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Intellectual Property Wrongs

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Intellectual Property Wrongs

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I.Introduction.....	252
II.Magnification and Other Characteristics of the Modern Intellectual Property Arena.....	257
A. Magnification.....	257
B. How Magnification Arises in Patents.....	259
C. Monetization in Patents	264
1. The Traditional Troll	265
2. New Forms of Patent Monetization Entities	266
3. Can Monetization Impact Biotech and Pharma?.....	268
D. Magnification and Monetization in Copyright	269
E. Shadow Rights in Copyright	272
III.Troubling Schemes	273
A. The Barnes & Noble Saga: The Power of Silence	274
B. Using Patent Schemes for Insulation.....	279
C. Unsavory Pressure Tactics.....	281
D. Fishing for Infringers.....	284
E. Choosing Vulnerable Targets	286
F. Walking to the Edge of the Line.....	294
IV.Current Tools are Inadequate	298
A. Tools Within Intellectual Property	298
B. Tools Outside of Intellectual Property	300
1. Laches & Implied Contract.....	300
2. Antitrust and Sham Litigation	301
3. Market Responses.....	305
V.The Doctrine of Inappropriate Use of Intellectual Property	307
A. The Contours of the Doctrine	308
B. Courts or Legislatures?	311
VI.The Shape of the Iceberg.....	312
A. Section 6(b) of Federal Trade Commission Act.....	313
B. Structuring an FTC § 6(b) Investigation into Intellectual Property Assertion and Monetization	315
VII.Conclusion.....	317

I. Introduction

Intellectual property has become a pervasive presence in society. Seeping into every nook and cranny of American life, intellectual property casts a protective haze over everything from the words of an email,¹ to the shape of a phone,² to the sequence of genes³. In our jurisprudential tradition, these rights do not spring forth from some notion of a natural or moral entitlement. Rather, the underlying logic is decidedly utilitarian.⁴ From the store of things that are theoretically available to anyone in society, we remove certain activity and expression, dedicating them to the province of one or a few in the hope of bringing benefit to society as a whole. These benefits include such diverse goals as promoting innovation,⁵ stimulating creativity in the arts,⁶ encouraging the production of quality goods,⁷ and maintaining an appropriately functioning marketplace.⁸

Nevertheless, intellectual property rights increasingly are being pressed into the service of schemes that have little to do with the advancement of these societal

¹ Copyright law covers original expression fixed in a tangible medium of expression, which would include the humble email (JULIEN HOFMAN, *INTRODUCING COPYRIGHT* xi, 164 (2009), available at <http://www.col.org/resources/publications/Pages/detail.aspx?PID=312>; Ned Snow, *A Copyright Conundrum: Protecting Email Privacy*, 55 U. KAN. L. REV. 501, 503 (2007)), as much as the letter and manuscripts of past generations.

² See *Apple, Inc. v. Samsung Elecs. Co.*, 678 F.3d 1314 (Fed. Cir. 2012).

³ *Ass'n for Molecular Pathology v. U.S. Patent and Trademark Office*, 653 F.3d 1329, 1334 (2011).

⁴ There are occasional exceptions to the general rule that intellectual property rights in the United States are grounded in utilitarianism. The United States adheres to several multinational treaties that refer to moral rights in the context of copyright and performing rights for singers and actors, including the Berne Convention, the WIPO Copyright Treaty, and the WIPO Performances and Phonograms Treaty. See Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886, as revised at Stockholm on July 14, 1967, 828 U.N.T.S. 222; World Intellectual Property Organization Copyright Treaty, Dec. 20, 1996, S. Treaty Doc. No. 105-17, 2186 U.N.T.S. 121; World Intellectual Property Organization Performances and Phonograms Treaty, Dec. 20, 1996, S. Treaty Doc. No. 105-17, 2186 U.N.T.S. 203.

