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PERMANENT INJUNCTION, A REMEDY BY ANY OTHER  
NAME IS PATENTLY NOT THE SAME: HOW *EBAY V.*  
*MERCExchange* AFFECTS THE PATENT RIGHT OF  
NON-PRACTICING ENTITIES

*Miranda Jones\**

INTRODUCTION

Intellectual property plays an undeniably important role in the United States economy.<sup>1</sup> Economists estimate that the United States' intellectual property today "is worth between \$5 trillion and \$5.5 trillion, equivalent to about 45 percent of U.S. GDP and greater than the GDP of any other nation in the world."<sup>2</sup> The recognition that intellectual property was an overlooked asset of tremendous value led to corporations shifting focus from land and material resources to intellectual property resources, including patents.<sup>3</sup> This recognition also led to the rise of business entities focused solely on acquiring under-valued patents<sup>4</sup> and realizing the value of those patents through licensing and enforcement of the patent right, the right to exclude.<sup>5</sup>

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\* George Mason University School of Law, Juris Doctor Candidate, May 2008; Articles Editor, *GEORGE MASON LAW REVIEW*, 2007-2008; University of Houston, B.A., *magna cum laude*, Chemistry, 2005. This Comment received the 2007 Adrian S. Fisher Award for best student article at George Mason University School of Law. I would like to thank the Honorable John F. Witherspoon, Professor and Director Emeritus of the Intellectual Property Program, George Mason School of Law, for his invaluable comments and advice in the preparation of this article. A special thank you to Andrew H. Jones for his patience and support.

<sup>1</sup> ROBERT J. SHAPIRO & KEVIN A. HASSETT, USA FOR INNOVATION, *THE ECONOMIC VALUE OF INTELLECTUAL PROPERTY* 3, 5-8 (2005), [http://usaforinnovation.org/news/ip\\_master.pdf](http://usaforinnovation.org/news/ip_master.pdf).

<sup>2</sup> *Id.* at 3.

<sup>3</sup> GEORGE GILDER, *MICROCOSM: THE QUANTUM REVOLUTION IN ECONOMICS AND TECHNOLOGY* 17 (hardcover ed. 1989) (noting that "[t]oday, the ascendant nations and corporations are masters not of land and material resources but of ideas and technologies.").

<sup>4</sup> A quick note on patents: an invention must satisfy three basic conditions to be patentable; these conditions are: (1) novelty; (2) utility; and (3) non-obviousness. Giles S. Rich, *Principles of Patentability*, 42 J. PAT. & TRADEMARK OFF. SOC'Y 76 (1960), *reprinted in* 14 FED. CIR. B.J. 135 (2004). Patents have "the attributes of personal property" and "shall be assignable in law by an instrument in writing." 35 U.S.C. § 261 (2000).

<sup>5</sup> The "patent right" is the right to exclude others from (1) making, (2) using, (3) selling, (4) offering for sale, or (5) importing an invention. *See* 35 U.S.C.A. § 154(a)(1) (2002); Thomas Reed Powell, *The Exclusive Right of the Patentee—Should the Right or Power To Exclude Others Be Dependent on Sale or Licensing by the Patentee?*, 58 HARV. L. REV. 726, 728 (1945); *see also* Brenda Sandburg, *You May Not Have a Choice: Trolling for Dollars*, *RECORDER*, July 30, 2001, available at <http://www.phonetel.com/pdfs/LWTrolls.pdf> (noting the emergence of such entities).

These entities are often referred to as non-practicing entities (“NPEs”),<sup>6</sup> or more pejoratively as patent trolls.<sup>7</sup> Since the value of a patent rests on the enforcement of the right to exclude, a patent owner that cannot efficiently or effectively enforce the patent right holds an under-valued, or perhaps even valueless, patent.<sup>8</sup> NPEs purchase patents from inventors, allowing them to profit from the value of their inventions and also providing them with an important source of funding for further research and development.<sup>9</sup> Arguably, this transaction between inventor and NPE can be viewed as a division of cooperative labor, allowing each entity to do what it does best, whether that is inventing or enforcing patent rights.<sup>10</sup>

The dispute, and resulting pejorative labeling, arises when NPEs attempt to enforce the patent right against corporations that are accustomed to infringing patents without consequences.<sup>11</sup> In the past, the patent right was

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<sup>6</sup> An NPE is a patent owner who does not manufacture or use the patented invention, but rather than abandoning the right to exclude, an NPE seeks to enforce its right through the negotiation of licenses and litigation. See *infra* Part I.A. Practicing the *patented invention* is to be distinguished from practicing the *patent right*. “Practicing the patented invention” simply means manufacturing or using of the patented invention. BLACK’S LAW DICTIONARY 1210 (8th ed. 2004). On the other hand, practicing the patent right—which is the right to exclude others from practicing the patented invention—involves licensing that right to others and initiating litigation to prevent infringement. For example, if Paul, the owner of a patent for widgets, makes and sells widgets he is practicing the patent invention. If Paul enters into a licensing agreement whereby Louis, the licensee, will make and sell widgets, Paul is practicing the patent right.

<sup>7</sup> See *infra* Part I.A for a discussion of patent trolls. Briefly, patent trolls are accused of engaging in opportunistic litigation and licensing of patents by often invoking weak or low-value patents against manufacturers. See Steve Seidenberg, *Troll Control: The Supreme Court’s eBay Decision Sets Back Pesky ‘Patent Trolls’ or American Innovation, Depending upon Which Side You’re on*, A.B.A. J., Sept. 2006, at 51, 53.

<sup>8</sup> See John LaPlante, *The Case for Abandoning the Term “Patent Troll”*, INTELL. PROP. LITIG., Winter 2006, available at [http://www.rkmc.com/The\\_Case\\_for\\_Abandoning\\_the\\_Term\\_Patent\\_Troll.htm](http://www.rkmc.com/The_Case_for_Abandoning_the_Term_Patent_Troll.htm) (noting that “a patent’s value depends on the willingness of the patentee to enforce it by excluding others”); Clarisa Long, *Patent Signals*, 69 U. CHI. L. REV. 625, 630 (2002); see also Martin Lueck et al., “Patent Troll:” A Self-Serving Label that Should be Abandoned (Sept. 28, 2005), [http://www.rkmc.com/Patent\\_Troll\\_A\\_Self-Serving\\_Label\\_that\\_Should\\_be\\_Abandoned.htm](http://www.rkmc.com/Patent_Troll_A_Self-Serving_Label_that_Should_be_Abandoned.htm) (“[a]n essential component of the value of the patent springs from the right to demand compensation for use of the invention”).

<sup>9</sup> Intellectual Ventures is an example of an NPE. Its website proclaims, “[o]ur acquisition and partnering model has been embraced by a wide range of organizations . . . and individuals. For some, they view working with Intellectual Ventures as a way to commercialize their R&D efforts. For others, they look at it as a way to fund additional R&D and ongoing patenting efforts.” Intellectual Ventures, *Who We Are*, <http://www.intellectualventures.com/about.aspx> (last visited Mar. 26, 2007) [*hereinafter* Intellectual Ventures].

<sup>10</sup> Brief of Rembrandt IP Management, L.L.C. as Amicus Curiae in Support of Respondent at 2, *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130), 2006 WL 639163 (stating that NPEs “help level the playing field for patent enforcement, and allow inventors to do what they do best—invent—while leaving to the NPE the risks and potential additional rewards of developing the value of their inventions in the marketplace”) [*hereinafter* Rembrandt IP Management Brief].

<sup>11</sup> See *infra* Part I.A.

not always strictly enforced by inventors or corporations.<sup>12</sup> Large corporations were often engaged in mutual patent infringement; therefore, neither sued to enforce the patent right because the other could counter-sue.<sup>13</sup> Individual inventors and smaller corporations often did not pursue enforcement of the patent right because of their lack of expertise and lack of funding, both of which undermined their credibility as serious litigants.<sup>14</sup> Because of this state of affairs, corporate titans were distressed by the vigorous enforcement of patents that resulted from NPEs' emergence on the patent scene.<sup>15</sup>

In *eBay Inc. v. MercExchange, L.L.C.*, Justice Kennedy wrote a concurrence seeking to address the alleged NPE problem.<sup>16</sup> Justice Kennedy suggested that damages alone rather than the traditional remedy of permanent injunctive relief may be sufficient to compensate an NPE for infringement.<sup>17</sup> This concurrence has been subsequently cited in two district court cases denying an NPE permanent injunctive relief because of the "economic nature of the patent holder" (*i.e.*, the patent owner was an NPE).<sup>18</sup> Not only does *eBay* upset the existence of an adequate remedy for infringement,<sup>19</sup> the Court's decision also unsettles the well-established presumption of irreparable harm, which arose to protect the owners of valid and infringed patents.<sup>20</sup>

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<sup>12</sup> See Seidenberg, *supra* note 7, at 51 (quoting a co-founder of an NPE: "in 99 percent of cases, the large companies get the IP for free. It is a great business model, but only for large companies").

<sup>13</sup> Mark A. Lemley, *Rational Ignorance at the Patent Office*, 95 NW. U.L. REV. 1495, 1505 (2001) (noting that "it is more common for companies to agree to royalty-free cross-licenses, in which each party gets the freedom to make products but does not have to pay the other").

<sup>14</sup> Large corporations often simply ignore individuals. Acacia Technologies Group, *Why Use Acacia?*, <http://www.acaciatechnologies.com/whyuse.htm> (last visited Mar. 26, 2007) ("Inventors and small patent holders without any financial resources to bring legal action lack credibility in dealing with unwilling licensees and are often blatantly ignored."). A strategy employed by some corporations accused of infringement is to attempt to make litigation drag on as long as possible. There exists a general perception that enough time, money and effort could preclude injunctive relief since injunctive relief is no longer available after a patent expires. See, e.g., *Lans v. Digital Equipment Corp.*, 252 F.3d 1320, 1328 (Fed. Cir. 2001); *Kearns v. Chrysler Corp.*, 32 F.3d 1541, 1550 (Fed. Cir. 1994).

<sup>15</sup> See *infra* Part I.A.

<sup>16</sup> 126 S. Ct. 1837, 1842 (2006) (Kennedy, J., concurring).

<sup>17</sup> *Id.*

<sup>18</sup> *z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437, 441 (E.D. Tex. 2006); *Paice L.L.C. v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, 2006 WL 2385139, at \*4 (E.D. Tex. Aug. 16, 2006).

<sup>19</sup> See *eBay*, 126 S. Ct. at 1841-42 (Roberts, C.J., concurring) (suggesting that an award of damages rather than permanent injunctive relief cannot adequately compensate a patent owner for a violation of its right to exclude); see also *Atlas Power Co. v. Ireco Chems.*, 773 F.2d 1230, 1233 (Fed. Cir. 1985) ("The Patent Statute provides injunctive relief to preserve the legal interests of the parties against future infringement which may have market effects never fully compensable in money.").

<sup>20</sup> See *z4 Techs.*, 434 F. Supp. 2d at 439-40 (refusing to allow even a rebuttable presumption of irreparable harm to arise in light of the decision in *eBay*). But see *Christiana Indus. v. Empire Elecs., Inc.*, 443 F. Supp. 2d 870, 884 (E.D. Mich. 2006) (stating that "*eBay* did not invalidate the presumption," *vacated in part*, 2006 WL 2375956 (E.D. Mich. Aug. 16, 2006)).

This unsettling of the law has a significant impact on the patent right. Imagine that a corporation has integrated an innovative—but already patented—technology into one of its products with complete disregard for the patent. If a *practicing* individual or corporation were to enforce the patent, a court would likely award a permanent injunction.<sup>21</sup> This would, in turn, force the infringing corporation to negotiate a license if it desired to continue using the patented invention.<sup>22</sup> Prior to *eBay*, an NPE expected to be treated like other patent owners, but now, district courts have assigned NPEs a very different status. If an NPE, as a patent owner, attempts to enforce a patent, a permanent injunction will not likely issue.<sup>23</sup> Instead the court will set damages in the form of a reasonable royalty.<sup>24</sup> In essence, the court will substitute a *judicially-determined* license in place of a *bargained-for* license.<sup>25</sup> Knowing this, infringers have less incentive to engage in licensing negotiations with an NPE because, should the parties fail to agree to a license, a *judicially-determined* license is the NPE's only remedy.

During oral arguments in *eBay*, Justice Scalia asked the obvious question: why should an entity be in a better position to get an injunction by virtue of its practice alone?<sup>26</sup> A distinction between patent owners based on the practice of the patented invention is at odds with the patent right itself.<sup>27</sup> Patents grant a negative right, the right to exclude others from practicing the patent invention, rather than a positive right, the right to practice the patented invention.<sup>28</sup> Simply put, a patent does not grant a legal right to

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<sup>21</sup> This assumes that the patent is both valid and infringed. If either of these conditions is not met, this discussion of remedies is irrelevant. *Christiana Indus.*, 443 F. Supp. 2d at 874-75.

<sup>22</sup> *In re Mahurkar Double Lumen Hemodialysis Catheter Patent Litig.*, 831 F. Supp. 1354, 1397 (N.D. Ill. 1993) (stating in the context of patent infringement, “[an] injunction creates a property right and leads to negotiations between the parties.”).

<sup>23</sup> *See, e.g., z4 Techs.*, 434 F. Supp. 2d at 444 (refusing to grant an NPE permanent injunctive relief); *Paice L.L.C.*, 2006 WL 2385139, at \*6 (same).

<sup>24</sup> *See, e.g., z4 Techs.*, 434 F. Supp. 2d at 444.

<sup>25</sup> *In re Mahurkar Double Lumen Hemodialysis Catheter Patent Litig.*, 831 F. Supp. at 1397 (“A private outcome of [patent infringement] negotiations—whether they end in a license at a particular royalty or in the exclusion of an infringer from the market—is much preferable to a judicial guesstimate about what a royalty should be. The actual market beats judicial attempts to mimic the market every time, making injunctions the normal and preferred remedy.”).

