

## Reframing Patent Infringement From Injunction To Servitude

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Traditionally, at least until the U.S. Supreme Court's ruling in *eBay Inc. v. MercExchange LLC*, 547 U.S. 388 (2006), courts issued injunctions almost automatically upon a finding of patent infringement (absent findings of invalidity or unenforceability). Since the *eBay* ruling, written by Justice Clarence Thomas, which directed courts to use a four-factor test for equitable relief<sup>[1]</sup>, the rate at which injunctions are granted has plummeted.

Concurring opinions were written by Chief Justice John Roberts and Justice Anthony Kennedy. The Roberts opinion points out that "limiting discretion ... helps promote the basic principle of justice that like cases should be decided alike." In contrast, the Kennedy opinion cautions against "firms [which use] patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees." The divided opinion in *eBay* provided opportunity for district courts to develop individual approaches to determining whether to grant an injunction.



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### The Constitution Explicitly Conceives of an Exclusive Right

The United States Constitution, in Article 1, Section 8, provides Congress the power to grant inventors, for "limited times ... the exclusive right to their ... discoveries". In turn, Congress has declared that "courts ... may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable." 35 U.S.C. § 283.

In essence, the government has offered inventors a bargain: In exchange for fostering innovation by making their inventions public via patent applications, patent owners would receive, for a limited time, the exclusive right to their discoveries. It should follow that the grant of an exclusive right provides the right to exclude. Further, as provided in 35 U.S.C. § 261, "patents shall have the attributes of personal property." Hence, the rights granted to the inventor should be transferrable to others without any negative repercussions.

### What Has Happened?

Since *eBay*, in the absence of explicit guidance from the Supreme Court, district courts have relied on the Kennedy concurrence rather than adhering to the Supreme Court's ruling. Specifically, district courts have looked to whether or not the patent-owning plaintiff is a "direct competitor" as a litmus test for

granting an injunction. At the same time, district courts have ignored the Roberts concurrence, which emphasizes the historical right to exclude inherent in a patent (property) right.

As a result, a patent owner (or exclusive licensee) who is not direct competitor of its counterparty defendant(s) is far less likely to be granted an injunction. Such a test creates an asymmetry in favor of infringement over licensing when the patent owner is an individual inventor or small business. At an extreme, this test acts to reward the infringer who has captured market share before the patent owner was able to enter. Such a result has called into question the inherent value of patents, as the value of each patent is dependent upon the nature of its owner. We propose, instead, that the behavior of each party, the patent owner as well as the infringer, be determinative of the remedy. This might cause a litigated patent to be valued at a premium or discount from its inherent value.

### **The Federal Circuit After eBay**

In *Presidio Components Inc. v. American Technical Ceramics Corp.*, Nos. 10-1355, 11-1089 (Fed. Cir. Dec. 19, 2012) Chief Judge Randall Rader, for the panel including Circuit Judges Jay Plager and Evan Wallach, wrote, "Of course the axiomatic remedy for trespass on property rights is removal of the trespasser." In the following paragraph, he continued:

Equity sets forth the four-factor test for removal of a trespasser from property infringement. *eBay*, 547 U.S. at 391. This analysis proceeds with an eye to the "long tradition of equity practice" granting "injunctive relief upon a finding of infringement in the vast majority of patent cases" *Id.* at 395 (Roberts, C.J., concurring). This historical practice of protecting the right to exclude through injunctive relief is not surprising given the difficulties of protecting this right solely with monetary relief. Indeed, a calculating infringer may thus decide to risk a delayed payment to obtain use of valuable property without prior negotiation or the owner's permission. While a patentee is not entitled to an injunction in every case, "it does not follow that courts should entirely ignore the fundamental nature of patents as property rights granting the owner the right to exclude." *Robert Bosch LLC v. Pylon Mfg. Corp.*, 659 F.3d 1142, 1149 (Fed. Cir. 2011).

### **Tangible Property as a Model**

In the case of tangible personal property, the right to exclude is straightforward: The owner of the property has the sole right to possess, use and benefit from his/her property.