⁵ U.S. CONST. art. I, § 8, cl. 8.; *Brenner v. Manson*, 383 U.S. 519, 532-536 (1966); *Ariad Pharms. Inc. v. Eli Lilly & Co.*, 598 F.3d 1353 (Fed. Cir. 2010) (en banc); see also *PharmaStem Therapeutics Inc. v. Viacell Inc.*, 491 F.3d 1363-1364 (Fed. Cir. 2007); WILLIAM C. ROBINSON, *LAW OF PATENTS FOR USEFUL INVENTIONS*, 101 n.2 (1890)

⁶ E-mail from Hal Wegner (Feb. 2, 2009, 8:53 PST) (on file with author); see also *Kinetic Concepts Inc. v. Blue Sky Med. Grp.*, 554 F.3d 1010 (Fed. Cir. 2009).

⁷ See Frank H. Alpert, *An Analysis of Patent Length: Encouraging Innovation by Shortening Patent Protection*, 11 J. MACROMARKETING 42 (1991) (providing examples of brands that have become synonymous with their class of product), but note that other goals are involved, primarily consumer deception, and in more modern interpretations, protecting investment in one's good name. See, e.g., Gideon Parchomovsky & Peter Siegelman, *Towards an Integrated Theory of Intellectual Property*, 88 VA. L. REV. 1455 (2002).

⁸ *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 481-82 (1974).

goals and much to do with societal waste. As one former regulator noted, the locus of creative thought, all too often, has shifted from the R&D department to the legal department.⁹

What do we, as a society, do when these rights that we have created with such lofty goals and noble heart are diverted toward less admirable pursuits, that is, when IP rights become the vehicles for IP wrongs? Under these circumstances, the legal system must develop a way to respond.

In modern society, intellectual property rights are being used for purposes such as hiding embarrassing or illegal conduct, avoiding obligations, pressuring others into surrendering rights, harassing competitors, and engaging in complex anti-competitive schemes. This article will describe these and many other types of questionable behavior that are increasingly appearing in the assertion of both patents and copyrights.

Such behavior is happening because attributes of the intellectual property system are allowing intellectual property rights holders to bargain for compensation far beyond the value of the right. I call this a “magnification” of the rights—although one colleague has complained that terms such as magnification are far too tepid to describe the aggressive and unsavory behavior that is taking place. The phenomenon is playing out in ways that damage innovation, create dysfunction in markets and waste vast amounts of legal resources. As federal district court judge James Roberts recently noted in frustration, “[T]he court is well aware that it is being played as a pawn.”¹⁰

The problems go far beyond the massive patent wars in the smartphone industry that are making headlines. Although the smartphone wars are certainly wasteful and troubling, they are the tip of the iceberg, an example in which the parties are so big and the stakes so high that the activities are spilling over into the public square and attracting attention. Smartphone patent wars, however, are merely a symptom of what is happening on many levels in the world of intellectual property.

Consider the law firm that purchased copyrights in pornographic movies, used simple tracking tools to find people who have downloaded the movies, and then sent letters demanding a licensing fee. Unsurprisingly, many people chose to

⁹ Dr. Donald Kennedy, Comm’r, U.S. Food & Drug Admin., Keynote Address at the UC Hastings Conference: Faces of Forensics (Mar. 2008).

¹⁰ See Jeff John Roberts, *Famous judge spikes Apple-Google case, calls patent system “dysfunctional”*, GIGAOM (Jun. 8 2012), <http://gigaom.com/2012/06/08/famous-judge-spikes-apple-google-case-calls-patent-system-dysfunctional/> (discussing *Apple, Inc. v. Motorola, Inc.*, No. 1:11-CV-08540, 2012 WL 2362630, at *1 (N.D. Ill. E. Div. Jun. 7, 2012)).

immediately pay \$1,000, rather than risk having their name exposed in a lawsuit about pornographic films.¹¹

Or consider the patent holders who are sending demand letters directly to small companies stating that the companies cannot “use” common office equipment they have purchased without paying a licensing fee. By targeting consumers, rather than the office equipment makers themselves, these patent holders are able to approach people who have little information about patents and little ability or incentive to do anything but pay.