<sup>26</sup> Transcript of Oral Argument at 24, *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130), available at [http://www.supremecourtus.gov/oral\\_arguments/argument\\_transcripts/05-130.pdf](http://www.supremecourtus.gov/oral_arguments/argument_transcripts/05-130.pdf) [hereinafter Transcript of Oral Argument].

<sup>27</sup> The only right granted in a patent is the right to exclude others from making, using, offering for sale, selling, or importing the invention. 35 U.S.C. § 154(a)(1) (2000). The Patent Act does not include a right to practice a patented invention. *See* United States Patent and Trademark Office, Nature of Patent and Patent Rights, <http://www.uspto.gov/web/offices/pac/doc/general/nature.htm> (last visited Mar. 6, 2007) [hereinafter Nature of Patent Rights].

<sup>28</sup> *See* Giles S. Rich, *The Relation Between Patent Practices and the Anti-Monopoly Laws*, 24 J. PAT. OFF. & TRADEMARK SOC'Y 159, 167-68 (1942), reprinted in 14 FED. CIR. B.J. 21, 27 (2004). But note that in the American legal system, “[a]ny person is ordinarily free to make, use, offer for sale or sell

practice the invention.<sup>29</sup> In some situations, the federal government may prevent the patent holder from practicing the patented invention.<sup>30</sup> For instance, if a patent covers an invention that is prohibited by another law, the patent owner cannot practice the patented invention, but may still exclude others from practicing it.<sup>31</sup>

This Comment argues that courts should not routinely deny NPEs permanent injunctive relief. To do so would erode the patent right by predicated the grant of the only adequate remedy for infringement on actions that patent owners have no legal duty nor legal right to undertake.<sup>32</sup> Once a court determines that a patent is valid and infringed, denial of permanent injunctive relief should only occur in situations of the utmost exigency. Part I of this Comment focuses on the evolution of NPEs from objects of contempt, as “patent trolls,” to entities serving valuable functions within the patent system. Part II explores the development and criticism of the Federal Circuit’s general rule for granting permanent injunctions and argues that (1) the general rule was not an automatic issuance of permanent injunctions and (2) the criticism that the general rule empowered NPEs to extort excessive licensing fees is unfounded. Part III analyzes the Supreme Court of the United States’ decision in *eBay v. MercExchange* and discusses the importance of the concurrences authored by Chief Justice Roberts and Justice Kennedy. Part IV identifies two subsequent district court decisions applying *eBay* to cases involving NPEs, and denying permanent injunctive relief to NPEs. Finally, Part V advocates the liberal grant of injunctive relief to NPEs under *eBay*’s traditional four-factor test because of the useful economic functions they serve in the intellectual property economy.

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or import anything he/she pleases, and a grant from the Government is not necessary.” Nature of Patent Rights, *supra* note 27.

<sup>29</sup> “[T]he patentee’s own right to [practice the patent] is dependent upon the rights of others and whatever general laws might be applicable. . . . Neither may a patentee make, use, offer for sale, or sell, or import his/her own invention if doing so would infringe the prior rights of others.” *Id.*

<sup>30</sup> *See id.* For example, if a patent for a new drug is issued, the federal government may prohibit the patentee from using, offering to sell, or selling that drug unless the FDA grants approval, which depends on the patentee’s compliance with an elaborate statutory scheme. *See id.* *See generally* Federal Food, Drug, and Cosmetic Act, 21 U.S.C. §§ 301-97 (2000 & Supp. IV 2005). If the FDA finds that the drug is not safe or it is not effective, the patentee can be prohibited from bring the drug to the market. *Id.* at § 355. In essence, the FDA will prevent the patentee from practicing its patent.

<sup>31</sup> Nature of Patent Rights, *supra* note 27. Another example would be a patented chemical process whose product is prohibited from being manufactured by environmental regulatory law.

<sup>32</sup> Remember, patent owners have no legal right or duty to practice a patented invention. While such practice is not forbidden in all cases, an inventor only has a *legal right* to exclude others from making, using, offering for sale, selling, or importing the invention. 35 U.S.C § 154(a)(1) (2000).

## I. AN INTRODUCTION TO THE PATENT TROLL

Non practicing entities (“NPEs”) were initially identified by the oft invoked pejorative term “patent troll” because few people, if any, saw any value in the actions of NPEs.<sup>33</sup> However, this Comment argues for the use of the term “NPE” because “patent troll” unfairly vilifies the actions of NPEs. Contrary to the implication of “patent troll,” NPEs are not a scourge of the patent system requiring a judicial cure. Rather, NPEs engage in activities useful to the patent system.

A. *The Patent Troll Legend: Mythical Creatures of Corporate Folklore*

The legend of the patent troll began with the former assistant general counsel of Intel, Peter Detkin.<sup>34</sup> In the late 1990s, Intel faced vigorous patent infringement litigation during which Mr. Detkin labeled NPEs with this colorful name in an attempt to garner attention for what he saw as a burgeoning impediment to his corporation’s ability to develop innovative technology.<sup>35</sup>

A factor which may have contributed to the emergence of these entities was the strengthening of the patent right. As the property rights of patents became stronger due in part to uniform application of the law under the Federal Circuit,<sup>36</sup> the licensing and enforcing of patents became more lucrative.<sup>37</sup> While the licensing of patents is not novel, as many patent holders

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<sup>33</sup> See F. Scott Kieff & R. Polk Wagner, *Testing Patent Protections*, WASH. TIMES, May 30, 2006, at A14 (noting the “outcry over ‘patent trolls’ who supposedly ambush business with junk patents”).

<sup>34</sup> See Raymond P. Niro & Paul K. Vickrey, *The Patent Troll Myth*, 7 SEDONA CONF. J. 153 (2006).

<sup>35</sup> Sandburg, *supra* note 5, at 1; see Peter Detkin, Managing Director of Intellectual Ventures, L.L.C., Statement Before the Antitrust Modernization Commission: Patent Law Reform 3, 6 (2005), available at [http://www.amc.gov/commission\\_hearings/pdf/Statement\\_Detkin.pdf](http://www.amc.gov/commission_hearings/pdf/Statement_Detkin.pdf).

<sup>36</sup> See Symposium, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy: Executive Summary*, 19 BERKELEY TECH. L.J. 861, 865 (2004) [hereinafter *Executive Summary*] (“The Court of Appeals for the Federal Circuit, the sole court for most patent law appeals, has brought stability and increased predictability to various elements of patent law.”); Cheryl L. Johnson, *Why Judges are Destined to Flunk Their Markman Tests: The History of Their Claim Construction Assignment*, in HOW TO PREPARE & CONDUCT MARKMAN HEARINGS 2006, at 9, 35 (PLI Patents, Copyrights, Trademarks, and Literary Property Course, Handbook Series No. 873, 2006), WL 873 PLL/Pat 9 (explaining that “[i]t was precisely the belief that increased uniformity would strengthen the patent system and foster industrial innovation that informed creation of Federal Circuit”).

<sup>37</sup> Margo A. Bagley, *Academic Discourse and Proprietary Rights: Putting Patents in Their Proper Place*, 47 B.C. L. REV. 217, 235-36 (2006) (“[The Federal Circuit] with jurisdiction over appeals from all patent cases in the federal district courts, was formed to eliminate the rampant forum-shopping in patent cases due to the presence of pro- and anti-patent regional circuit courts. This move had the ultimate effect of increasing . . . the certainty of patentability, making virtually all patents more valuable.”); see also *Executive Summary*, *supra* note 36, at 865.

decide to license their patents to others rather than practicing the patented invention themselves,<sup>38</sup> such vigorous enforcement *is* novel.<sup>39</sup> Mr. Detkin intended “patent troll” to refer to a patent owner who did not practice the patented invention, nor had any intention of practicing it, but enforced the patent right to generate large sums of money.<sup>40</sup> However, because of the derogatory connotations of the term, it was consistently misused so that it applied only to others rather than one’s own company and clients.<sup>41</sup>

This misuse resulted in numerous definitions of the term ‘patent troll.’ Reformulations of the definition have focused on an enforcing entity’s lack of active competition with the infringer,<sup>42</sup> collection of nuisance-value settlements,<sup>43</sup> threat of litigation on dubious patents,<sup>44</sup> and usage of the patents as a means to generate revenue.<sup>45</sup> These broad and sometimes conflicting definitions have led to several entities that clearly are not patent trolls being labeled as such, including individual inventors, universities, and large corporations that license unused patents to maximize the value of corporate assets.<sup>46</sup> Many, including Mr. Detkin, have recognized that “[t]he phrase now seems to be used as a placeholder for all the ills perceived in the patent system.”<sup>47</sup>

This ever broadening and confusing usage of “patent troll” has rendered it meaningless. The only remaining clarity is the pejorative connotation. Therefore, in order to avoid propagating ambiguity, this Comment will abandon the term “patent troll” in favor of the term “NPE.”<sup>48</sup> NPE aptly describes the root of the behavior Mr. Detkin was seeking to communicate when he coined the term patent troll without improperly vilifying such behavior. An NPE is a patent owner that does not practice the patented inven-

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<sup>38</sup> Rembrandt IP Management Brief, *supra* note 10, at 7 (stating that “[b]ecause of barriers to market entry and a disparity in bargaining power, however, independent inventors and smaller companies frequently are not well positioned to commercialize their inventions”).

<sup>39</sup> See Sandburg, *supra* note 5, at 1.

<sup>40</sup> *Id.*

<sup>41</sup> See Seidenberg, *supra* note 7, at 51.

<sup>42</sup> *Id.* at 53.

<sup>43</sup> *Id.*

<sup>44</sup> *Id.*

<sup>45</sup> Sam Mamudi, *Patent Trolling Merits Debated*, MANAGING INTELL. PROP., Mar. 21, 2005, <http://www.managingip.com/default.asp?Page=9&PUBid=198&ISS=13067&SID=494967>.

<sup>46</sup> Universities, for instance, frequently enforce patent rights through licensing patented inventions to others without engaging in practice. See LaPlante, *supra* note 8 (“In 2000, universities collected \$1.1 billion in royalties from the 13,000 U.S. patents that they hold.”). Even corporations often own and license patents without any intention of practicing those patents. See Niro & Vickrey, *supra* note 34, at 156-57.

<sup>47</sup> Detkin, *supra* note 35.

<sup>48</sup> Lately the term NPE has been used in several journal articles. See, e.g., Steven M. Cohen, Case Comment, *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323 (Fed. Cir. 2005), 39 SUFFOLK U. L. REV. 879, 885 n.35 (2006); Grant C. Yang, Comment, *The Continuing Debate of Software Patents and the Open Source Movement*, 13 TEX. INTELL. PROP. L.J. 171, 198 (2005).

tion and, rather than abandoning the right to exclude, seeks to enforce the patent right through the negotiation of licenses against those who infringe on the patent.<sup>49</sup> An NPE may either generate patents itself or acquire patents through transactions with inventors.<sup>50</sup>

The broad identification of an entity as an NPE may be further refined by classification along a sliding scale according to the entity's participation in the inventive process.<sup>51</sup> At one end of the scale are NPEs who are the original inventors of the patented invention; these NPEs may be called patent generators.<sup>52</sup> These are usually universities, individuals, or certain corporations. Many times, patent generators did not intend to function as NPEs at the time of invention, but other circumstances—including failed commercialization attempts and lack of funding for commercialization—thrust them into this role.<sup>53</sup> At the other end of the scale are NPEs who have no interest in the inventive process, but acquire patents for the purpose of enforcing them.<sup>54</sup> These entities have been labeled patent dealers.<sup>55</sup> Between these two extremes are entities that invent with the sole intention to enforce the patents.<sup>56</sup> These entities are harder to label, usually having characteristics of both patent generators and patent dealers.<sup>57</sup> This classification scheme is important to the following discussion of whether NPEs serve useful functions in the patent economy.<sup>58</sup>

#### B. *NPEs Engage in Useful Activities*

For many, the activities of an NPE elicit a visceral response: an unwavering condemnation of the activities of NPEs as both opportunistic and detrimental to the advancement of innovation.<sup>59</sup> Critics accuse NPEs of taking away resources that would otherwise be spent on research and de-

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<sup>49</sup> See Cohen, *supra* note 48, at 885 n.35.

<sup>50</sup> See FED. TRADE COMM'N, TO PROMOTE INNOVATION 31 (2003), available at <http://www.ftc.gov/os/2003/10/innovationrpt.pdf>.

<sup>51</sup> See James F. McDonough III, Comment, *The Myth of the Patent Troll: An Alternative View of the Function of Patent Dealers in an Idea Economy*, 56 EMORY L.J. 189, 192-93 (2006).

<sup>52</sup> *Id.*

<sup>53</sup> See Seidenberg, *supra* note 7, at 51-53 (recounting the story of Burst.com, which turned into an NPE after its attempts to commercialize its invention failed).

<sup>54</sup> McDonough, *supra* note 51, at 193.

<sup>55</sup> *Id.* at 201 (“[I]n a securities market the term ‘dealer’ refers to an individual or entity that buys and sells stock and holds an inventory. Patent dealers serve a similar function in the idea economy.”).

<sup>56</sup> *Id.* at 193. An example of such an entity is Intellectual Ventures, which provides an in-house laboratory and employs many scientists for the purposes of invention, patent generation, and subsequent licensing of those patents. Intellectual Ventures, *supra* note 9.

<sup>57</sup> McDonough, *supra* note 51, at 193.

<sup>58</sup> See *infra* Part I.B.

