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 own patented technology in its business as a software consulting company. Versions of Microsoft Word since 2003 have had XML editing ability, and in 2007 i4i filed suit against Microsoft
My point here is not to argue 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, it also appears that courts are increasingly engaging in an analysis of which party would best use the technology. Certainly we should be concerned about stalling innovation because of holdout conduct and about a company such as z4 that uses just one patented component with Microsoft’s technology, yet parties such as z4 and i4i are not this type of patentee that threatens to “derail a major enterprise.” Further, no court has yet allowed this massive derailing to occur. Patent damages are meant to put patent holders in the position they enjoyed prior to infringement, not better and courts (imperfectly at times) are aware of this distinction. 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.

arguing that the XML editor in certain versions of Word infringed its patented technology. Id. The jury agreed with i4i, awarding it $200 million in damages, and further finding that Microsoft was a willful infringer. Id. at 840. 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 840-41. It also granted i4i a narrow injunction. Id. The Federal Circuit affirmed the damages, only changing the effective date of the injunction. Microsoft prevented evidence that it would likely need 5 months to be able to comply with the injunction, and so the district court’s effective date limited this time to 60 days was an abuse of its discretion. The Federal Circuit affirmed the injunction, but set the new effective date as January 11, 2010 (which was further extended because the injunction was stayed until the resolution of the Federal Circuit case, which was a couple months later). This allowance of extra time again demonstrates how narrow the injunction is that was placed on Microsoft, although 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.

148. Courts appear to be concerned about the conduct of infringers in describing their actions. See, e.g., Imonex Services, 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., CIV. A. 870413 B(M), 1990 WL 180202 (S.D. Cal. Aug. 9, 1990) (finding the infringer demonstrated a “complete disregard of [] patents,” “total absence of any evidence of good faith at the time 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).

149. See Epstein, The Disintegration of Intellectual Property, supra note 16, at 490 (“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.”).
The second takeaway here is that 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 be protected by—property or liability.\(^{150}\) This increased focus on NPEs and holdup problems has prompted scholars to advocate that patent law should be moving towards a liability rule-based system. This next section will briefly introduce the property rule and liability rule literature, explain how intellectual property scholars have applied these rules to patent law, and look at the frameworks of trespass and nuisance (two separate but related systems that have dealt with the issues of holdout).

### III. Existing Frameworks

For many years now patent scholars have been debating how to best change the way that patent damages are calculated.\(^{151}\) Congressional patent damage reform has also been seeking to alter the technical rules of patent law.\(^{152}\) 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.\(^{153}\) In short, many scholars and reformers feel that the patent itself has grown too large, too powerful.\(^{154}\) With damage awards most often rising well above ten million dollars, coupled with the potential for aggressive NPEs and harmful holdups, many commentators have been advocating for a shift towards a patent system based on a liability rule.\(^{155}\) There is no doubt that the shape of patent law has changed because of *eBay*.

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


\(^{151}\) *See, e.g.*, Opderbeck, *supra* note 37, at 131.


\(^{153}\) *See* Opderbeck, *supra* note 37, at 131 (stating that “[a]t a deeper level, arguments about changing the shape of patent damages calculations are arguments about changing the shape of patent law itself”).

\(^{154}\) *See* Golden, “*Patent Trolls*” and Patent Remedies, *supra* note 5, at 2111-12 (“Academics, policymakers, and even sitting judges have suggested that patent law may have overleaped its proper bounds, or at least become too likely frustrate, rather than to fulfill, its constitutional purpose of ‘promot[ing] the Progress of Science and useful Arts.’”).

reformers must decide whether the current direction of patent law should be continued, or whether another road should be selected. I take one step in that direction here. I do so by analyzing what established property systems have historically struggled with concerns such as holdout and balancing the most efficient use of property. As Professor Epstein recently explained, there are “huge returns [that] lie from systematizing intellectual property by analogy and extension to successful legal regimes elsewhere.” 156 The legal regime that is most applicable to intellectual property is the one it is already within—property.157 Within the framework of property there are two subspecies that highlight the differences and objectives of property and liability rules. The first is nuisance law (imperfect liability rule) and trespass to land (property rule). The following subsections will establish the general framework of property and liability rules, and then further that framework by adding nuisance and trespass. “By [understanding and] following rules of proven worth in other areas, each new articulation of property rights need not be a voyage into the unknown.”158

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.159 They achieve this by distinguishing property and liability rules, and identifying the remedies that enforce these rules in subject areas such as tort, property and criminal law.160

157. Id. at 461 (“The basic principles of property are alive and well, and they are capable of reasonable extension to all forms of intellectual property.”); cf. Merges, Contracting into Liability Rules, supra note 11, at 2661 (stating that “the 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”); Mark A. Lemley, Free Riding, supra note 30, at 1331-32 (“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.”).
158. Id. at 458 (“Instead, it can avoid the pitfalls for new forms of property rights by incorporating the salient features of established regimes. That cannot be slavish, however, because the information that lies at the core of intellectual property exhibits characteristics that are not shared by physical assets”).
159. 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.
160. See Calabresi & Melamed, supra note 9, at 1089-90. The Calabresi-Melamed framework explains four remedial choices (set in a 2x2 matrix) for the allocation and protection of property. Id. at 1092. 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.
In their article, Calabresi & 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).\(^{161}\) These remedies are protected by property rules, which are enforced through the use of injunctions and punitive damages. 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.\(^{162}\)

Patent law scholars have contributed to this trending debate.\(^{163}\) A liability rule allows for a nonconsensual taking of an entitlement in exchange for a payment of money damages. 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.\(^{164}\) Professor Epstein has explained a key economic difference between property and liability rules:

> Because property rules give one person the sole and absolute power 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 against his will.\(^{165}\)

Many scholars have applied these rules to intellectual property law.\(^{166}\) 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 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, for the defendant’s continued use of the patented technology. Scholars are

\(^{161}\) 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.”).