Or consider patent holders who have refused to identify which patent claims they were asserting against a target company unless the target signed a broad non-disclosure agreement, or other patent holders who have purportedly required the target to sign, not just a nondisclosure agreement, but also a non-disparagement agreement. Interactions such as these raise a host of concerns, including implications for freedom of speech, for the notion that patents should provide notice of the territory claimed by the patent holder, and for the ability of competition authorities to identify anticompetitive behavior. This article describes these and many other examples of the troubling behaviors that are spreading throughout intellectual property markets.

As the marketplace for ideas has developed in strange and uncomfortable ways, the law must adapt as well. We need a mechanism for restraining inappropriate use of intellectual property and for signaling the difference between the acceptable pursuit of a return from your intellectual property and the inappropriate oppression of others, using the legal system and societally granted privileges as a weapon.

The law does have a few anemic doctrines to call upon. Within intellectual property, these include patent misuse, copyright misuse, and inequitable conduct. The first two are rarely used with any success. The third, after a troubled history, has been all but laid to rest in the recent patent reform legislation.¹² It is no surprise that

¹¹ See Kate Darling, What Drives IP Without IP? A Study of the Online Adult Entertainment Industry 24-25 (February 2013) (working paper), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2198934; see also *Malibu Media, LLC v. John Does 1-10*, No: 12CV3623(ODW), 2012 WL 5382304 (C.D. Cal. Jun. 27, 2012) (“[T]he potential for abuse is very high. The infringed work is a pornographic film. To save himself from embarrassment, even if he is not the infringer, the subscriber will very likely pay the settlement price. And if the subscriber is a business, it will likely pay the settlement to save itself from the hassle and cost of complying with discovery—even though one of its customers or employees is the actual infringer.”).

¹² 35 U.S.C. § 257(c)(1) (2012); Anthony W. Shaw, Inequitable Conduct, Willfulness, and Inducement under the AIA, LEXISNEXIS PATENT LAW COMMUNITY, (available at <http://www.lexisnexis.com/community/patentlaw/blogs/patentlegislationandreform/archive/2012/01/02/inequitable-conduct-willfulness-and-inducement-under-the-aia.aspx>) (commentary on the America Invents Act regarding the changes related to inequitable conduct). See

these approaches provide little assistance. They are seriously flawed doctrines that lack the robustness necessary for the task at hand.

One could turn to doctrines outside of intellectual property, including laches, implied contract, sham litigation and antitrust. Antitrust in particular has been used across time to challenge anticompetitive schemes involving intellectual property.¹³ Some of these doctrines could provide avenues to address particular aspects of the conduct, particularly if the doctrines were modified to take into account modern intellectual property practices. None of these doctrines, however, has the capacity to address the full breadth of the problems. When a comprehensive problem exists, the answer lies in attacking its roots, in addition to trimming the tendrils as they emerge in various places.

A logical step in the evolution of intellectual property law would be the development of a concept of “inappropriate use of intellectual property.” This article will sketch out the contours of what such a doctrine should contain.

Describing the theoretical framework that needs to emerge, to some extent, harkens back to the emergence of the Court of Chancery in fourteenth and fifteenth century England and the development of the concept of equity. It is always treacherous to analogize anything to equity, given its lack of a coherent, defining identity. (As F.W. Maitland noted, equity is that portion of our existing substantive law that can be marked off from other portions of law only by reference to courts no longer in existence, which is a poor thing to call a definition.)¹⁴ Nor would one necessarily want to follow an area of law that has been accused, on the one hand, of making possible “decisions that are flexible, intuitive, and tailored” while on the other hand, making possible “decisions that are unanalyzed, unexplained and un-thoughtful.”¹⁵ Nevertheless, British courts of equity emerged in part because law courts were not