<sup>59</sup> See Kieff & Wagner, *supra* note 33, at A14.

velopment,<sup>60</sup> extorting excessive licensing fees from corporations through the threat of permanent injunction,<sup>61</sup> enforcing dubious patents,<sup>62</sup> and decreasing competition.<sup>63</sup> Most NPEs, however, see themselves as defenders of small inventors, “fighting an uphill battle to protect [the inventors’] hard-earned intellectual property from being stolen” by corporate titans,<sup>64</sup> and many of the criticisms set forth are problems with the patent system itself rather than with the actions of NPEs.<sup>65</sup>

The Patent Act itself states: “[n]o patent owner otherwise entitled to relief . . . shall be denied relief or deemed guilty of misuse . . . by reason of his having . . . *refused to . . . use* any rights to the patent . . . .”<sup>66</sup> Not only is an NPE’s refusal to practice its patented inventions permitted by the Patent Act, but this Comment argues that an NPE’s focus on the enforcement of the patent right rather than practice may be deemed useful because an NPE: (1) deters free riders;<sup>67</sup> (2) enforces valid patents;<sup>68</sup> (3) provides a market in which inventors may profit;<sup>69</sup> (4) establishes the market value of patents;<sup>70</sup> and (5) encourages competition and innovation.<sup>71</sup>

When examining whether an NPE serves valuable functions within the patent economy, it is important to bear in mind the purpose of the patent system. The patent system creates four economic incentives that would not be present at optimal levels without it: (1) incentive to invent; (2) incentive to disclose; (3) incentive to commercialize; and (4) incentive to design around.<sup>72</sup> The incentive to invent suggests that absent the protection of the patent system, inventors, wary of the free-rider problem and the resulting

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<sup>60</sup> Seidenberg, *supra* note 7, at 51.

<sup>61</sup> See Alyson G. Barker, Comment, *Patent Permanent Injunctions and the Extortion Problem: The Real Property Analogy’s Preservation of Principles of Equity*, 88 J. PAT. & TRADEMARK OFF. SOC’Y 256, 272 (2006).

<sup>62</sup> Seidenberg, *supra* note 7, at 51.

<sup>63</sup> *Id.*

<sup>64</sup> *Id.*

<sup>65</sup> See McDonough, *supra* note 51, at 201-03 (calling for the “decoupling of two issues that are being incorrectly conflated with [NPEs]: (1) the issuance of poor-quality patents, and (2) the problem of the patent thickets. . . . In the patent thickets, a technology is prone to underuse because of the high costs of licensing resulting from multiple ownership stakes in the same technology.”).

<sup>66</sup> 35 U.S.C. § 271(d)(4) (2000) (emphasis added).

<sup>67</sup> See *infra* notes 79-88 and accompanying text.

<sup>68</sup> See *infra* notes 91-101 and accompanying text.

<sup>69</sup> See *infra* notes 102-11 and accompanying text.

<sup>70</sup> See *infra* notes 112-20 and accompanying text.

<sup>71</sup> See *infra* notes 121-26 and accompanying text.

<sup>72</sup> DONALD S. CHISUM ET AL., PRINCIPLES OF PATENT LAW 70-76 (3rd ed. 2004). “Design around” means “[t]o make something that performs the same function . . . as [a patented invention] but in a way different enough from the original that it does not infringe the patent.” BLACK’S LAW DICTIONARY 1210 (8th ed. 2004). For example, if the patent claimed a chair with four legs, to design around the patent an inventor could create a chair with three legs or five legs.

lack of compensation, would forego invention.<sup>73</sup> Simply put: the patent system induces inventors to invent.<sup>74</sup> The patent system also negates the natural incentive to conceal profitable information by creating an incentive to disclose through the grant of the patent right.<sup>75</sup> The incentive to commercialize induces an inventor to incur the financial risks involved in commercializing the invention.<sup>76</sup> Finally, the incentive to design around is the inducement to discover substitutes for patented inventions; this is beneficial, rather than wasteful, as the design around is often better than the original invention.<sup>77</sup>

Because of the nature of information contained within them, patents are particularly susceptible to the problem of free-riding.<sup>78</sup> However, regular enforcement of the patent right by NPEs increases the cost of free-riding, thereby deterring such activity. Two characteristics of the information contained within a patent make it susceptible to the free-rider problem: nonrivalrousness<sup>79</sup> and nonexcludability.<sup>80</sup> A patent free-rider is one who exploits these characteristics of a patent by copying a patented invention without compensating the inventor for the investment of time, labor and materials required to invent.<sup>81</sup> Absent some corrective measure, such as the patent right, the free-rider problem creates a sub-optimal incentive for an inventor to disclose newly acquired knowledge to others.<sup>82</sup> However, the patent right allows an inventor to prevent others, who did not invest in the

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<sup>73</sup> CHISUM ET AL., *supra* note 72, at 66-67.

<sup>74</sup> *Id.* Importantly, “[p]atents are not given as favors . . . but are meant to encourage invention.” *Sears, Roebuck, & Co. v. Stiffel Co.*, 376 U.S. 225, 229 (1964).

<sup>75</sup> *Id.* at 67-68.

<sup>76</sup> *Id.* at 68 (quoting Giles S. Rich, *supra* note 28, at 166-68, *reprinted in* 14 FED. CIR. B.J. 21, 27 (2004)).

<sup>77</sup> *Id.* at 71.

<sup>78</sup> CHISUM ET AL., *supra* note 72, at 63 (noting that information contained within a patent is a public good and as such is susceptible to the free-rider problem).

<sup>79</sup> The information contained in a patent is nonrivalrous in that the use of the information by one person does not diminish the utility of that same information to another. ROBERT COOTER & THOMAS ULEN, *LAW AND ECONOMICS* 46 (4th ed. 2004) (defining nonrivalrous consumption as “consumption . . . by one person [that] does not leave less for any other consumer”).

<sup>80</sup> The information contained in a patent is nonexcludable in that the costs of excluding another from the information exceeds the profit which is sought. *Id.* at 46 (defining nonexcludability as “the costs of excluding nonpaying beneficiaries who consume the good are so high that no private profit-maximizing firm is willing to supply the good”); *see also* ROGER D. BLAIR & THOMAS F. COTTER, *INTELLECTUAL PROPERTY: ECONOMIC AND LEGAL DIMENSIONS OF RIGHTS AND REMEDIES* 13 (2005) (explaining that unlike tangible property from which others can be excluded by locks, guards and fences, the only way to exclude others from intellectual property is to keep it to yourself).

<sup>81</sup> COOTER & ULEN, *supra* note 79, at 46 (nonrivalrous consumption and nonexcludability leads to “a strong inducement for consumers of the privately provided good to try to be *free riders*: they hope to benefit at no cost to themselves from the payment of others”).

<sup>82</sup> *Id.* at 47; CHISUM ET AL., *supra* note 72, at 70-71; *see also* Rembrandt IP Management Brief, *supra* note 10, at 2 (“The purpose of patent law is to promote progress by creating the proper incentives for invention and public disclosure.”).

development of the invention, from practicing the invention until he has had adequate opportunity to recover the costs of inventing.<sup>83</sup> By seeking out free-riders and enforcing the patent right against them, NPEs force a free-rider to internalize some of the costs associated with copying. When the cost of copying (e.g., licensing or potential infringement litigation) equals or exceeds the benefit derived from free use, the rational profit-maximizer will be deterred from free-riding.<sup>84</sup> It is important to note that not all infringers are free-riders.<sup>85</sup> Some infringers create an infringing product independently and have no actual knowledge of a patent prior to the infringement.<sup>86</sup> These infringers do not engage in the cost-benefit analysis.<sup>87</sup> Therefore, it is unlikely that the enforcement of patents by NPEs will deter these infringers; however, vigorous patent enforcement by NPEs in general may encourage these infringers to take additional steps to discover whether a patent exists for their products.<sup>88</sup> Through the routine and persistent enforcement of patents, NPEs are contributing significantly to the deterrence of free-riding.

Importantly, NPEs enforce valid patents. Prior to initiating litigation, NPEs usually offer an alleged infringer the option to license the patented invention for two reasons: (1) this offer is less expensive than litigation<sup>89</sup> and (2) during litigation the alleged infringer will undoubtedly question the validity of some, if not all, of the claims of the patent, thereby imposing a

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<sup>83</sup> BLAIR & COTTER, *supra* note 80, at 17 (“[E]xclusive rights will provide the inventor with an opportunity to recover her sunk costs.”). The costs the inventor may be unable to recoup in light of the free-rider problem are sunk costs. *Id.* at 14. Some inventors do not incur substantial sunk costs. *Id.* at 15. These inventors are sometimes referred to as “armchair inventors;” however, they still incur the opportunity cost of their time.

<sup>84</sup> See generally Guido Calabresi & A. Douglas Melamed, *Property Rules, Liability Rules, and Inalienability: One View of the Cathedral*, 85 HARV. L. REV. 1089, 1107 (1972). Calabresi & Melamed explained that when a society can create an effective scheme for distributing the costs of providing a resource to those who benefit, the freeloader problem is effectively eliminated. *Id.* (using the example of a benefit tax). Here, NPEs distribute the costs of invention to those who are benefiting from the invention but have not compensated the inventor through other means, thereby aiding in the elimination of free-riding.

<sup>85</sup> Some infringers develop infringing products independently, without copying. Roger D. Blair and Thomas F. Cotter, *Rethinking Patent Damages*, 10 TEX. INTELL. PROP. L.J. 1, 60 (2001) (recognizing that in some instances an infringer may be “‘innocent,’ in the sense that he independently invented the same invention as the patentee”).

<sup>86</sup> *Id.*

<sup>87</sup> Since these infringers are not copying, they necessarily cannot engage in the “costs of copying” versus “benefit of free use” analysis.

<sup>88</sup> Note that while these infringers have no actual knowledge of the infringed patent, they may have constructive knowledge. Issued patents are publicly available for searches. United States Patent and Trademark Office, Patent Full-Text and Full-Page Image Databases, <http://www.uspto.gov/patft/index.html> (last visited Apr. 11, 2007).

<sup>89</sup> The average patent suit costs millions of dollars to litigate. Christopher R. Leslie, *The Anticompetitive Effects of Unenforced Invalid Patents*, 91 MINN. L. REV. 101, 134 (2006).

risk that the NPE's patents will be ruled invalid.<sup>90</sup> At this point, the only guarantees an accused infringer has of the validity of the patent are the assurances of the United States Patent and Trademark Office ("PTO"), which issues the patent,<sup>91</sup> and the accused infringer's attorney's knowledge of patent law. Since the PTO may issue an invalid patent,<sup>92</sup> an accused infringer may seek re-examination of a patent.<sup>93</sup> Furthermore, an accused infringer has the option of seeking declaratory relief,<sup>94</sup> challenging the patent's validity before a court.<sup>95</sup> This may encourage settlement in cases where an NPE invokes a weak or low-value patent because the NPE does not want to lose a valuable portion or the entirety of its patent, which it will if the court declares it invalid.<sup>96</sup> Yet substantial criticism of the enforcement process continues to exist.<sup>97</sup> The point here is not to conclusively dispose of the arguments, but to point out that each party possesses equal tools with which to evaluate the validity of the patent and the result of litigation. NPEs face tough choices in enforcing patents,<sup>98</sup> and will not likely do so if they

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<sup>90</sup> *Id.* at 109 ("[P]atent invalidity is a commonly asserted response to charges of patent infringement.").

<sup>91</sup> *Id.* at 108-09 ("[T]heoretically the issuance of a patent stands for the proposition that the PTO has reviewed the information contained in a patent and declared that it describes something new, useful, and nonobvious") (internal quotation marks omitted).

<sup>92</sup> *Id.* at 108. For a discussion of problems at the PTO, see Robert E. Thomas, *Vanquishing Copyright Pirates and Patent Trolls: The Divergent Evolution of Copyright and Patent Laws*, 43 AM. BUS. L.J. 689, 703-04 (2006).

<sup>93</sup> 35 U.S.C. § 311 (2000); see also Leslie, *supra* note 89, at 141. Section 311 provides an *inter partes* reexamination during which a "challenger can submit arguments to the PTO in response to filings by the patent owner and can appeal a decision to uphold the patent's validity." *Id.*

<sup>94</sup> Leslie, *supra* note 89, at 142-43. While the article discusses the declaratory judgment actions available to competitors, note that the rule set forth applies equally to accused infringers, and that it may be easier for accused infringers to satisfy the reasonable apprehension of suit test when an NPE has made an express allegation of infringement. Recently, the Supreme Court's decision in *MedImmune* called the Federal Circuit's reasonable apprehension of suit test into question. *MedImmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 764, 774 n.11 (2007). The Federal Circuit has subsequently indicated that the reasonable apprehension test is an improper limitation on declaratory judgment jurisdiction, and has lowered the threshold showing required to establish declaratory judgment jurisdiction. See *SanDisk Corp. v. STMicroelectronics, Inc.*, No. 05-1300, 2007 WL 881008, at \*5-8 (Fed. Cir. Mar. 26, 2007).

<sup>95</sup> Leslie, *supra* note 89, at 109.

<sup>96</sup> See Mark A. Lemley & Carl Shapiro, *Probabilistic Patents* 8 (Stan. Law Sch., John M. Olin Program in Law & Econ., Working Paper No. 288, 2004), available at <http://ssrn.com/abstract=567883> ("[A] patent holder who actually litigates a patent is usually running the risk that the patent will be found invalid, either in whole or in part.").

<sup>97</sup> Leslie, *supra* note 89, at 120 (stating that risk-adverse defendants and defendants who cannot afford litigation may be forced into licensing).

<sup>98</sup> See F. Scott Kieff, *Coordination, Property & Intellectual Property: An Unconventional Approach to Anticompetitive Effect & Downstream Access* 45 (Stan. Law Sch., John M. Olin Program in Law & Econ., Working Paper No. 323, 2006), available at <http://ssrn.com/abstract=910656> ("[T]he pernicious impact of the [NPE] is limited to a large extent by very practical economic factors. First, all patents are wasting assets in that they have a life capped at less than 20 years, and are subject to de-

hold a weak patent that is most likely invalid.<sup>99</sup> Thus, the patents most likely to be vigorously enforced by NPEs are valid patents.