\(^{162}\) Smith, *Property and Property Rules, supra* note 10, 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.”).

\(^{163}\) See *id.* 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.”); *id.* at 1723 (“The new wisdom in favor of liability rules also runs counter to strong tendencies in the law.”)

\(^{164}\) *Id.*


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; others argue that liability rules are best in patent law because of high transaction costs and the potential for holdup. It is easiest to see these arguments for and against property and liability rules in a concrete context.

B. Frameworks Protected By Different Rules

Professor Henry Smith extended the property rule and liability rule literature by reframing this conversation as one of an “exclusion strategy” or “governance strategy.” The exclusion strategy, most heavily apparent in property law with trespass to land as the quintessential example, best protects property holders’ interests by sending a signal to potential trespassers. The signal is the boundary line that is established when one becomes an unauthorized trespasser—the sign that says “keep out.” The property owner’s right to exclude is through the threat of injunctive relief and punitive damages. The exclusionary strategy is best implemented by property

167. See, e.g., F. Scott Kieff, IP Transactions: On the Theory & Practice of Commercializing Innovation, 42 Hous. L. Rev. 727, 735-732 (2005) (“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.”) (footnotes omitted). See also id. (“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.”); Merges, Contracting into Liability Rules, supra note 11, at 1303-09 (arguing that property rules are preferred over liability rules when private bargaining is to take place in the IP context). Cf. 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).

168. [Ted, Lemley, Kaplow].

169. See Smith, Exclusion and Property Rules, supra note 11, at 975-90 (2004) (hereinafter Smith, Exclusion and Property Rules); Smith, Property and Property Rules, supra note 10, at 1791-92; Henry E. Smith, Intellectual Property as Property: Delineating Entitlements in Information, 116 Yale L.J. 1742 (2007) (hereinafter Smith, Intellectual Property as Property). 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.” Id. 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.

170. Id.

171. Id.; 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.’”)

172. Smith, Exclusion and Property Rules, supra note 11, at 973 (“Because such an exclusion regime builds on simple on/off signals such as boundary crossings, right to exclude are typically protected with injunctions and supracompensatory damages. Exclusion is
rules.\textsuperscript{173} This strategy is based on the idea that the right to exclude is valuable because of an interest in use, and this invasion of space is a “(very) rough proxy for harmful use.”\textsuperscript{174} The governance strategy, with nuisance law as an example, allows a person the right to engage in a particular behavior. The delineation effort is focused on the person’s action, such as emitting odors into a neighborhood.\textsuperscript{175} 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.\textsuperscript{176} 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 towards monetary relief and adjudication based on analyzing the competing uses of the property.\textsuperscript{177} Trespass to land, implemented 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, 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,”\textsuperscript{178} the many paths of nuisance law have largely been cleared and proven reasonably coherent.\textsuperscript{179} 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

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\item associated with . . . ‘property rules,’ under which a remedy is strong enough to deter nonconsensual takings . . . ”
\item Smith, \textit{Property and Property Rules}, supra note 10, at 1728 (“argu[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.”).
\item \textit{Id}.
\item \textit{Id.} at 1742.
\item \textit{Id.} 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”).
\item Smith, \textit{Exclusion and Property Rules}, supra note 11, at 980 (“Liability rules tend to be associated with governance rules . . . ”). \textit{See also id.} at 974 (recognizing that in nuisance law “the balancing of utilities approach [] has been gaining favor, especially among commentators”).
\item \textit{See W. PAGE KEETON ET AL., PROSSER & KEETON ON THE LAW OF TORTS, § 86, at 616 (5th ed. 1984) (hereinafter PROSSER & KEETON ON TORTS).}
\item DObBS, supra note 28, at 1320-21 (arguing that this “jungle” is not that impenetrable); Epstein, \textit{The Disintegration of Intellectual Property}, supra note 16, at 356 (“This pessimistic assessment of the situation certainly has some truth; no critical legal term can survive centuries of use unscathed. Nonetheless, its core meanings have proved quite durable over time, and it is to them, and not to Prosser’s cockroach baked into a pie, that our analysis is directed.”)
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. On the left is the more bright line view of nuisance that looks very similar to trespass. This approach focuses on the indirect invasion of the owner’s space and often ends in injunctive relief for the aggrieved property owner. 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. This flexible approach has allowed previous trespassing actions to fall under the doctrine of nuisance when there is a public good at stake. Under this modern approach, a court is tasked with analyzing and weighing the use announced by the owner with the conflicting use announced by the (most often) adjacent owner. I will call that adjacent owner the taker; in the classic nuisance case the taker is the polluter.

Importantly, under all of the variations on the spectrum the complaining property owner must demonstrate both a substantial and unreasonable nontrespassory invasion of her right to use and enjoy her land. 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.