The situation is a bit more complex with real property. For example, a parcel may be "landlocked" so that the only way to access one's property is by traversing the property of another. Setting aside the history and details, the result is a societal assessment that such access via another's property is proper. The result is often the creation of an easement by necessity by which the landlocked owner is granted the right to traverse a neighboring property to gain access to his/her own property. One step away is a prescriptive easement, which occurs as a result of the continuous use of another's property in an open and hostile manner. Unlike adverse possession, ownership is neither transferred nor exclusive in the context of an easement. These situations are instructive for patents.

Infringement may or may not be open. That is, the patent owner may not be aware of or even able to discern infringement without obtaining discovery in litigation. In other cases, infringement is open and readily knowable by the patent owner. Below we describe the implication of these differing circumstances.

## **What Is the Extent of the Right to Exclude?**

Using common-law tangible property rights as a model, we see that the right to exclude is nearly inalienable, with exceptions made only for reasons of equity. Even then, the exceptions may be muted, as when an easement providing limited access is granted in light of the particular circumstances and is extinguished when the circumstances no longer apply. The protections afforded to tangible property have never been dependent on who owns such property or whether such property is being used. Patent law provides that “patents shall have the attributes of personal property.” 35 U.S.C. § 261. As such, patents should not be treated differently than other forms of personal property.

## **Why Is “Framing” Important?**

It is well known that the way a question is asked strongly influences the nature of the response. One study demonstrated that “the attractiveness of [a problem] was substantially greater ... when the problem was framed in terms of the probability of living rather than in terms of the probability of dying”[2] even though logically and mathematically the question is the same. The authors go on to state that “an awareness of these effects ... could help reduce bias and improve the quality of ... decision making.”

## **The Question Is Whether to Impose Servitude**

A patent owner must be provided the benefit of the government’s bargain and, once infringement is found, receive the exclusive right in the form of an injunction, subject to satisfying the four-factor test for equitable relief. Rather than making the test for relief contingent upon the characteristics of the patent owner, our thesis is that the (framing of the) question the courts should answer is whether or not, as a result of the infringer’s and the patent owner’s actions, the infringer is nonetheless entitled to an easement. Mossoff[3] notes that “estate boundaries are defined along the dimensions of time, use, and space, as represented in doctrines like future interests, easements, nuisance, and restrictive covenants, among others. The proper conceptual analog for patent boundaries is “estate boundaries,” not fences.”

When deciding whether or not to impose servitude through the granting of an “IP easement,” the courts should focus on the behavior of the parties rather than their structure or entity status. This reframing would facilitate consideration of the comparative equities of the parties, as was directed by the Supreme Court in eBay.

Where infringement has been ongoing, is knowable by the patent owner, and the patent owner has delayed enforcement, a prescriptive easement would be a possibility[4]. In such a case, the patent owner would be awarded damages equivalent[5] to a reasonable royalty instead of an injunction. It is already law that a patent owner must ensure that licensed products are marked with the patent number. Failure to do so may result in no damages being awarded. In contrast, where infringement was not knowable or was hidden and no delay on the part of the plaintiff was apparent, a prescriptive easement would not be appropriate.

Once the court has decided whether or not to impose servitude, it can promulgate an order granting or denying an injunction.

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[1] “The traditional four-factor test applied by courts of equity when considering whether or not to award permanent injunctive relief to a prevailing plaintiff applies to disputes arising under the Patent Act. That test requires a plaintiff to demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law are inadequate to compensate for that injury; (3) that considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.” eBay at 390.

[2] McNeil BJ, Pauker SG, Sox HC, Tversky A. On the elicitation of preferences for alternative therapies. *New England Journal of Medicine*. 1982;306:1259–1262.

[3] Mossoff, Adam, The Trespass Fallacy in Patent Law (Aug. 8, 2012). *Florida Law Review*, Vol. 65, No. 6, pp. 1687-1711, 2013; George Mason Law & Economics Research Paper No. 12-54. Available at SSRN: <http://ssrn.com/abstract=2126595> or <http://dx.doi.org/10.2139/ssrn.2126595>

[4] A similar outcome would result with respect to trademark infringement. A trademark owner risks forfeiting its exclusive right to use a mark, if it fails to police the unauthorized use of such mark.

[5] Although the statute (35 U.S.C. § 284) calls for damages “in no event less than a reasonable royalty” we feel that in this circumstance a premium beyond a reasonable royalty is not appropriate.