Through the purchasing and licensing of patents, NPEs contribute to making markets in which inventors can profit from their patents.<sup>100</sup> Patents have long been recognized as a valuable asset, but are now also emerging as important commodities and are being used to generate profit in innovative ways.<sup>101</sup> Playing a central role in this market transition, NPEs, especially patent dealers, increase the liquidity of patents by facilitating transactions through the coordination of exchange.<sup>102</sup> NPEs lower transaction costs by centralizing the exchange process, thereby reducing the cost to an inventor of locating a buyer and the cost of gathering information about prices and other products.<sup>103</sup> NPEs essentially act as middlemen, matching patents with companies that are seeking to practice the patented invention.<sup>104</sup>

Inventors benefit from the availability of a secondary market in numerous ways; a secondary market: (1) provides a source of funding for further research and development;<sup>105</sup> (2) provides the inventor an alternative to engaging in patent enforcement;<sup>106</sup> (3) lowers the costs involved in the transfer of intellectual property;<sup>107</sup> and (4) aids the market determination of the value of that technology.<sup>108</sup> These benefits provide the inventor an incentive to invent and to disclose, both important aims of the patent system.<sup>109</sup>

A secondary market also results in the efficient allocation of patent rights by allowing the individual or entity that places the highest value on a

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fenses based on laches and estoppel. Second, a decision to lie in wait causes the [NPE] to lose income that would have to be recouped in the future.”).

<sup>99</sup> Lemley & Shapiro, *supra* note 96, at 8.

<sup>100</sup> McDonough, *supra* note 51, at 211.

<sup>101</sup> *Id.* at 207 (arguing that “patents are a commodity and can be treated as such”). Not everyone agrees that the commodification of patents is positive. *See generally* Amy L. Landers, *Liquid Patents*, 84 DENV. U.L. REV. 199 (2006) (citing the usage of patents in auctions, as venture capital and as parts of investment portfolios).

<sup>102</sup> McDonough, *supra* note 51, at 213 (2006). Specifically, NPEs move the market “toward a more centralized or ‘dealer’ market.” *Id.*

<sup>103</sup> *Id.* at 213-14.

<sup>104</sup> *Id.* at 214.

<sup>105</sup> Secondary markets may provide a source of funding to support further research and development or may reimburse the inventor for the costs incurred during the inventing process, including opportunity costs. *See* Rembrandt IP Management Brief, *supra* note 10, at 2.

<sup>106</sup> *Id.* (“[NPEs] help level the playing field for patent enforcement, and allow inventors to do what they do best—invent—while leaving to the NPE the risks and potential additional rewards of developing the value of their inventions in the marketplace.”).

<sup>107</sup> McDonough, *supra* note 51, at 213-14.

<sup>108</sup> Rembrandt IP Management Brief, *supra* note 10, at 7 (“[NPEs] ensure that intellectual property is appropriately valued.”).

<sup>109</sup> *See id.* at 2-3.

patent the opportunity to acquire it.<sup>110</sup> Additionally, by creating their own rigorous rules and regulations, NPEs may also solve problems associated with the PTO's failure to consistently issue only valid patents.<sup>111</sup> For instance, the largest patent auction house requires sellers to "pre-qualify their patents according to [its] own quality and valuation system."<sup>112</sup> Furthermore, no one is excluded from purchasing patents in the secondary market; companies that realize they may be infringing a patent can purchase the patent to avoid having the patent enforced against them.

The value of patents is notoriously uncertain.<sup>113</sup> NPEs aid in determining the value of patents by exposing them to the market; this is the best way to determine value.<sup>114</sup> By licensing the patented invention and by purchasing patents, the NPE sends price signals, thus aiding the market determination of the appropriate value of that patent.<sup>115</sup> If the patented invention is valuable, as demonstrated by its widespread use, a patent dealer will be willing to pay more for the patent.<sup>116</sup> Higher and more definite patent value will likely encourage further investment in research and development in that area.<sup>117</sup> NPEs therefore provide information that is critical to the market determination of value and the subsequent investment in innovation.

Additionally, by enforcing valid patents, NPEs encourage infringers to invest in design-around.<sup>118</sup> While infringers often argue that designing

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<sup>110</sup> The term efficiency denotes an "allocation of resources in which value is maximized." RICHARD A. POSNER, *ECONOMIC ANALYSIS OF LAW* 12 (3d ed. 1986). In purely voluntary transactions, such as those in the patent secondary market, "we can be reasonably sure that the shift involves an increase in efficiency. The transaction would not have occurred if both parties had not expected it to make them better off." *Id.* at 13.

<sup>111</sup> Leslie, *supra*, note 89, at 105-06.

<sup>112</sup> See Landers, *supra* note 101, at 208. In fact, the auction houses' rules are strategically targeted to determine the value of a patent whereas the PTO's rules are indifferent to the value of potential patents. *Id.* These rules require a seller (1) to "provide information about the patent's ownership, validity, licensing activity and any known or suspected infringers" and (2) to perform a due diligence meeting with potential bidders. *Id.*

<sup>113</sup> See Lemley & Shapiro, *supra* note 96, at 10-11 ("[T]he value of patents to their owners displays considerable ex ante uncertainty.").

<sup>114</sup> See *Bank of Am. Nat'l Trust & Sav. Ass'n v. 203 N. LaSalle St. P'ship*, 526 U.S. 434, 457 (1999) ("[T]he best way to determine value is exposure to a market.").

<sup>115</sup> Rembrandt IP Management Brief, *supra* note 10, at 7.

<sup>116</sup> See Long, *supra* note 8, at 629-30 ("[T]he value of a patent 'must ultimately rest on some marketable product actually or potentially to be generated under its provisions.'") (quoting Steven N.S. Cheung, *Property Rights and Invention*, 8 RES. L & ECON 5, 13 (1986)).

<sup>117</sup> Richard S. Gruner, *Corporate Patents: Optimizing Organizational Responses to Innovation Opportunities and Invention Discoveries*, 10 MARQ. INTELL. PROP. L. REV. 1, 59 (2006) ("To the extent that perceived patent value encourages both the organization of corporate efforts to innovate and the backing of those efforts by investors, the more that patents have a clear, determinable value, the more carefully and accurately corporations can match their innovation efforts and investors can match the scope of their support and investment backing to the probable value of resulting products to society.").

<sup>118</sup> See Brooke Quist, Note, *The Supreme Court Provides Clarity to the Illusive Doctrine of Equivalents—Hilton Davis Reversed*, 5 TEX. INTELL. PROP. L.J. 363, 378-81 (1997).

around existing patents is difficult and costly,<sup>119</sup> encouraging design-around is an important aim of the patent system.<sup>120</sup> Rather than being a wasteful endeavor, design-around provides useful alternatives and substitutes for patented products, thereby promoting the useful arts.<sup>121</sup> Second-generation inventions will often be better generally, or better suited to a particular use, than the original invention.<sup>122</sup> Also, second-generation products are often cheaper, in addition to being more effective, than the first.<sup>123</sup> Thus, by licensing patented inventions and enforcing patents, NPEs increase the incentive to design around and force infringers to evaluate whether the cost of design-around is worth the avoidance of licensing fees.

In sum, NPEs engage in activities that serve useful functions in the patent economy. Thus, a district court should not cite “the economic function of the patent holder,”<sup>124</sup> to *per se* deny injunctive relief to NPEs.<sup>125</sup> To do so would jeopardize the useful role that NPEs play in the patent economy.

## II. THE FEDERAL CIRCUIT’S CONTROVERSIAL GENERAL RULE FOR PERMANENT INJUNCTIONS

The Federal Circuit summarized decades of permanent injunction holdings in a general rule: absent exceptional circumstances, a court will issue a permanent injunction in patent cases following a clear showing of validity and infringement.<sup>126</sup> Section A argues that, contrary to the arguments of the opponents of the general rule, it did not provide “automatic” injunctive relief to NPEs.<sup>127</sup> Section B maintains that the rule promulgated by the Federal Circuit did not allow NPEs to extract excessive licensing fees.<sup>128</sup>

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<sup>119</sup> See, e.g., *z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437, 442-43 (E.D. Tex. 2006).

<sup>120</sup> See Quist, *supra* note 118, at 378-79.

<sup>121</sup> CHISUM ET AL., *supra* note 72, at 71.

<sup>122</sup> *Id.*

<sup>123</sup> *Id.*

<sup>124</sup> *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1842 (2006) (Kennedy, J., concurring).

<sup>125</sup> See *id.* at 1840 (majority opinion).

<sup>126</sup> *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1338 (Fed. Cir. 2005) [hereinafter *MercExchange II*] (citing *Rite-Hite Corp. v. Kelley, Inc.*, 56 F.3d 1538 (Fed. Cir. 1995); *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226 (Fed. Cir. 1989); *Roche Prods., Inc. v. Bolar Pharm. Co.*, 733 F.2d 858 (Fed. Cir. 1984)), *vacated*, 126 S. Ct. 1837 (2006).

<sup>127</sup> Brief of Amicus Curiae Yahoo! Inc. in Support of Petitioner at 2, *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130), 2006 WL 218988 [hereinafter *Yahoo! Brief*] (“Issuing trolls automatic injunctions upon a finding of infringement allows them to extort settlements that vastly exceed the true economic value of their patents and imposes enormous social costs, particularly in the computer and Internet industries.”).

<sup>128</sup> *Id.*

A. *Origins of the Federal Circuit's General Rule*

The Patent Act provides that a court may grant an injunction to prevent patent infringement “in accordance with the principles of equity . . . on such terms as the court deems reasonable.”<sup>129</sup> Traditionally, courts apply the following four-factor test to determine whether permanent injunctive relief is warranted by the principles of equity: “(1) whether the plaintiff would face irreparable injury if the injunction did not issue; (2) whether the plaintiff has an adequate remedy at law; (3) whether granting the injunction is in the public interest; and (4) whether the balance of the hardships tips in the plaintiff’s favor.”<sup>130</sup> Since the establishment of the Federal Circuit in 1982, the court gradually developed the general rule for determining whether to grant a permanent injunction. This general rule was set forth in *MercExchange v. eBay*: “a permanent injunction will issue once infringement and validity have been adjudged,”<sup>131</sup> except in cases when “a patentee’s failure to practice the patented invention frustrates an important public need for the invention.”<sup>132</sup> That is, once a court determines a patent is both valid and infringed, it should generally grant the patent owner injunctive relief absent exceptional circumstances.<sup>133</sup>

By setting forth this general rule, the Federal Circuit was not abandoning the traditional four-factor test nor providing for an automatic grant of permanent injunction to victorious patent owners.<sup>134</sup> Rather, the court presumed the existence of irreparable harm when the patent owner made a clear showing of both patent validity and infringement.<sup>135</sup> This presumption derived from a patent owner’s right to exclude.<sup>136</sup> Without a permanent injunction it is difficult to adequately remedy a violation of a right to ex-

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<sup>129</sup> 35 U.S.C. § 283 (2000).

<sup>130</sup> *MercExchange, L.L.C. v. eBay, Inc.*, 275 F. Supp. 2d 695, 713 (E.D. Va. 2003) [hereinafter *MercExchange I*] (quoting *Odetics, Inc. v. Storage Tech. Corp.*, 14 F. Supp. 2d 785, 794 (E.D. Va. 1998), *aff’d*, 185 F.3d 1259 (Fed. Cir. 1999)), *aff’d in part, vacated in part, rev’d in part*, 401 F.3d 1323 (Fed. Cir. 2005), *vacated*, 126 S. Ct. 1837 (2006).

<sup>131</sup> *MercExchange II*, 401 F.3d at 1338 (citing *Richardson*, 868 F.2d at 1246-47).

<sup>132</sup> *Id.* (quoting *Rite-Hite Corp. v. Kelley, Inc.*, 56 F.3d 1538, 1547 (Fed.Cir.1995)).

<sup>133</sup> *Id.*

<sup>134</sup> *Barker*, *supra* note 61, at 261-62.

<sup>135</sup> *Richardson*, 868 F.2d at 1247 (citing *W.L. Gore & Assocs., Inc. v. Garlock, Inc.*, 842 F.2d 1275, 1281 (Fed. Cir. 1988)); *Smith Int’l, Inc. v. Hughes Tool Co.*, 718 F.2d 1573, 1581 (Fed. Cir. 1983) (“[W]here validity is very strong, invasion of the right to exclude is sufficient irreparable harm.”).

<sup>136</sup> *MercExchange II*, 401 F.3d at 1338 (“[T]he ‘right to exclude recognized in a patent is but the essence of the concept of property . . . .’”) (quoting *Richardson*, 868 F.2d at 1247); *see also* 35 U.S.C. § 154(a)(1) (2000) (“Every patent shall contain . . . a grant to the patentee, his heirs or assigns, of the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States . . . .”); *cf.* 35 U.S.C. § 261 (2000) (“[P]atents shall have the attributes of personal property.”).

clude because no other remedy enforces this negative right.<sup>137</sup> The Supreme Court recognized this principle in *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, where the Court proclaimed that the right to exclude is “the very essence of the right conferred by the patent, as it is the privilege of any owner of property to use or not use it, without question of motive.”<sup>138</sup> The general rule was a simplified summary of decades’ worth of Federal Circuit holdings that had implemented the traditional four-factor test.<sup>139</sup>

### B. *The Controversy Surrounding the General Rule*

Critics of the Federal Circuit’s general rule have argued that the liberal grant of permanent injunctions gave NPEs powerful leverage, which NPEs used to force large corporations to settle even when patent validity and actual infringement were uncertain.<sup>140</sup> These opponents called for the Supreme Court to overturn the general rule.<sup>141</sup>

While the opposing argument may initially seem persuasive, the Federal Circuit’s general rule brought clarity to the law that benefited both parties. It is a well-established economic principle that uncertain and complex rights increase the cost of transactions.<sup>142</sup> In licensing negotiations between NPEs and infringers, several classic indicators of high transaction costs are already present including: unique goods,<sup>143</sup> hostile and unfamiliar parties, and a high cost of monitoring.<sup>144</sup> The general rule clearly set forth a patent owner’s right to obtain injunctive relief absent exceptional circumstances, and thus cannot be characterized as either uncertain or complex. This clear rule “enhance[d] certainty, improve[d] predictability, encourage[d] timely resolution of disputes, and conserve[d] judicial resources.”<sup>145</sup> Additionally, under the Federal Circuit’s rule, corporations faced with allegations of in-

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<sup>137</sup> Herbert F. Schwartz, *Injunctive Relief in Patent Infringement Suits*, 112 U. PA. L. REV. 1025, 1042 (1964) (“Because the permanent injunction for the life of the patent was considered the only remedy adequate to protect the plaintiff’s ‘right to exclude’ . . . it was often granted as a matter of course.”) (footnotes omitted) (quoting 35 U.S.C. § 154 (1958)).