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181. See Smith, Exclusion and Property Rules, supra note 11, at 992.
182. See id.
183. See id.
184. See id.
185. An example is in the case of overflights, which will be discussed below.
186. I have adopted this approach from Smith, Exclusion and Property Rules, supra note 11, 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.”).
187. The Second Restatement defines nuisance as 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.” Id. (citing Restatement (Second) of Torts §§ 821F, 822 (1979)).
188. This is different from the law of trespass where even those that can show no damage to the land may still recover nominal damages as well as punitive damages. See Jacque v. Steenberg Homes, Inc., 563 N.W. 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 11, at 995 (stating that “there is no de minimus exception in trespass” like there is in nuisance law).
is defined not by the negligence of the reasonable person, but rather the reasonable use of one’s property in light of the surrounding circumstances.  

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. 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. 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. In 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 via vibrations and dust. Absent from this opinion is any language regarding the need to punish the cement company for harming the plaintiffs. This is simply because the Atlantic Cement Co. was not using its property in a way to purposefully cause harm to the plaintiffs or make the plaintiffs miserable in their daily lives; rather, Atlantic Cement Co. wanted to run its business and make a profit. It is this type of factual situation regarding a dispute over a legal entitlement that a liability rule is invoked. There is no need for punitive damages and there would be a huge loss to society if the cement company was forced to shut its doors. In the end, the plaintiffs were

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189. Reasonableness here is not defined as it is in tort law (referring to risk-creating behavior). The reasonableness here refers to the expectations of a property owner occupying the plaintiff’s land. Dobbs, *supra* note 28, at 1326.


191. *Id.* at 1024-5, 287 N.Y.S.2d at 114.

192. *Id.* at 1025, 287 N.Y.S.2d at 114. 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 1024, 287 N.Y.S.2d at 113. The appellate court affirmed the trial court its injunctive relief and monetary damages. *Boomer v. Atlantic Cement Co.*, 30 A.D.2d 480, 481, 294 N.Y.S.2d 452, 453 (1968), rev’d 26 N.Y.2d 219, 257 N.E.2d 870, 309 N.Y.S.2d 312 (1970). The New York Court of Appeals also affirmed the denial of injunctive relief. *Boomer v. Atlantic Cement Co.*, 26 N.Y.2d 219, 228, 257 N.E.2d 870, 875, 309 N.Y.S.2d 312, 319 (1970).
compensated for their loss and both property owners were able to continue in their daily lives and activities that they established prior to the lawsuit.

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. An example of this is plane overflights. Under an older view of trespass and nuisance, a high-altitude overflight would be classified as a trespass. The plane physically invades the *ad coelum* principle that property ownership includes space above the real property, and therefore would ordinarily be classified as a trespass. 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. Yet courts were hesitant to apply this rule due to the potential of transaction costs and opportunities for holdout. Instead, courts have applied the law of nuisance to this area of law.

An example of this is in *Atkinson v. Bernard, Inc.*, where residents from a neighborhood just north of a small airport sued under a theory of trespass. 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. The plaintiffs also were concerned about the risk and fear of planes crashing into their homes. 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 the neighborhood.

The Oregon Supreme Court found persuasive that “[i]f the prime method for ascertaining the limits of the ownership-trespass zone in airspace is by determining whether the landowner’s use and enjoyment of the surface have been subjected to unreasonable interference, it is apparent that the concept of nuisance is equally available with trespass as an analytical tool.” Further, the

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194. See Smith, Exclusion and Property Rules, supra note 11, at 1026.
195. 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.”).
197. Id. at 230.
198. Id.
199. Id. at 232 (citing William B. Harvey, Landowner’s Rights in the Air Age: The Airport Dilemma, 56 Mich. L. Rev. 1313, 1315 (1958). Further, Professor Harvey found 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 by interpreted in trespass terms.” Id. (omitting citations).
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, that anytime a discussion of “reasonableness” is commenced the court is necessarily “taking leave of trespass and steering into the discretionary byways of nuisance.”

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 how the specific noise and vibration that was emanating from the operation and overflights of the planes. 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. 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.

This shift in nuisance law towards a liability rule regime has also moved nuisance law away from granting 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 intention to harm another. 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. These damages “are designed to mimic a hypothetical market price, but they may be pegged at average harm or some other nonpunitive level.”

2. Trespass

In regards to 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. We can also view property

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200. See id.
201. See id. at 233-34.
202. Id.
203. See id. at 234.
204. Id. [A couple cases. ALR.]
205. 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 and accompanying notes. (“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.”).
206. Id. at 1749 (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).
207. Georgette Chapman Phillips, Boundaries of Exclusion, 72 Mo. L. Rev. 1287, 1287-88 (2007) (explaining that the theory of nominalism values all the sticks equally) (citing Wesley
ownership as simply giving an owner the right to exclude from a “thing.”

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. Trespass is a (relatively) straightforward cause of action. Simply, you may not enter land belonging to someone else without permission from the land owner. And like patent law, the tort of trespass is a strict liability tort. No specific intent to cause wrongful harm or loss needed. Rather, there simply has to be an intention to enter the property. The property owner needs to show rightful ownership or possession of the property and an unauthorized entry or direct injury to her property. An example of direct injury is when the trespasser shoots bullets.


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

209. *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.”) (footnotes omitted).

210. *See Thomas v. City of Kansas City, 92 S.W.3d 92, 97-98 (Mo. Ct. App. 2003) (“'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)); 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”).