<sup>138</sup> 210 U.S. 405, 429 (1908).

<sup>139</sup> For further description of the Federal Circuit’s application of the “general rule” and for an extended argument that it was not an automatic grant of injunctive relief, see Barker, *supra* note 61.

<sup>140</sup> Yahoo! Brief, *supra* note 127, at 2, 10-11.

<sup>141</sup> *Id.* at 2.

<sup>142</sup> COOTER & ULEN, *supra* note 79, at 94.

<sup>143</sup> It is a fair assumption that the patented invention can not be obtained through other means since a patented invention must have satisfied all three conditions of patentability including (1) novelty, (2) utility and (3) non-obviousness. *See Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 476-77 (1974) (construing 35 U.S.C. §§ 101-103 (2000 & Supp. IV 2005)); Rich, *supra* note 4, at 136.

<sup>144</sup> COOTER & ULEN, *supra* note 79, at 94.

<sup>145</sup> Brief of Various Law & Economics Professors as Amici Curiae in Support of Respondent at 23, *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130), 2006 WL 639164 [hereinafter Law Professors’ Brief].

fringement by an NPE had adequate opportunities (1) to avoid infringement and (2) to adjudicate the merits of the patent rather than settle when infringement is uncertain.<sup>146</sup> First, one of the most accessible strategies to protect against infringing on a patent is a meticulous patent clearance.<sup>147</sup> Similar to a title clearance, a patent clearance involves a detailed search of existing claims to the invention that the corporation seeks to use.<sup>148</sup> The searches may be conducted on the Patent and Trademark Office's web page for free.<sup>149</sup> Second, the corporate titans generally involved in litigation with NPEs—such as Intel, eBay, and Research in Motion—are sophisticated legal players, experienced in evaluating legal risks and strategies. NPEs cannot unilaterally force these corporations to settle when patent infringement is uncertain. The costs versus benefits analysis required in deciding whether to settle or pursue litigation in patent litigation is similar to the analysis expected in other types of litigation, and the general condition necessary for litigation to proceed can be set forth as an equation:  $(P_p - P_d) J > 2(C - S)$ .<sup>150</sup>

Here, according to the accused infringers, the value of the judgment is extremely large because a permanent injunction could end the production of a lucrative product, such as the Blackberry in *NTP v. Research in Motion*,<sup>151</sup> potentially costing the accused infringer a large loss of profits.<sup>152</sup> However, in deciding whether to litigate the merits of a patent case—patent validity and patent infringement—the focus should not be on the size of the judgment, but rather the estimation of the likelihood of success. Where the par-

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<sup>146</sup> See Yahoo! Brief, *supra* note 127, for criticism of the Federal Circuit's rule on these points.

<sup>147</sup> See Kieff, *supra* note 98, at 46. A patent clearance is similar to title clearance. In a patent clearance, an attorney will search existing patent records to determine whether any other individuals own the right to exclude others from the technology the company seeks to use. See Michael F. Clayton & Robert P. Henley, *Avoiding Intellectual Property Liability*, in PROTECTING YOUR INTELLECTUAL PROPERTY ASSETS 2002, at 185, 208-09 (PLI Patents, Copyrights, Trademarks, and Literary Property Course, Handbook Series No. 709, 2002), WL 709 PLI/Pat 185.

<sup>148</sup> See *id.*; LaPlante, *supra* note 8 (pointing out that infringers could avoid being "patent squatters" by performing a proper patent clearance).

<sup>149</sup> Law Professors' Brief, *supra* note 145, at 21 ("[A] patent posted on the PTO web page and searchable for free, as all are, provides sufficient information to attract anyone seriously interested in practicing the covered technology."). This statement requires qualification. Only patents filed after 1976 are full-text searchable on the PTO's website. However, Google has recently developed and launched a patent search tool that searches nineteenth and early twentieth century patents in addition to recent patents. See Google, Patent Search, <http://www.google.com/ptshp?ie=UTF-8&oe=UTF-8&hl=en&tab=wt&q=> (last visited Apr. 2, 2007).

<sup>150</sup> With  $P_p$  being the probability of the plaintiff's winning as estimated by the plaintiff,  $P_d$  being the probability of the defendant's winning as estimated by the defendant,  $C$  is the cost to each party of litigation,  $S$  is the cost to each party of settlement, and  $J$  is the size of the judgment if the plaintiff wins. POSNER, *supra* note 110, at 568.

<sup>151</sup> *Research In Motion, Ltd. v. NTP, Inc.*, 126 S. Ct. 1174 (2006).

<sup>152</sup> Yahoo! Brief, *supra* note 127, at 2; see Brief of Petitioners, at 47, *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130).

ties agree on the likelihood of success, settlement will occur, and should occur, because it is the least costly option to the parties.<sup>153</sup>

Furthermore, the uncertainty in estimating the probability of success can be avoided by reaching a settlement after adjudication on the merits. At that point, if the patent is found to be valid and infringed, the defendant knows a permanent injunction will likely issue and can negotiate a licensing agreement with the NPE.<sup>154</sup> On the other hand, if the patent is not valid or has not been infringed, the grant of a permanent injunction is no longer a concern.<sup>155</sup> The proper solution should focus on clarifying the law pertaining to patent validity rather than increasing the difficulty of obtaining a permanent injunction.

Finally, the grant of permanent injunctive relief is “an effective measure to encourage settlement and reduce the number of patent lawsuits.”<sup>156</sup> Patent infringers may attempt to drag out litigation because once a patent expires, no injunctive relief is available.<sup>157</sup> The Federal Circuit’s general rule aided in balancing the incentives: the liberal grant of injunctive relief and the resulting incentive to avoid litigation balanced an infringer’s eagerness to commence litigation in hopes of outlasting the duration of the patent.<sup>158</sup> In fact, “more frequent refusals of injunctions to [NPEs] could bump up the amount and duration of patent litigation.”<sup>159</sup> However misguided the argument against the Federal Circuit’s general rule may be, it resulted in a flood of amici briefs to the Supreme Court urging the justices to grant certiorari in order to prevent further “extortion” by NPEs.<sup>160</sup>

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<sup>153</sup> POSNER, *supra* note 110, at 569 (“If the parties agree on the probability that the plaintiff will win in the event of litigation, the left-hand side of [the equation] will be zero and the case will be settled, because litigation is more costly than settlement . . .”).

<sup>154</sup> Law Professors’ Brief, *supra* note 145, at 15 (“In most cases, the potential infringer has notice of its exposure to liability when the suit is filed, so can seek to develop, license, or buy substitute technologies before final verdict. And in those cases where the time it takes for the lawsuit itself is not sufficient delay, the traditional understanding of equitable jurisdiction has always allowed courts to further delay the onset of an injunction in appropriate cases to ease the pain of a sudden or major transition.”).

<sup>155</sup> If there is no infringement or the patent is invalid, then an NPE is not entitled to a remedy, because no legal wrong has occurred. *See supra* note 21.

<sup>156</sup> LaPlante, *supra* note 8.

<sup>157</sup> *Lans v. Digital Equipment Corp.*, 252 F.3d 1320, 1328 (Fed. Cir. 2001); *Kearns v. Chrysler Corp.*, 32 F.3d 1541, 1550 (Fed. Cir. 1994).

<sup>158</sup> *See LaPlante, supra* note 8 (“Without the threat of an injunction, many companies would likely choose to litigate, especially those with the resources to make enforcement as difficult as possible.”).

<sup>159</sup> Seidenberg, *supra* note 7, at 52.

<sup>160</sup> *See, e.g., Rembrandt IP Management Brief, supra* note 10; *Yahoo! Brief, supra* note 127; *Law Professors’ Brief, supra* note 145.

III. THE SUPREME COURT'S DECISION IN *EBAY V. MERCExchange*

In *eBay*, the Supreme Court invalidated the Federal Circuit's general rule for permanent injunctions,<sup>161</sup> and held that courts should apply the traditional four-factor test when determining whether to grant permanent injunctive relief: "(i) whether the plaintiff would face irreparable injury if the injunction did not issue, (ii) whether the plaintiff has an adequate remedy at law, (iii) whether granting the injunction is in the public interest, and (iv) whether the balance of the hardships tips in the plaintiff's favor."<sup>162</sup> Despite agreeing on the test, the Justices disagreed on how the test should be applied, especially when the case involved an NPE.<sup>163</sup> Section A of this Part sets forth the background of *eBay*, Section B discusses the majority opinion, and Sections C and D attempt to clarify the perplexing concurrences.

A. *The Background of eBay v. MercExchange*

The dispute between MercExchange and eBay centered around eBay's "Buy it Now" feature.<sup>164</sup> In April of 1995, Thomas Woolston, the future founder of MercExchange, filed a patent application claiming an electronic market which linked customers to a network of vendors while allowing management by a trusted central operator.<sup>165</sup> Five months later, without any affiliation with Mr. Woolston, eBay was launched.<sup>166</sup> While eBay was gaining popularity with consumers, Mr. Woolston was embroiled in the patent application process with the Patent and Trademark Office ("PTO").<sup>167</sup> After just over three and a half years, the PTO issued Mr. Woolston's patent.<sup>168</sup> Despite taking the first steps towards commercialization after the patent issued, MercExchange never practiced the patented invention.<sup>169</sup> In 1998, eBay finally began the patent application process, during which it cited Mr. Woolston's patents as prior art.<sup>170</sup> However, the PTO rejected eBay's patent

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<sup>161</sup> See *supra* Part II.A.

<sup>162</sup> *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1839 (2006) (citing *MercExchange, L.L.C. v. eBay, Inc.*, 275 F. Supp. 2d 695, 711 (E.D. Va. 2003)).

<sup>163</sup> Compare *id.* at 1841, with *id.* at 1841-42 (Roberts, C.J., concurring), and *id.* at 1842-43 (Kennedy, J., concurring).

<sup>164</sup> See Brief for Respondent at 4, *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130), 2006 WL 622506.

<sup>165</sup> Brief of Petitioners, at 4-5, *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130), 2006 WL 927236.

<sup>166</sup> *Id.* at 5.

<sup>167</sup> *Id.*

<sup>168</sup> *Id.* Mr. Woolston then assigned his patents to MercExchange. *Id.*

<sup>169</sup> See *id.*; Brief for Respondent, *supra* note 164, at 4.

<sup>170</sup> Brief for Respondent, *supra* note 164, at 3.

applications.<sup>171</sup> Despite this, eBay decided to offer the fixed-price feature called “Buy it Now,” thereby transitioning from an auction site to a market site.<sup>172</sup> This transition infringed upon Mr. Woolston’s patents, and thereafter, MercExchange sued eBay for patent infringement.<sup>173</sup>

The district court held that MercExchange’s patents were in fact valid and infringed, but refused to grant the company’s request for permanent injunctive relief.<sup>174</sup> The court applied the traditional four-factor test: “(i) whether the plaintiff would face irreparable injury if the injunction did not issue, (ii) whether the plaintiff has an adequate remedy at law, (iii) whether granting the injunction is in the public interest, and (iv) whether the balance of the hardships tips in the plaintiff’s favor.”<sup>175</sup> The court cited MercExchange’s lack of practice and willingness to license the patents as militating against the first two elements of the test: irreparable harm and inadequacy of monetary damages.<sup>176</sup> The balance of the hardships, the court found, tipped in favor of eBay, but the public interest did not weigh in favor of either party.<sup>177</sup>

The Federal Circuit reversed the District Court’s denial of MercExchange’s motion for a permanent injunction.<sup>178</sup> In doing so the Federal Circuit set forth the general rule: courts will issue permanent injunctions in patent infringement cases absent exceptional circumstances.<sup>179</sup> The Federal Circuit explicitly noted that injunctions are available to those patent owners who practice their patented inventions, as well as to those patent owners who seek only to license their patents:

Injunctions are not reserved for patentees who intend to practice their patents, as opposed to those who choose to license. The statutory right to exclude is equally available to both groups, and the right to an adequate remedy to enforce that right should be equally available to both as well. If the injunction gives the patentee additional leverage in licensing, that is a natural consequence of the right to exclude and not an inappropriate reward to a party that does not intend to compete in the marketplace with potential infringers.<sup>180</sup>

The Supreme Court granted the petition for writ of certiorari, certifying two questions: (1) whether the Federal Circuit erred in setting forth a general rule, and (2) whether the Court should reconsider its decision in

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<sup>171</sup> *See id.*

<sup>172</sup> *Id.* at 4.

<sup>173</sup> *Id.*

<sup>174</sup> *MercExchange I*, 275 F. Supp. 2d 695, 713 (E.D. Va. 2003), *aff’d in part, vacated in part, rev’d in part*, 401 F.3d 1323 (Fed. Cir. 2005), *vacated*, 126 S. Ct. 1837 (2006).

<sup>175</sup> *MercExchange I*, 275 F. Supp. 2d at 711.

<sup>176</sup> *Id.* at 712-13.

<sup>177</sup> *Id.* at 714-15.

<sup>178</sup> *MercExchange II*, 401 F.3d 1332, 1339 (Fed. Cir. 2005), *vacated*, 126 S. Ct. 1837 (2006).