211. *DOBBS, supra* note 28, at 98; Cleveland Park Club v. Perry, 165 A.2d 485, 487-88 (D.C. Ct. App. 1961) (“Where . . . 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).

212. *DOBBS, supra* note 28, at 98n.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.”). This act may be one of mistake or misunderstanding. *See Golonka v. Plaza, 704 N.Y.S.2d 703 (N.Y. App. Div. 2000) (“A person who enters upon the land of another, without the owner’s permission, ‘whether innocently or by mistake, is a trespasser.’”).

213. *Phillips, supra* note 207, at 1291 (“Possession and unauthorized entry form the prongs of the prima facie proof of the tort.”).

214. *RICHARD A. EPSTEIN, TORTS 24 (Aspen Law & Business 1999) (stating that the action for trespass covers unlawful entry as well as when the ‘D uses force to ‘directly’ injure P’s property’) (hereinafter EPSTEIN, TORTS).
across the owner’s land. An indirect injury, such as foul odors, is not actionable through trespass, but rather through the law of nuisance. Importantly, in the law of trespass the property owner does not have to show that the trespasser caused any significant damage: nominal damages may be awarded. 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.

The textbook case of a trespass with punitive damages attached is *Jacque v. Steenberg Homes, Inc.* The Jacques sued Steenberg, a mobile home company, for crossing over their land to deliver a mobile home. 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, money, and avoidance of a steep snow bank. 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 property valued over $10,000.

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. Steenberg intentionally trespassed, with the court noting that the frustrated foreman allegedly used rather forceful words when directing his workers to cross the Jacques’ land. 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. This punitive award may seem quite extreme. There was no harm done to the land, and it appears that the Jacques were holding out for an

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215. Id. *See also* Smith, *Exclusion and Property Rules*, *supra* note 11, 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.”).


217. *See Smith, Exclusion and Property Rules*, *supra* note 11, 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.”).

218. *See Epstein, Torts*, *supra* note 214, 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.”).


220. Id. at 157.

221. Id. *See also* Smith, *Exclusion and Property Rules*, *supra* note 11, at 983 n.52 (explaining that the Jacques’ “believe was mistaken because permission negates the hostility required for adverse possession or prescription”).

222. 563 N.W.2d at 157.

223. *Id.*
irrational reason. 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 would not be deterred.” The court here protected the Jacques’ right to exclude with a property rule. It did not inquire about the best use of the property or the Jacque’s reasonableness in refusing to grant permission. Simply, the court honored the Jacques’ right to be the “gatekeeper” of their property.

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.” The doctrine of necessity dates back to at least the sixteenth century and serves to legally excuse a guilty trespasser. The necessity privilege is invoked by the trespasser who chooses the “lesser of the evils”—the action that avoids the greatest harm. By choosing this lesser evil and thereby avoiding great harm, an act that would otherwise be wrongful and punished by the law is in essence deemed legal. Importantly, 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. The need for immediate and illegal action must not arise out of the defendant’s own action.

There are two categories of necessity: private necessity and public necessity. An example where a public necessity privilege arises is when a

224. 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 11, 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.”).

225. Id. at 983.

226. See id.

227. Id.

228. Id. (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 209, 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).

229. Stoebuck & Whitman, supra note __, at 411 (explaining “others may enter with the rightful possessor’s permission but [also] in a few cases, against his will”).


232. See id. at 1292; see also Martin, supra note 230, at 1527-28.


234. EPSTEIN, TORTS, supra note 214, at 59.

235. Id. stating that “[n]ecessity cases, pure and simple, never arise out of P’s wrong”).
defendant enters the plaintiff’s land and destroys the defendant’s house to prevent the spread of a fire that would have otherwise destroyed an entire city. Absent the imminent harm to the city because of the spreading fire, the defendant would be held liable to the plaintiff for the damages incurred as a result of his conduct. The difference between private and public necessity is to whom the grave danger or imminent harm will affect. Is the trespasser saving an entire city or boatload of people, or are they saving themselves? Professor 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. In doing so, he ensures that there is enough insulin for Carla’s own daily dose. In this example, Hal is justified in trespassing on Carla’s land and taking what he needed for his own survival. Accordingly, he is not liable for trespass though he most likely must pay for the insulin that he took. In this sense, 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 trespassing conduct.

A well known case involving the defense of public necessity is Vincent v. Lake Erie Transportation Co. Although the defense of necessity is most easily justified when used to defend or save life, as this case demonstrates, it may also be used to save the significantly more valuable property. The defendant’s steamship, the Reynolds, was tied to the plaintiff’s dock while goods were being unloaded. During the unloading process a storm developed, ultimately producing winds of fifty miles per hours. The captain of the Reynolds decided to stay moored at the plaintiff’s dock rather than...

236. DOBBS, supra note 28, at 251. This particular example stems from an early example in English history where Lord Mayor of London refused to order or consent to forty houses or furniture being removed in order to save the city from the spreading fire. Respublica v. Sparhawk, 1 Dall. 357, 363 (Pa. 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.

237. [Cite].


239. Id.

240. Id. (Professor Coleman finds that Hal is justified both legally and morally); see also George C. Christie, The Defense of Necessity Considered from the Legal and Moral Points of View, 48 DUKE L.J. 975 (1998) (arguing that there is little support in Professor Coleman’s view that Hal has not violated Carla’s rights, only infringed them and therefore has not committed a wrong but only caused a wrongful loss that he must pay).


242. Christie, supra note 240, at 981 (arguing that Vincent “cannot support most of the broad conclusions that have been drawn from it”). [More here].

243. 124 N.W. at 221.

244. Id.
attempting to face the tumultuous sea.\textsuperscript{245} Throughout the course of the storm, the crew replaced worn and frayed lines to insure that the steamship stayed at the dock.\textsuperscript{246} The result of the Reynolds being tossed against the dock by the heavy rain and waves during the course of the storm caused five hundred dollars worth of damage to the dock.\textsuperscript{247} The court held that the defendants had not acted negligently in keeping the steamship moored at the dock during the storm, instead finding that the captain and crew “exercised good judgment and prudent seamanship.”\textsuperscript{248} 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 a 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.\textsuperscript{249}

The dock owner’s right to exclude is ordinarily protected by a property rule, yet when such dangerous conditions are present a court will not implement such an exclusive property rule. Instead, the dock owner’s right to exclude is supported only by a liability rule.\textsuperscript{250} During the time of necessity, a ship in the position of the Reynolds is permitted to “take now, and pay later.”\textsuperscript{251} Yet as soon as the imminent risk of grave danger passes—the storm in this case—the property owner’s right to exclude is again protected by a property rule, and a trespasser will be subject to an injunction and punitive damages if applicable.\textsuperscript{252}

The mechanism of switching from a property rule to a liability rule in time of grave danger is useful in the patent context. I will argue below that the role of an incomplete privilege akin to that of necessity should be utilized in situations of holdout. This will prevent the problem of holdout being a constant threat to the patent industry, and yet allow patentees consistent access to injunctive relief. The momentary switch from injunctive relief and punitive damages to only monetary damages is most easily justified in the patent context when the general public will be harmed by the granting of an

\textsuperscript{245} Id.
\textsuperscript{246} Id.
\textsuperscript{247} Id.
\textsuperscript{248} Id. at 221-22.
\textsuperscript{249} Id. at 222.
\textsuperscript{250} Smith, \textit{Property and Property Rules}, supra note 10, at 1735.
\textsuperscript{251} Id.
\textsuperscript{252} Id. (“The one in peril can take and pay, but after the peril passes, the property rule reasserts itself.”).
injunction. Although courts will be forced to analyze whether a particular use of patented technology rises to the level that there is sufficient concern about the public being at risk, this will be a rarity.

IV. REFRAISING PATENT REMEDIES

The ruling in eBay v. MercExchange and subsequent case law has changed the structure of patent remedies. A NPE and practicing patent holder in indirect competition with its infringer can no longer assume it will receive the injunctive relief that it requests. There is also tension in the structure of patent remedies after eBay. When a defendant is judged a willful infringer, if it can show 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 post adjudication. Certainly a defendant such as eBay may be in the position to use the technology in a way that reaches more people or brings in more profit, but unlike in nuisance law, a defendant like eBay never has a right to use the patented technology. Concerns about patent holdout may be solved without weakening the foundation of patent law. This next section will argue that patent law and the right to exclude are best protected by property rules, where parties are negotiating against the backdrop of an injunction and the advisory that permission to enter the patentee’s space needs to be consensual or punitive damages may be added.

A. Property Rules Best Protect the Right to Exclude

Patent is (a species of) property. Consequently, “[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

253. See Mossoff, supra note 17, at 322 (“The status of patents is undisputed: patents are property.”); Duffy, supra note 17, 1078 (2005) (“I, along with others, believe that intellectual property should be treated as a species of property.”); Smith, Intellectual Property as Property, supra note 169, 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 30, 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 16 (defending his view that patentees are private attorney generals and patent law is 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 169, at 1756 (citing examples of “skeptics of intellectual property rights”).
property.” Patent law is justified as an institution with the ultimate goal to promote innovation, with the parties within the patent system playing an integral role in the successful functioning of the system. Accordingly, spending effort focusing on the actions and compensation of the parties within the patent system is just one step scholars must take in order to attempt to achieve the illusive optimal level of investment in intellectual property.

Property rights are most often protected in the law by a property rule. This is true even though property rules find little support from legal economists. The gap between the strong property rule support in the law and weak property law support in the legal academy prior to eBay and subsequent case law is demonstrative of this split between courts and the academy. This is unsurprising given that legal economists most often advocate for liability rule protection of entitlements because of the potential problems of holdout and unreasonable strategic bargaining by patentees. These two potential problems are ones that have dominated much discourse in patent law for the last decade. Patent scholars are concerned that patentees, most notably 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. Because of these concerns, which are often paired with high transaction costs, patent scholars frequently advocate for liability rule protection in patent law.

This literature is being furthered by scholars that have either proposed a nuisance-type model for patent infringement or that have argued patent law is akin to that of 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). Although holdout behavior and strategic bargaining are two valuable concerns in patent law, I argue here that these

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254. Duffy, supra note 17, at 1078 (responding to Professor Lemley’s argument that patent law stands on its own and does not need to be analogized to property).

255. 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’”).

256. 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”).

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

258. Id. at 1733 (“The second major category of liability rules consists of those that counteract potential problems of hold-out behavior and strategic bargaining.”)

259. See supra Section III.A.

260. See id.

261. See, e.g., Newman, Patent Infringement as Nuisance, supra note 8; Janet Freilich, A Nuisance Model for Patent Law, [cite?] (arguing “the patent system should be reformed by creating a nuisance-type model for intellectual property” that “would build off of 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”).
problems can be handled without altering or giving up a patent holder’s right to exclude. This right to exclude “is the most obvious place to being because it is a central component of any system of private property.”