<sup>179</sup> *Id.*

<sup>180</sup> *Id.*

*Continental Paper Bag Co. v. Eastern Paper Bag Co.*,<sup>181</sup> which held that a patentee whose patent is infringed is entitled to a permanent injunction even if the patentee does not practice the invention.<sup>182</sup>

B. *The Opinion of the Supreme Court of the United States*

The Supreme Court of the United States, in a “unanimous” opinion authored by Justice Thomas, held that permanent injunctions in patent cases should be granted in accordance with the traditional four-factor test.<sup>183</sup> Thus, the Court invalidated the Federal Circuit’s general rule that if a patent is valid and has been infringed, a permanent injunction should issue absent exceptional circumstances.<sup>184</sup> The Federal Circuit’s justification for the general rule—the statutory right to exclude alone—was insufficient to sustain a departure from the traditional four-factor test.<sup>185</sup> To support the proposition that a grant of injunctive relief must be guided by the principles of equity, the Court pointed to the Patent Act, which provides that injunctions *may* issue “in accordance with the principles of equity.”<sup>186</sup>

Addressing the application of the traditional four-factor test, the Court disagreed with the district court’s reasoning that willingness to license patents and a failure to practice patented inventions are sufficient to establish lack of irreparable harm.<sup>187</sup> While clearly describing what does not constitute a lack of irreparable harm, the Court stated that NPEs “may be able to satisfy the traditional four-factor test[.]”<sup>188</sup> thus sustaining its holding in *Continental Paper Bag Co. v. Eastern Paper Bag Co.*<sup>189</sup>

While neither the per se denial nor the per se grant of injunctive relief to NPEs is in accordance with equitable principles, the Court did not clarify whether the district court should apply a presumption of irreparable harm.<sup>190</sup> The clear holding of the Court is that a categorical rule of any sort is not in accordance with the principles of equity.<sup>191</sup> But, insofar as the presumption

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<sup>181</sup> 210 U.S. 405, 429 (1908) (a patent owner need not practice the patented invention to enforce the patent right because this right is “the very essence of the right conferred by the patent, as it is the privilege of any owner of property to use or not use it, without question of motive”).

<sup>182</sup> Petition for Writ of Certiorari, *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 733 (2005) (No. 05-130) (granting petitioner’s writ of certiorari).

<sup>183</sup> *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1839 (2006).

<sup>184</sup> *Id.* at 1840.

<sup>185</sup> *Id.* at 1840-41.

<sup>186</sup> *Id.* at 1840.

<sup>187</sup> *Id.*

<sup>188</sup> *Id.*

<sup>189</sup> 210 U.S. 405, 429 (1908).

<sup>190</sup> *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1840 (2006).

<sup>191</sup> *Id.* at 1841 (“Just as the District Court erred in its categorical denial of injunctive relief, the Court of Appeals erred in its categorical grant of such relief.”).

of irreparable harm may be rebutted by evidence, it is not a categorical rule, and therefore, it is likely in accordance with the holding of this opinion.<sup>192</sup>

Thus far, breaking no new legal ground, the Court merely held that the traditional four-factor test must be applied, and that a categorical denial or grant of equitable relief is inappropriate.<sup>193</sup> The concurring opinions highlight the essence of the legal dispute: how to determine whether to grant permanent injunctive relief in future patent infringement cases, especially when those cases involve NPEs.<sup>194</sup> Chief Justice Roberts' concurrence advocates the historical equitable relief rule,<sup>195</sup> while Justice Kennedy's concurrence suggests that changing times mandate new considerations.<sup>196</sup>

### C. Chief Justice Roberts' Concurrence

Chief Justice Roberts, joined by Justices Scalia and Ginsburg, began by noting that the grant of monetary damages rather than an injunction hardly vindicates a right to exclude.<sup>197</sup> The difficulty in protecting the right to exclude implicates the first two elements of the traditional four-factor test: irreparable injury and adequacy of remedy at law.<sup>198</sup> Chief Justice Roberts proposed that in evaluating these two elements, lower courts should look to historical case law applying the traditional four-factor test rather than wiping the slate clean, as "a major departure from the long tradition of equity practice should not be lightly implied."<sup>199</sup> This proposal seems to lend support to the Federal Circuit's presumption of irreparable harm. "Discretion is not whim, and *limiting discretion according to legal standards* helps promote the basic principle of justice that like cases should be decided alike."<sup>200</sup>

This concurrence is favorable to NPEs for two reasons. First, these Justices recognize the inadequacy of other remedies when a patent has been infringed. The main concern highlighted by Chief Justice Roberts' concurrence is that monetary damages are an inadequate form of relief when the

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<sup>192</sup> See *Christiana Indus. v. Empire Elecs., Inc.*, 443 F. Supp. 2d 870, 884 (E.D. Mich. 2006) (explaining that "*eBay* did not invalidate the presumption" (italics added)), *vacated in part*, 2006 WL 2375956 (E.D. Mich. Aug. 16, 2006).

<sup>193</sup> *eBay*, 126 S. Ct. at 1841.

<sup>194</sup> See *id.* at 1842 (Kennedy, J., concurring).

<sup>195</sup> See *id.* at 1841-42 (Roberts, C.J., concurring).

<sup>196</sup> See *id.* at 1842-43 (Kennedy, J., concurring).

<sup>197</sup> *Id.* at 1841 (Roberts, C.J., concurring).

<sup>198</sup> *Id.*

<sup>199</sup> *eBay*, 126 S. Ct. at 1841 (Roberts, C.J., concurring) (quoting *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 320 (1982)).

<sup>200</sup> *Id.* at 1841-42 (quoting *Martin v. Franklin Capital Corp.*, 546 U.S. 132 (2005) (emphasis added)).

legal right at issue is a right to exclude.<sup>201</sup> Underlying this concern is an unspoken belief that the function of a patent owner ought not to impact the completeness of relief.<sup>202</sup> Second, this opinion also indicates that the presumption of irreparable harm<sup>203</sup> is still applicable to patent infringement cases. Historically, courts have held that the right to exclude is of fundamental importance when deciding whether to find irreparable harm, and have usually granted injunctions upon finding evidence of patent infringement.<sup>204</sup>

#### D. *Justice Kennedy's Concurrence*

Justice Kennedy, joined by Justices Stevens, Souter and Breyer, argued that the historical pattern of granting injunctive relief may be appropriate when the modern case bears substantial similarity to the historical case, but that it is not necessarily appropriate for all modern patent litigation.<sup>205</sup> Kennedy argued that three modern patent issues necessitate a deviation from the historical approach.<sup>206</sup> These patent issues involve NPEs, component infringement, and business method patents.<sup>207</sup>

Unlike Chief Justice Roberts, Justice Kennedy asserted that monetary damages may well be sufficient to compensate for infringement.<sup>208</sup> He also argued that public interest should play a more important role when a court is deciding whether to grant injunctive relief.<sup>209</sup> The primary concern of Justice Kennedy's opinion seems to be the alleged use of permanent injunctions as leverage in negotiations and the resulting "exorbitant" licensing fees.<sup>210</sup> These concurring Justices agreed that modern patent litigation issues militate against a finding of irreparable harm or inadequacy of monetary damages.<sup>211</sup>

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<sup>201</sup> *Id.* at 1841 (Roberts, C.J., concurring).

<sup>202</sup> During oral argument for *eBay*, Justice Scalia asked: "Why . . . does the fact that . . . you're not practicing the invention make a difference? I mean, why . . . should I be in better shape, as far as getting an injunction is concerned, if I produce an automobile engine and . . . make some undeterminate [sic] profit—from the use of this particular invention in the engine than I would be if I licensed it with a royalty based upon the number of sales of engines? . . . [w]hy—why does one situation justify an injunction more than the other?" Transcript of Oral Argument, *supra* note 26, at 24.

<sup>203</sup> See *supra* notes 196-98 and accompanying text.

<sup>204</sup> See Schwartz, *supra* note 137, at 1042 ("Because the permanent injunction for the life of the patent was considered the only remedy adequate to protect the plaintiff's 'right to exclude' . . . it was often granted as a matter of course.") (footnotes omitted) (quoting 35 U.S.C. § 154 (1958)).

<sup>205</sup> *eBay*, 126 S. Ct. at 1842 (Kennedy, J., concurring).

<sup>206</sup> *Id.*

<sup>207</sup> *Id.*

<sup>208</sup> *Id.*

<sup>209</sup> *Id.*

<sup>210</sup> *Id.*

<sup>211</sup> *eBay*, 126 S. Ct. at 1842 (Kennedy, J., concurring).

Despite concurring with the majority opinion, which concluded that the district court incorrectly applied the traditional four-factor test,<sup>212</sup> this concurrence lends significant support to the district court's holding. According to Justice Kennedy, "[when] the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient."<sup>213</sup> Similarly, the District Court held that monetary damages were adequate based on MercExchange's past licensing activity and its continued willingness to license the patents.<sup>214</sup> In contrast, Chief Justice Roberts' concurrence contends the opposite, that remedies other than permanent injunctions are generally inadequate to compensate the patent owner.<sup>215</sup>

With the variety of opinions as to how the traditional four-factor test should be applied in cases of NPEs—especially whether the presumption of irreparable harm applies and whether monetary damages are adequate—a district court may support either denying or granting an NPE injunctive relief under *eBay*.

#### IV. APPLYING *EBAY V. MERCExchange* TO NPE CASES

Since the Supreme Court's decision in *eBay*, two cases involving NPEs have been decided by district courts: *z4 Technologies, Inc. v. Microsoft*<sup>216</sup> and *Paice L.L.C. v. Toyota Motor Corp.*<sup>217</sup> Applying the traditional four-factor test, as required by *eBay*, both of the courts denied injunctive relief to the plaintiffs, who arguably were NPEs. So far, it seems that Justice Kennedy's approach is prevailing in district courts.

##### A. *z4 Technologies, Inc. v. Microsoft*

The United States District Court for the Eastern District of Texas, home of the "Rocket Docket," a speedy forum for the resolution of patent litigation,<sup>218</sup> was unsurprisingly the first district court to apply the Supreme

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<sup>212</sup> *Id.* at 1841 (majority opinion).

<sup>213</sup> *Id.* at 1842 (Kennedy, J., concurring).

<sup>214</sup> *MercExchange I*, 275 F. Supp. 2d 695, 713 (E.D. Va. 2003), *aff'd in part, vacated in part, rev'd in part*, 401 F.3d 1323 (Fed. Cir. 2005), *vacated*, 126 S. Ct. 1837 (2006).

<sup>215</sup> *See eBay*, 126 S. Ct. at 1841 (Roberts, C.J., concurring).

<sup>216</sup> *z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437 (E.D. Tex. 2006).

<sup>217</sup> *Paice L.L.C. v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, 2006 WL 2385139, at \*2 (E.D. Tex. Aug. 16, 2006).

<sup>218</sup> Michael C. Smith, *Rocket Docket: Marshall Court Leads Nation in Hearing Patent Cases*, 69 TEX. B.J. 1045, 1046 (2006); Julie Creswell, *So Small a Town, So Many Patent Suits*, NEW YORK TIMES, Sept. 24, 2006, at 31, available at 2006 WLNR 16557844.

Court's *eBay* decision to a case involving an NPE.<sup>219</sup> The plaintiff, z4 Technologies, engaged in the business of buying patents and licensing the patented technology,<sup>220</sup> and, therefore, fit squarely within the definition of an NPE.<sup>221</sup> z4 acquired a patent that claimed a method for limiting the unauthorized use of computer software by consumers, referred to as "product activation."<sup>222</sup> Microsoft used this technology in its Windows XP products since 2001, and its Microsoft Office products since 2000, in violation of z4's patent.<sup>223</sup>

Applying *eBay*, the court heeded Justice Kennedy's warning "to be cognizant of the nature of the patent being enforced and the economic function of the patent holder when applying the equitable factors."<sup>224</sup> In doing so, the court rejected the rebuttable presumption of irreparable harm.<sup>225</sup> Instead, despite a finding that Microsoft willfully infringed z4's patents, the court placed on z4 the burden of establishing irreparable harm.<sup>226</sup> Faced with this burden, z4 attempted to demonstrate that Microsoft's continued infringement would harm z4's future success in attracting potential licensees for the patented invention.<sup>227</sup> However, since Microsoft did not produce and distribute the patented invention to z4's potential licensees, the court did not think that Microsoft's actions would deter any potential licensees from seeking a license.<sup>228</sup> Thus, the court did not find irreparable harm.<sup>229</sup>

With respect to the second prong, z4 argued that monetary damages were inadequate to remedy a violation of the right to exclude.<sup>230</sup> The court, however, cited *eBay* as supporting the proposition that "a violation of the right to exclude does not inevitably lead to the conclusion that a patent holder cannot be adequately compensated by remedies at law such as monetary damages."<sup>231</sup> Accordingly, the court found that monetary damages were adequate to compensate z4, an NPE.<sup>232</sup> The court pointed to further support

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<sup>219</sup> Patently-O: Patent Law Blog, [http://www.patentlyo.com/patent/2006/06/eBay\\_casualty\\_e.html](http://www.patentlyo.com/patent/2006/06/eBay_casualty_e.html) (June 15, 2006).

<sup>220</sup> See z4 Technologies, Corporate Information, <http://www.z4.com/corporate.php> (last visited Apr. 6, 2007).

<sup>221</sup> See *supra* Part I.A.

<sup>222</sup> z4 Techs., Inc. v. Microsoft Corp., 434 F. Supp. 2d 437, 438 (E.D. Tex. 2006).

<sup>223</sup> *Id.* at 439.

<sup>224</sup> *Id.* at 441 (citing *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1842 (2006) (Kennedy, J., concurring)).

<sup>225</sup> *Id.* at 440.

<sup>226</sup> *Id.*

<sup>227</sup> *Id.*

<sup>228</sup> z4 Techs., 434 F. Supp. 2d at 440.

<sup>229</sup> *Id.* at 441.