The framework of patent remedies should be that found in 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 higher and more costly due to the nature of patent claims (as opposed to a fence), a party is liable for her encroachment regardless of knowledge or intention of crossing those boundary lines. Further, just like in the law of trespass, an infringer is held responsible for its actions even if the damage caused is minimal. Patent law provides that a patentee must at least receive a reasonable royalty for the unauthorized use of the patented technology. This amount may in fact be very little, and although enhanced damages are tied to that of the compensatory damages (unlike that in cases of trespass), the patentee may receive supra-compensatory damages. Although injunctions are arguably less requested and 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.

The most important aspect of injunctive relief is with respect to future harms: “it keeps open the channels for voluntary exchange.” Injunctive relief forces interested users of the patented technology to negotiate directly with the property owner and in theory makes “it impossible for individuals to circumvent the basic rules of property law for their short-term private

262. See Epstein, The Disintegration of Intellectual Property, supra note 16, 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.”).

263. See id. (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”). Professor 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 professional who have an intimate knowledge of the relevant space.” Id. at 487.

264. See Parchomovsky & Stein, supra note 209, 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 “propertized 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”).

advantage.” The added layer of protection of punitive damages under the Patent Act. If this taking is willful, the infringer may be subjected to both an injunction and damages above the compensatory lost profits or reasonable royalties.

Most simply in regards to the importance of injunctive relief in trespass: “Why 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?” Strong 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 (injunctive relief and punitive damages) and the system becomes weaker. Patentees will have less incentive to invest in and seek protection from patented inventions. Further, patentees may be less likely to share their technology because one of the major factors courts analyze post-<em>eBay</em> in deciding whether to grant injunctive relief or not is whether the patentee licensed her technology often and for what price. Parties need to have expectations managed effectively, and this is most easily and historically done in patent law by reestablishing to the majority of patentees the right to exclude after infringement is found.

Liability rules and nuisance law do not achieve this same level of expectation and incentive to negotiate and play by the rules. Professor 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.” 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. This is in exact contradiction with patent law, where if an infringer willfully makes, uses, or sells patented technology it will be subject to enhanced damages that are aimed at punishing and deterring future infringing actions. The strict liability

266. Id. at 488-89 (explaining that 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”).
267. See Parchomovsky & Stein, supra note 209, at 1825.
269. A liability rule therefore encourages experts in the field to seek out patented technology that is 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.”
structure and the recognition of the harm regardless of the amount of damages are also both untrue in the law of nuisance.

Nuisance law involves two property owners where one property owner invades the other property owner’s space indirectly through dust or noise, for example, and is not liable for such invasion until it substantially and unreasonably interferes with the plaintiff’s right to use her property. Most importantly, there are not two property owners in patent law and so the very basis for balancing the use and reasonableness of such use of the property does not exist. This balancing of use only occurs in nuisance law because there are two equal, yet conflicting, property rights at stake.

Professor Merges has explained that the foundation of strong “property rule entitlements drives [intellectual property rights] holders in high transaction industries into repeat-play bargaining which leads to the formation of [private Collective Rights Organizations].” For example, patent holders voluntarily join patent pools in industries and “contract around” potentially inefficient property rules. Professor Merges describes the growing phenomenon that intellectual property holders join together, agree to give up their rights to injunctive relief, and collectively license their patents or copyrights and split the profits. Recognizing that parties efficiently contract around property rules when an injunction is not the end goal, is one more reason to have a patent system based on property rules. Patent law does not need courts to set licensing rates for it when parties are doing it themselves and avoiding potential problems of holdup. As Professor Lemley points out in his response to Professor Merges, 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. He further states that preference for property rules over liability rules is “significantly bolster[ed] by Professor Merges’ evidence that parties within the intellectual property system will come together and avoid problems of holdup.

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

270. Merges, Contracting into Liability Rules, supra note 11, at 1296.
271. See id.
272. 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.
274. See id.
B. Options after eBay

There are several possible approaches regarding how to decrease 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 towards 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 “take now, pay later” system that the standard of willful infringement could be sustained. A liability system encourages just the opposite. Further, it seems there are few (if any) scholars that are completely 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 patentees should never receive injunction relief.

Most scholars are well within these endpoints. For example, Professor 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.\textsuperscript{275} He explains that district courts seem to be moving towards 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.” Professor 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.”\textsuperscript{276}

Professor Epstein has criticized the eBay factors as not taking into account the “serious institutional damage” that occurs when a court allows the infringer to “circumvent the voluntary market by creating what is in essence a compulsory license whose terms are set by a court, and not the parties.”\textsuperscript{277} 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.\textsuperscript{278} He finds that the third factor regarding relative hardship of the parties requires the court to play a guessing


\textsuperscript{276}. \textit{Id.} Professor 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.” \textit{Id.}

\textsuperscript{277}. Epstein, \textit{The Disintegration of Intellectual Property}, \textit{supra} note 16, at 490.