<sup>230</sup> *Id.*

<sup>231</sup> *Id.*

<sup>232</sup> *Id.*

for its finding in Justice Kennedy's *eBay* concurrence.<sup>233</sup> Since the patented invention at issue was only a small component of the infringing product, according to Justice Kennedy's reasoning, monetary damages would be sufficient to compensate the patent owner for future infringement.<sup>234</sup>

In balancing the hardships, the court found that z4's proposed injunction, which involved either enjoining Microsoft from making or selling infringing products after a reasonable time or deactivating the product authorization software, would impose irreparable harm upon Microsoft, and therefore, the balance tipped in favor of Microsoft.<sup>235</sup> Microsoft, the court said, could be irreparably harmed by the cost and difficulty of redesign.<sup>236</sup> Also, deactivation was an insufficient solution because it would allow pirated software to flood the markets, depriving Microsoft of an incalculable share of the market, and would make it impossible to distinguish between authorized and pirated copies.<sup>237</sup> Thus, the court found that the potential hardships of Microsoft outweighed any "limited and reparable" hardship to z4 in the absence of injunctive relief.<sup>238</sup>

Under the fourth prong, Microsoft argued that the public, consisting of system builders, retailers, and consumers, all of whom relied heavily on Microsoft's products, would suffer a monumental setback if z4's proposed injunction were granted.<sup>239</sup> Although the court recognized that the harm to the public Microsoft described was speculative, the lack of evidence that the public would not be harmed weighed in favor of denying injunctive relief.<sup>240</sup>

Taking the four factors together, the court determined that z4 was not entitled to equitable relief.<sup>241</sup> Instead, z4 would be compensated with monetary damages for any future infringement of its patent.<sup>242</sup>

## B. Paice L.L.C. v. Toyota Motor Corporation

*Paice L.L.C. v. Toyota Motor Corp.* also originated in the Eastern District of Texas and again adopted Justice Kennedy's position from *eBay*.<sup>243</sup>

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<sup>233</sup> *See id.*

<sup>234</sup> *z4 Techs.*, 434 F. Supp. 2d at 441 (discussing Justice Kennedy's concurrence in *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1842-43 (2006)).

<sup>235</sup> *Id.* at 442-43.

<sup>236</sup> *Id.* at 443.

<sup>237</sup> *Id.* at 443.

<sup>238</sup> *Id.* at 443.

<sup>239</sup> *Id.* at 443-44.

<sup>240</sup> *z4 Techs.*, 434 F. Supp. 2d at 444.

<sup>241</sup> *Id.*

<sup>242</sup> *Id.*

<sup>243</sup> *Paice L.L.C. v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, 2006 WL 2385139, at \*2 (E.D. Tex. Aug. 16, 2006).

The patent involved a hybrid electric vehicle improvement that consisted of “one internal combustion engine and one electric motor to provide drive torque to the wheels and to recharge storage batteries for the motor.”<sup>244</sup> Because Paice, the patent owner, never practiced the patented invention,<sup>245</sup> Paice fell within the definition of an NPE.<sup>246</sup> Under the first prong of the four-factor test, the court interpreted *eBay* to preclude a presumption of irreparable harm.<sup>247</sup> Attempting to establish irreparable harm, Paice argued that, absent a permanent injunction, it would suffer damage to its licensing program.<sup>248</sup> This argument did not persuade the court, which noted that factors like loss of market share and brand recognition, which are usually deemed sufficient to establish irreparable harm, were not implicated since Paice did not compete with Toyota.<sup>249</sup>

With respect to the second prong, inadequacy of monetary damages, Paice argued that it could not be compensated by monetary damages for the damage to its licensing program.<sup>250</sup> While the court recognized that a denial of injunctive relief would likely reduce Paice’s licensing rate, it found that Paice did not sufficiently establish the inadequacy of monetary damages.<sup>251</sup> Like *z4 Technologies*, this court determined that the patented invention was only a small component of the infringing product, and thus, monetary damages would be adequate.<sup>252</sup> Additionally, the court noted that Paice’s post-trial offer to license the technology to Toyota demonstrated the adequacy of monetary damages as a remedy.<sup>253</sup>

In balancing the hardships, the court examined not only the effect an injunction would have on Toyota, but also the effect it would have on Toyota’s suppliers and retailers.<sup>254</sup> Additionally, an injunction, the court determined, would harm Toyota’s reputation and the burgeoning hybrid vehicle market.<sup>255</sup> To refute this, Paice argued that it would suffer the failure of its licensing program and the collapse of its business without a permanent in-

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<sup>244</sup> Opening Memorandum in Support of Defendants’ Proposed Claim Construction at 3, Paice L.L.C. v. Toyota Motor Corp., No. 2:04-CV-211-DF (E.D. Tex. Aug. 16, 2006), 2006 WL 2385139.

<sup>245</sup> Toyota’s Combined (1) Opposition to Paice L.L.C.’s Motion for Entry of an Injunction and (2) in the Alternative, Motion for a Stay of any Injunction Entered at 5, Paice L.L.C. v. Toyota Motor Corp., No. 2:04-CV-211-DF (E.D. Tex. Aug. 16, 2006), 2006 WL 2385139 (“[Paice] does not design, manufacture or sell hybrid vehicles or any components of such vehicles and has no plans to enter into such manufacturing . . . Paice’s sole business is attempting to license its patents.”).

<sup>246</sup> See *supra* Part I.A.; *infra* Part V.A.

<sup>247</sup> Paice, 2006 WL 2385139, at \*4.

<sup>248</sup> *Id.* at \*4-5.

<sup>249</sup> *Id.* at \*5.

<sup>250</sup> *Id.*

<sup>251</sup> *Id.*

<sup>252</sup> *Id.* This holding is in agreement with Justice Kennedy’s concurrence in *eBay*. See *eBay Inc. v. MercExchange, L.L.C.*, 126 S.Ct. 1837, 1842 (2006) (Kennedy, J., concurring).

<sup>253</sup> Paice, 2006 WL 2385139, at \*5.

<sup>254</sup> *Id.* at \*6.

<sup>255</sup> *Id.*

junction.<sup>256</sup> The court dismissed Paice's argument, concluding instead that the balance of hardships favored Toyota.<sup>257</sup>

Finally, the court found that the public interest did not weigh in favor of either party.<sup>258</sup> After weighing each of the prongs, the court denied Paice's request for injunctive relief.<sup>259</sup>

## V. DISTRICT COURTS SHOULD GRANT PERMANENT INJUNCTIVE RELIEF TO NPES

In accordance with the holding in *eBay*, the district courts must apply the traditional four-factor test to determine whether to grant NPES permanent injunctive relief.<sup>260</sup> An NPE must sufficiently establish each of the four prongs of the test:

(1) that it has suffered an irreparable injury [in the absence of injunctive relief]; (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 NPE and the defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.<sup>261</sup>

Currently, courts do not consider any of the useful functions that NPES serve when applying the test.<sup>262</sup> This Part argues that courts should neither ignore the benefits derived from NPES' activities, nor use the traditional four-factor test to routinely deny NPES permanent injunctive relief. In Section A, this Comment examines some circumstances under which an entity can be identified as an NPE. The following four Sections, B-E, correspond to each of the four prongs of the test, and set forth factors to aid courts in granting permanent injunctive relief to NPES.

### A. *When is an Entity an NPE?*

While the definition of an NPE seems unambiguous,<sup>263</sup> it is often difficult to clearly identify an NPE.<sup>264</sup> Since the distinction between NPES and

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<sup>256</sup> *Id.*

<sup>257</sup> *Id.*

<sup>258</sup> *Id.*

<sup>259</sup> *Paice*, 2006 WL 2385139, at \*6.

<sup>260</sup> *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1839 (2006).

<sup>261</sup> *Id.*

<sup>262</sup> *See supra* Part I.B.

<sup>263</sup> An NPE is a patent owner that does not practice the patented invention and, rather than abandoning the right to exclude, an NPE seeks to enforce the patent right through the negotiation of licenses against those who infringe on the patent. *See supra* notes 4-9 and accompanying text; Part I.A.

practicing entities was not relevant to the Federal Circuit's general rule,<sup>265</sup> few have addressed the issue of exactly how much and what kind of practice distinguishes practicing entities from NPEs. In light of *eBay*, the courts should expect many patent owners to take superficial steps towards practice in order to differentiate themselves from NPEs.<sup>266</sup> However, some entities will legitimately attempt to commercialize patented inventions, but fail; and other entities will take the initial steps towards practice, but will not actually have commercialized their patented inventions at the time litigation commences. Are these entities NPEs?

The answer should be yes. To determine which entities are not NPEs, the courts should apply a bright-line test requiring a demonstration of successful commercialization of the patented invention. If courts refuse to interpret *eBay* as imposing a barrier between NPEs and injunctive relief, this discussion will likely become moot. But if not, a bright-line test will bring clarity and predictability to this area of the law. It will also separate out wasteful "superficial practice" (i.e., modest practice designed to appear as practice to courts applying *eBay*, that does not culminate, or has not yet culminated, in successful commercialization)<sup>267</sup> by removing the incentive to engage in this behavior.

### B. *Irreparable Harm*

A significant question remaining post-*eBay* is whether the Justices abolished the presumption of irreparable harm.<sup>268</sup> In *z4 Technologies* and *Paice*, the district courts insisted that *eBay* invalidated this presumption.<sup>269</sup> Those courts placed the burden on the NPE to prove the existence of irreparable harm, refusing to allow even a *rebuttable* presumption of irreparable harm.<sup>270</sup> Conversely, another district court, in *Christiana Industries*, explicitly stated that *eBay* did *not* invalidate the presumption of irreparable harm.<sup>271</sup>

The Federal Circuit has not had an opportunity to address this issue directly. However, in *Abbott Laboratories v. Andrx Pharmaceuticals*, which

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<sup>264</sup> Law Professors' Brief, *supra* note 145, at 20 ("[T]he identification of [NPEs] is sure to be a chancy business at best—more like looking for a needle in a haystack.").

<sup>265</sup> See *supra* Part II.A-B.

<sup>266</sup> Law Professors' Brief, *supra* note 145, at 20 ("[F]inding the [NPEs] will become ever harder once the law tries to carve out a special rule to deal with them.").

<sup>267</sup> See *id.*

<sup>268</sup> See *supra* Part III.B.

<sup>269</sup> See *Paice L.L.C. v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, 2006 WL 2385139, at \*4 (E.D. Tex. Aug. 16, 2006); *z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437, 440 (E.D. Tex. 2006).

<sup>270</sup> *Paice*, 2006 WL 2385139 at \*5-6.; *z4 Techs.*, 434 F. Supp. 2d at 440-41.

<sup>271</sup> *Christiana Indus. v. Empire Elecs., Inc.*, 443 F. Supp. 2d 870, 884 (2006), *vacated in part*, 2006 WL 2375956 (E.D. Mich. Aug. 16, 2006).

involved a motion for a preliminary injunction, the Federal Circuit noted that the patent owner was “no longer entitled to a presumption of irreparable harm,” since it had not established a likelihood of success on the merits.<sup>272</sup> Arguably, this holding may be an indirect acknowledgement that the presumption continues to be an applicable legal standard.<sup>273</sup>

Others have posited that *eBay* had no impact on the presumption.<sup>274</sup> Originally, the presumption was predicated on the fact that the passage of time alone works irreparable harm on a patent because of the finite term of the patent grant.<sup>275</sup> Since the Court in *eBay* did not disturb this foundation for the presumption of irreparable harm, it should still stand.<sup>276</sup>

Rather than shifting onto the NPE the burden of proving irreparable harm, district courts should apply a presumption of irreparable harm. Chief Justice Roberts recognized the value of the historical approach in his *eBay* concurrence.<sup>277</sup> Also, after a clear showing of validity and infringement, infringers have an incentive to tie up proceedings, in an attempt to “run the clock,” thereby precluding the issuance of a permanent injunction.<sup>278</sup>

In the absence of certainty that the presumption will be applied, NPEs should be prepared to provide actual proof of irreparable harm. The courts in *z4 Technologies* and *Paice* both found that neither damage to the future of an NPE’s licensing program nor the complete failure of the licensing program is sufficient to establish irreparable harm.<sup>279</sup> The court in *z4 Technologies*, however, provided some clues as to what would be irreparable harm to an NPE: lost profits, the loss of brand name recognition, or the loss of market share due to the infringer’s continued sale of the infringing products.<sup>280</sup> Notably, all of the above bases would be difficult, if not impossible, for an NPE to prove, considering its lack of practice.<sup>281</sup>

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<sup>272</sup> *Abbott Labs. v. Andrx Pharms., Inc.*, 452 F.3d 1331, 1347 (Fed. Cir. 2006).

<sup>273</sup> See Mitchell G. Stockwell, *Implementing eBay: New Problems in Guiding Judicial Discretion and Enforcing Patent Rights*, 88 J. PAT. & TRADEMARK OFF. SOC’Y 747, 749-50 (2006).

<sup>274</sup> See, e.g., *id.* at 749.

<sup>275</sup> *Id.*

<sup>276</sup> *Id.*

<sup>277</sup> *eBay Inc. v. MercExchange*, 126 S. Ct. 1837, 1841-42 (2006) (Roberts, C.J., concurring) (citing *Martin v. Franklin Capital Corp.*, 546 U.S. 132 (2005)).

<sup>278</sup> There exists a general perception in the business community that enough time, money and effort could preclude injunctive relief since no injunctive relief is available after a patent expires. See *supra* note 14.

<sup>279</sup> *Paice L.L.C. v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, 2006 WL 2385139, at \*6 (E.D. Tex. Aug. 16, 2006); *z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437, 440-41 (E.D. Tex. 2006).

<sup>280</sup> *z4 Techs.*, 434 F. Supp. 2d at 440.

<sup>281</sup> To illustrate this point, suppose Nancy, the NPE, obtains a patent on widgets. As an NPE, she does not manufacture or use the widgets. Instead, Nancy attempts to license the widgets to Ingrid, who is infringing the patent by manufacturing and selling the widgets to the public. Nancy would have an extremely difficult time showing that, absent injunctive relief, Ingrid’s infringement will cause lost profits, because Nancy’s profits are tied to Ingrid’s profit. Likewise, Nancy will have difficulty showing a loss of brand name recognition since, as an NPE, she has not invested in brand name recognition.