\textsuperscript{278}. \textit{Id.} \textit{See also} Mark P. Gergen, John M. Golden, Henry E. Smith, \textit{The Supreme Court’s Accidental Revolution? The Test for Permanent Injunctions}, 112 \textit{COLUM. L. REV.} ___, 33 (forthcoming 2011) (noting that the irreparable harm and inadequacy of legal remedies overlap).
game as to which party will suffer the most harm. And as for the fourth factor, the impact of the injunction on the public, Professor Epstein argues that an injunction that will be denied because true public concerns will likely cause the government to step in or the court to deem a public necessity defense to the defendant. Accordingly, he finds that the “touchstone” of a court’s inquiry will be the irreparable harm factor and that “the dispute over injunctive relief seems to turn on the choice between rules that are applied on a categorical or a case-by-case basis.”

Other scholars have likewise found problems with eBay and have generally argued that patent law should either deny more injunctions, should reframe the way that injunctive relief is currently being handled by the district courts, and that intellectual property may be more aptly dubbed “intellectual liability.” With these criticisms of eBay already lodged, and my added layer to this discussion in explaining the tension between courts using deterrence and blameworthy language and allowing such an infringer to continue using the patent, this first response is most unsatisfactory and unhelpful.

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 more fundamentally, what the purpose and focus of patent law should be. Putting the differing views aside, there is a more concrete problem with this option. eBay is deeply entrenched within the court systems. In a forthcoming article, Professors Gergen, Golden, and Smith analyze the spreading (and perhaps unintentional) influence of eBay. 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. 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). And while several courts

280. Id. at 491 (“In 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 parties.”).
281. Id.
282. See Schillman, supra note 16.
283. See, e.g., Mark Lemley & Carl Shapiro, Patent Holdup and Royalty Stacking, 85 TEXAS L. REV. 1991, 2036 (2007) (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).
284. See Crane, supra note 155.
286. Id. (finding that this is true for federal courts but that state courts rarely cite eBay).
287. Id. (listing exemplary case law).
have found eBay disruptive in many long-settled presumptions, it does not seem realistic at this point to hope that this spreading influence of eBay will be curtailed anytime soon. This leaves us with what I find is 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 patentee. These situations, representing a near per se reward of injunctive relief for the patent holder, occur when patent holders directly compete with the accused infringers. This includes those in direct competition, as well as those that exclusively license their patented technology to someone else who competes with the infringer and patent holders who sell a product that competes with the infringer’s products. This is just a starting point because many patentees do not license their patent to just one or two parties and many others are not in direct competition with their infringer. Another interesting issue post-eBay with the resulting trend of denying injunctive relief to patentees that are NPEs is that many inventors and small companies license or assign their patents to patent holding companies that will then enforce these patent rights.

Although NPEs are viewed negatively by most in the industry, scholars have also asserted that NPEs serve a useful role in the patent industry. For example, it has recently been argued that NPEs enhance innovation by creating a market for patents and inventions to capitol-poor inventors. 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.” It is also important, especially with NPEs, to “distinguish between a hold-up and aggressive, but legitimate, bargaining.”

288. Id. (citing courts that have explicitly found eBay as disruptive to presumptions such as a presumption of irreparable injury in light of continuing harms).


290. Shrestha, supra note 7, at 116.


292. Layne-Farrar & Schmidt, supra note 19, at 25.
the Patent Act is the best 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.  

I am not advocating in particular for or against NPEs in this article, but I am concerned that we are allowing too much change in patent law because of overstated concerns about NPEs and holdout behavior.  

As Professor 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.”  

The current path of eBay is forcing inventors to make business decisions based on a right that has historically been given 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, “[t]here 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.”  

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. Instead of relying on a forced license, the next section argues that courts should rely on other mechanisms and resources available to it when it is concerned about the particular behavior of a patentee. This will enable courts to reframe patent remedies like that of the traditional, long-standing structure of trespass.  

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, where courts are engaging in an analysis of what is the most reasonable and efficient use of the patented technology. I argue this current framework can be altered by courts in at least two ways: by the increased use and broadening of an incomplete privilege and an increased issuing 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 or

293. See Newman, supra note 8, at 66.

294. See also Epstein, The Disintegration of Intellectual Property, supra note 16, at 493-94 (“The case of the tiny patentee who exercises the exorbitant holdup does need some attention at the margins, but it should never be the tail that wags the patent dog.”).

295. Id. at 494.

296. 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.”)

297. 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.
an indirect competitor. This reframing of patent remedies will enable the affirmation of the intended message of eBay—holdout and lose the right to exclude—while clarifying that patent law is not accurately governed by a take now, pay later rule. A potential taker must respect the intact absolute permission rule and negotiate up-front with the patent holder at all possible times.

The first mechanism is a grant of an incomplete privilege, which is comparable to what was explored above in cases of necessity. Under this incomplete privilege, the court would allow the defendant to use the patented technology because of patentee behavior that is causing significant and unreasonable harm to the public. 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. This relief is similar to that of a compulsory license and what courts post-eBay are currently doing, yet 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 the patent holder owns one single, small patent and is able to shut down the latest version of the iPhone. This theoretically could happen, but many extreme steps are needed. For example, Apple would have to refuse a license due to what it thought of as an exorbitant price by the holdout patentee; then the patentee would need to sue Apple and a court find that Apple infringes a valid patent; and, finally, a court would need to grant the patentee its requested relief despite the political pressure and the millions of affection people that use the iPhone. While we all may cringe at the thought of having our cell phone suddenly rendered inoperable or unsupported, “it is instructive that there is no decided case in the Federal Circuit that granted an injunction under such extreme conditions.”

There is a recent case that was 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: a case where the court would use the mechanism of an incomplete privilege to avoid an impending social disaster. In the actual case, Paice was an NPE that wanted in

298. An example of this type is a compulsory license.
299. I use a very similar example of the “nightmare example” that Professor Epstein has described. See Epstein, The Disintegration of Intellectual Property, supra note 16, at 490.
300. Id. (stating 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”).
301. Id.
Toyota’s opinion too much for a license to its patents covering a hybrid electric vehicle drive train.\footnote{303} 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.\footnote{304} Paice LLC did not use its patented technology related to drive trains for hybrid electric cars, notably the Toyota Prius, Highlander and Lexus RX 400h.\footnote{305} Paice filed for permanent injunctive relief, yet was instead granted an ongoing royalty for every car that Toyota sold with the infringing drive train technology.\footnote{306} 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.\footnote{307}

In deciding to deny injunctive relief the district court, affirmed by the Federal Circuit, used the four equitable factors of eBay. The district court first found that Paice failed to demonstrate it would be irreparably harmed. This was because Paice did not show that it was in direct competition with Toyota, that its goodwill or reputation would be harmed by ongoing royalties, and that its licensing program that supported its business had not and would not in the future be harmed by adding another licensee to it.\footnote{308} The district court further found that monetary damages were relatively easily calculable and that adding more royalties to its licensing program would affirm its rights to the patented technology just as well as an injunction would affirm the rights to the patented technology.\footnote{309} 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 to issue. 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.” 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 was enjoined from using this particular patented technology. The court cited as its reason that other hybrid cars were available.\footnote{310}

Overall, however, the court was convinced that Toyota should be allowed to continue to infringe despite Paice’s requests. This example of injunctive relief I find less troubling than eBay, z4, or i4i because Toyota here was not a

\begin{footnotes}
\item 303. See Paice II, 504 F.3d at 1296-97.
\item 304. See Paice I, 2006 WL 2385139 at *1.
\item 305. Paice II, 504 F.3d at 1298-99.
\item 308. See id. at * 4-5 (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).
\item 309. See id.
\item 310. Id. at *6.
\end{footnotes}
willful infringer. Further, Toyota did not purport to have designed around the patent like eBay allegedly had and that 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 are relatively small, $4,269,950 in compensatory fees, with more to be awarded for each car that infringed during the remaining life on the patent found to be valid and infringed.\(^{311}\) This is 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 number that was concerning. Further, if the facts were changed and Toyota was the only hybrid manufacturer, or if this case was fifteen years earlier when hybrid cars were still in the infancy stages, the holdup potential in this field of technology would be great. Of course, these were not the facts of this case and while the problem of tension between equitable relief and enhanced damages does not exist, the fundamentals of patent law were altered to gain a short-term advantage. This creates bad 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 [patent law] the greatest embarrassment."\(^{312}\) The court would use a mechanism akin to that of private or public necessity that was demonstrated in \textit{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.

The second proposed mechanism available for a court’s use is the un-extraordinary relief of a court ordered stay. This is most likely to be invoked by parties or the court because the patent at issue is going through a reexamination at the PTO 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 patentees that they will not be allowed to holdup innovation. The district court case of \textit{eBay} on remand is exemplary.

\(^{311}\) See Paice II, 609 F.Supp.2d at 622.

\(^{312}\) Epstein, \textit{The Disintegration of Intellectual Property}, supra note 16, 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 scholars are most concerned about).
One of the new facts the district court addressed after the Supreme Court’s remand was that the PTO granted eBay’s request for patent reexamination of the patents-in-suit, the ‘265 and the ‘051. This occurred while the appeal of the original district court’s opinion was pending at the Federal Circuit and Supreme Court. By the time of the remand to the district court, the PTO issued non-final office actions indicating that both patents were invalid as obvious. Every claim of the ‘265 patent was twice rejected in non-final actions as obvious. 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 PTO examined. 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 may indeed survive the reexamination (and a second reexamination was likely to occur).

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. Consequently, it continued in assessing whether to issue an injunction as to the ‘265 patent. 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 patents-in-suit will not survive reexamination.”

The problem here is that the district court was not comfortable overlooking the overwhelming majority of case law supporting stays during parallel PTO reexamination proceedings. These cases demonstrated that courts most frequently grant stays prior to trial, not after trial. 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.”

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

313. eBay, 500 F. Supp.2d at 561. 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.
314. Id. at 662-63.
315. Id. at 561.
316. 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”).
317. Id. at 563 (citing Gould v. Control Laser Corp., 705 F.2d 1340, 1342 (Fed. Cir. 1983).
318. 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”).
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. 319 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. 320 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 validity of ‘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 PTO several more months to issue a final action regarding the ‘265 patent, and perhaps in the end rendered the same result to eBay. Although MercExchange may be an unsympathetic plaintiff, the facts do not make this an exemplary case warranting such a drastic change in how district courts are awarding relief to all patent holders.

V. CONCLUSION

The court-ordered mechanisms of an incomplete privilege and stay can reframe patent infringement remedies to that of trespass-like infringement. This will allow courts to revert back to the strong property protection in patent law and remain within the boundaries of eBay v. MercExchange. Perhaps the next step here is providing guidance to courts regarding certain industries and types of patents that are more likely to create consistent holdups in innovation. Yet until that empirical research 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 the public’s gain or loss.

319. Id. at 561.
320. Id. (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”).