That said, an NPE may be able to demonstrate irreparable harm if the court denies it the right to control the issuance of licenses of the patented invention. In copyright cases, courts have found that “irreparable harm inescapably flows from the denial of [the right to control the use of copyrighted materials].”<sup>282</sup> Control over the use of the license may include control over the terms, the identity of the licensees, and the extent of the use. The harm caused by loss of control over licenses may be akin to loss of goodwill, in that improper implementation of a patented invention by one party may deter another party from licensing the patented invention.<sup>283</sup> Moreover, a court’s refusal to grant a permanent injunction may encourage other infringers to refuse to license the technology in hopes of receiving more favorable terms from the court.<sup>284</sup>

Most notably, after *eBay*, a district court should not look at an NPE’s “willingness to license its patents” nor “its lack of commercial activity in practicing the patents” to establish a lack of irreparable harm.<sup>285</sup>

### C. *No Adequate Remedy at Law*

The examination of the adequacy of remedy at law often dovetails with the examination of irreparable harm. After *eBay*, NPEs may not rely on the patent right alone to demonstrate the inadequacy of monetary damages.<sup>286</sup> In *z4 Technologies*, the court cited *eBay* as standing for the proposition that a violation of the right to exclude does not inevitably lead to the conclusion that a patent holder cannot be adequately compensated by monetary damages.<sup>287</sup> Three factors influenced the court’s decision with regard to the adequacy of damages: (1) that the patented invention is only a small component of infringing product; (2) an NPE’s offer of a post-trial license;<sup>288</sup> and (3) the existence of a lower licensing rate.<sup>289</sup>

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Finally, Nancy will not be able to show a loss of market share because she does not participate in the market.

<sup>282</sup> Taylor Corp. v. Four Seasons Greetings, L.L.C., 403 F.3d 958, 968 (8th Cir. 2005).

<sup>283</sup> Improper implementation of a patented invention may result in defective products where the patented invention is but a component of the product. Such improper use may deter others from licensing the patented invention.

<sup>284</sup> See Crucible Materials Corp. v. Sumitomo Special Metals Co. Ltd., 719 F. Supp. 14, 17 (D.D.C. 1989) (arguments of defendant SSMC).

<sup>285</sup> eBay Inc. v. MercExchange, 126 S. Ct. 1837, 1840 (2006).

<sup>286</sup> *Id.*

<sup>287</sup> z4 Techs., Inc. v. Microsoft Corp., 434 F. Supp. 2d 437, 441 (E.D. Tex. 2006).

<sup>288</sup> The district court may have erred in allowing this factor to weigh into its examination of the adequacy of monetary damages because in *eBay* the Court admonished the district court for allowing the NPE’s willingness to license its patents into the four-factor calculus. *eBay*, 126 S. Ct. at 1840.

<sup>289</sup> Paice L.L.C. v. Toyota Motor Corp., No. 2:04-CV-211-DF, 2006 WL 2385139, at \*5 (E.D. Tex. Aug. 16, 2006); *z4 Techs.*, 434 F. Supp. 2d at 441.

Both *z4 Technologies* and *Paice* relied on the proposition in Justice Kennedy's concurrence that "[w]hen the patented invention is but a small component of the product the companies seek to produce . . . legal damages may well be sufficient to compensate for the infringement."<sup>290</sup> Adhering to that line of thought, the courts looked at whether the patented technology is but a component of the infringing product in determining whether monetary damages were adequate, and determined that this militates against the inadequacy of monetary damages.<sup>291</sup> The district courts also have allowed a post-trial offer to be used against an NPE to show adequacy of monetary damages<sup>292</sup> in spite of the *eBay* majority opinion, which stated that an NPE's "willingness to license its patents" may be sufficient to establish the *inadequacy* thereof.<sup>293</sup> Likewise, the fact that a lower licensing rate will result absent injunctive relief did not aid the NPEs in establishing this prong.<sup>294</sup>

However, when an infringer "saturates the market for a patented invention with an infringing product or damages the patent holder's good will or brand name recognition by selling [an] infringing [product]," these actions may be sufficient to establish the test's third element.<sup>295</sup> This may occur if the infringer provides the NPE's potential licensees with the patented invention.<sup>296</sup>

An NPE may attempt to prove that monetary damages do not adequately compensate it for the market effects of future infringement because "there are certain tangential benefits associated with patent rights, such as marketplace reputation for enforcing one's patents, the value of which cannot be quantified in monetary damages."<sup>297</sup> Additionally, an NPE should emphasize the role it plays in the emerging secondary patent market<sup>298</sup> to show that monetary damages alone may not adequately compensate it for loss of position in that marketplace.

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<sup>290</sup> *z4 Techs.*, 434 F. Supp. 2d at 441 (quoting *eBay*, 126 S. Ct. at 1842 (Kennedy, J., concurring)); see *Paice*, 2006 WL 2385139, at \*5. The courts may have improperly applied Justice Kennedy's quote, which continues: "and the threat of an injunction is employed simply for undue leverage in negotiations, [then] legal damages may well be sufficient to compensate for the infringement." *eBay*, 126 S. Ct. at 1842 (Kennedy, J., concurring) (emphasis added). The district courts made no finding that the NPEs in these cases had employed the threat of injunction in negotiations.

<sup>291</sup> *Paice*, 2006 WL 2385139, at \*5; *z4 Techs.*, 434 F. Supp. 2d at 441.

<sup>292</sup> *Paice*, 2006 WL 2385139, at \*5.

<sup>293</sup> See *eBay*, 126 S. Ct. at 1840.

<sup>294</sup> *Paice*, 2006 WL 2385139, at \*5 & n.3.

<sup>295</sup> *z4 Techs.*, 434 F. Supp. 2d at 441.

<sup>296</sup> For example, if Microsoft had distributed the product authorization component alone, that is, the patented invention, to other software manufacturers, *z4* would likely have established this prong of the test. See *id.*

<sup>297</sup> *Honeywell Int'l, Inc. v. Universal Avionics Sys. Corp.*, 397 F. Supp. 2d 537, 544 (D. Del. 2005) (citing *Fisher-Price, Inc. v. Safety 1st, Inc.*, 279 F. Supp. 2d 526, 528 (D. Del. 2003)).

<sup>298</sup> See *supra* Part I.B.

D. *Balance of Hardships to Plaintiff and Defendant*

The balancing of the hardships factor may weigh in favor of an NPE in cases where the infringer is a willful infringer. While the two district courts addressing *eBay* in the context of an NPE thus far have not addressed this argument, prior to *eBay*, other courts asserted that “a court need not balance the hardship when a defendant’s conduct has been willful.”<sup>299</sup> This rule makes equitable sense, as a willful infringer in many cases is a free-rider, and has chosen to infringe after engaging in some kind of cost-benefit analysis.<sup>300</sup> While a court should not completely disregard the examination of this prong simply because the infringer is a willful infringer, a court should deem it reasonable to weigh willful infringement against the infringer in balancing the hardships.

Other factors contributing to the balancing process have been: (1) the hardship of designing around the patent; (2) the impact an injunction may have on the infringer’s suppliers, retailers and consumers; and (3) the impact, or lack thereof, an infringer has on an NPE’s ability to license to others.<sup>301</sup> Noticeably, the district courts failed to acknowledge the benefits of forcing a design-around.<sup>302</sup>

The lesson to glean from the *z4 Technologies* and *Paice* decisions with respect to the balance of hardships prong is: the larger the scale of the infringement, the more likely the balance of hardships will be found to weigh in favor of the infringer.<sup>303</sup> In both *z4 Technologies* and *Paice*, the infringing corporations were corporate titans, Microsoft and Toyota, respectively.<sup>304</sup> As the patented technology played a critical role in each corporation’s product, the software authentication of Windows© and the hybrid transmission of the Toyota Prius©, the court found that the balance of hardships weighed in the large corporations’ favor.<sup>305</sup> The message the courts seem to be sending to potential infringers is that the more economically significant the infringing use, the more likely that the injunction will not

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<sup>299</sup> *United States v. Marine Shale Processors*, 81 F.3d 1329, 1358 (5th Cir. 1996) (citing *United States v. Pozsgai*, 999 F.2d 719, 736 (3d Cir. 1993); *EPA v. Env’tl. Waste Control, Inc.*, 917 F.2d 327, 332 (7th Cir. 1990)).

<sup>300</sup> See *supra* Part I.B for a discussion of free-riding and its impact on the aims of the patent system.

<sup>301</sup> See *Paice L.L.C. v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, 2006 WL 2385139 (E.D. Tex. Aug. 16, 2006), at \*5-6; *z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437, 442-43 (E.D. Tex. 2006).

<sup>302</sup> See *supra* Part I.B.

<sup>303</sup> See *Paice*, 2006 WL 2385139, at \*6; *z4 Techs.*, 434 F. Supp. 2d at 441, 442-43 (“the potential hardships Microsoft could suffer if the injunction were granted outweigh any limited and repairable hardships that z4 would suffer in the absence of an injunction”).

<sup>304</sup> *Paice*, 2006 WL 2385139, at \*1; *z4 Techs.*, 434 F. Supp. 2d at 438.

<sup>305</sup> *Paice*, 2006 WL 2385139, at \*6; *z4 Techs.*, 434 F. Supp. 2d at 443.

issue.<sup>306</sup> NPEs should vigorously defend against this principle, as it could lead to an implicit judicial affirmation of the usurpation of the patent rights to the most valuable patented inventions.

#### E. *Public Interest*

Justice Kennedy's *eBay* concurrence placed significant emphasis on the weighing of the public interest.<sup>307</sup> Often in the context of patent infringement cases, this factor balances the public's gain due to competition against the public's interest in enforcing valid patents.<sup>308</sup> In *Canon Inc. v. GCC International Ltd.*, the court recognized:

While the public benefits from lower prices, competition in violation of lawful patent rights hurts innovation. There is a strong public interest in ensuring that valid patents are enforced. Such enforcement encourages and promotes useful inventions. None of the products at issue suffer from marketplace shortages or are otherwise necessary to the health, safety and welfare of large numbers of people.<sup>309</sup>

Where an infringer possesses a significant portion of the market share, an injunction that temporarily upsets the domination may not necessarily have a negative impact on the public interest. If the public has an interest in the furtherance of competition, an injunction may allow the infringer's competitors an opportunity to enter the market, such as in the case of *Microsoft in z4 Technologies*.

Currently courts do not deem NPEs or the functions they serve to be useful. For instance, when examining the public interest element in *z4 Technologies*, the court stated that it was "unaware of any negative effects that might befall the public in the absence of an injunction."<sup>310</sup> However, this notion is mistaken. NPEs serve many valuable functions in the patent economy that courts should take into account.<sup>311</sup> The denial of permanent injunctive relief may inhibit the growth of a secondary market for patents or impede the other important functions NPEs serve. These include: (1) deterrence of free riders;<sup>312</sup> (2) enforcement of valid patents;<sup>313</sup> (3) market mak-

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<sup>306</sup> See *supra* note 304 and accompanying text.

<sup>307</sup> See *eBay Inc. v. MercExchange*, 126 S. Ct. 1837, 1842 (2006) (Kennedy, J., concurring).

<sup>308</sup> See, e.g., *Christiana Indus. v. Empire Elecs., Inc.*, 443 F. Supp. 2d 870, 882 (E.D. Mich. 2006), *vacated in part*, 2006 WL 2375956 (E.D. Mich. Aug. 16, 2006).

<sup>309</sup> *Canon Inc. v. GCC Int'l Ltd.*, 450 F. Supp. 2d 243, 257 (S.D.N.Y. 2006).

<sup>310</sup> *z4 Techs.*, 434 F. Supp. 2d at 444.

<sup>311</sup> See *supra* Part I.B.

<sup>312</sup> See *supra* notes 79-88 and accompanying text.

<sup>313</sup> See *supra* notes 91-101 and accompanying text.

ing activities;<sup>314</sup> (4) patent value determination;<sup>315</sup> and (5) the furtherance of competition and innovation.<sup>316</sup>

## CONCLUSION

Since the patent economy comprises an increasingly substantial portion of the United States economy, any rules unsettling property rights in patents should be carefully scrutinized and carefully applied.<sup>317</sup> Sometimes, regardless of the resulting impact on the economy, a dramatic change in property rights is necessary, especially where the social costs outweigh the benefits. However, this is not the situation in the case of NPEs. NPEs serve many useful functions in the patent economy.<sup>318</sup> Thus, insofar as Justice Kennedy's concurrence in *eBay* is being used to predicate the grant of an injunction, the only adequate remedy in an infringement situation, on actions that NPEs have no legal duty to undertake,<sup>319</sup> courts should be wary of adopting his approach. To erode the patent rights of NPEs in this way will also erode the patent rights of all who choose to sell their patents to NPEs, including individual inventors, universities, and corporations. The only value a patent has to any entity is that derived from enforcement.<sup>320</sup> Any rules making enforcement of the patent right more difficult will in turn make patents less valuable.

Courts should not apply *eBay* to prohibit the liberal grant of injunctive relief established by decades of Federal Circuit holdings.<sup>321</sup> The protection of intellectual property rights, especially property rights in patents, is necessary. Destabilizing those rights due to the nature of NPEs alone is not in the best interest of the public.

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<sup>314</sup> See *supra* notes 102-11 and accompanying text.

<sup>315</sup> See *supra* notes 112-20 and accompanying text.

<sup>316</sup> See *supra* notes 121-26 and accompanying text.

<sup>317</sup> See SHAPIRO & HASSETT, *supra* note 1, at 4-5.

<sup>318</sup> See *supra* Part I.B.

<sup>319</sup> Recall that there is no legal right or duty to practice a patented invention. See *supra* note 32.

<sup>320</sup> See Long, *supra* note 8, at 630; John LaPlante, *supra* note 8; see also Martin Lueck et al., *supra* note 8.

<sup>321</sup> See *supra* Part II.A.