also *Therasense, Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276 (Fed. Cir. 2011); Robin Feldman, *The Role of the Subconscious in Intellectual Property Law*, 2 HASTINGS SCI. & TECH. L.J. 1, 14-23 (2010) (reviewing the perils of strict liability attached to a finding of inequitable conduct, increasing abuse of the doctrine, and a lack of clear standards upon which inequitable conduct has been found); Christian E. Mammen, *Controlling the “Plague”: Reforming the Doctrine of Inequitable Conduct*, 24 BERKELEY TECH. L.J. 1331 (2009) (reviewing excessive allegation of inequitable conduct and suggesting: (1) adoption of the PTO’s 1992 definition of materiality, (2) standardization of the definition of “intent,” (3) codification of “balancing” materiality and intent, and (4) limiting remedy to invalidation of the claims found to have been approved through inequitable conduct).

¹³ See, e.g., *United States v. Microsoft Corp.*, 253 F.3d 34, 50 (D.C. Cir. 2001); *United States v. Apple, Inc.*, No. 12-CV-2826 (S.D.N.Y. filed Apr. 11, 2012).

¹⁴ F.W. MAITLAND, *THE ORIGIN OF EQUITY IN EQUITY: A COURSE OF LECTURES*, 1 (Cambridge 1936).

¹⁵ DAN R. DOBBS, 1 DOBBS LAW OF REMEDIES: DAMAGES—EQUITY—RESTITUTION 92 (West 2d ed. 1973).

allowed to see the full view of what was transpiring between the parties and because the system lacked sufficient remedial mechanisms.¹⁶ Modern problems in intellectual property echo both of these.

In examining the boundaries of what is and is not appropriate in the use of intellectual property, one ought to be inspired by the recent decision of renowned jurist Richard Posner, who was presiding over a massive intellectual property battle between Apple and Google. In describing his ruling from the bench, Judge Posner called arguments on one side “silly” and arguments on the other side “ridiculous.” Ultimately, he dismissed the case entirely on the grounds that neither party would be able to demonstrate true harm.¹⁷ There is no reason to mince words in this area. Intellectual property owners are using legal entitlements and the legal system in ways in which the true harm is suffered by the courts and society as a whole. We can do better, and this article is intended to offer a step in that direction.

Part I of the Article describes the phenomenon of magnification, and Part II details examples of troubling schemes in modern intellectual property markets. Many of these schemes have not been described previously in academic literature, and some have not been described anywhere. Part III explains current legal tools, demonstrating their inadequacies. Part IV discusses the initial contours of the doctrine of inappropriate use of intellectual property and explores examples of how it could be applied. To support development of that doctrine, as well as to explore potential structural changes in the intellectual property system, Part V turns to the broad investigatory powers of the Federal Trade Commission under Section 6(b). This section describes why the Commission should initiate such an investigation and suggests ways in which such an investigation might be structured.

Before moving further, I do wish to note two caveats. First, although examples of inappropriate use of intellectual property are more prevalent in certain areas of intellectual property, the doctrine is intended to cover all types of IP—copyright, patent, trademark and trade secret. Although scholarship tends to treat trademark and trade secret as poor stepsisters, we do so at our own peril.¹⁸ As described below, fluidity among these various regimes provides ample opportunities for mischief and suggests that all forms should be handled in a single, over-arching doctrine, subject to the variations each area may require.

¹⁶ For a history of the law of equity, see MAITLAND, *supra* note 14; J.H. BAKER, *THE COMMON LAW TRADITION: LAWYERS, BOOKS, AND THE LAW* (Hambledon 2000).

¹⁷ See *supra* note 10.

¹⁸ Charles T. Graves, *Non-Competition Covenant as a Category of Intellectual Property Regulation*, 3 HASTINGS SCI. & TECH. L.J. 69, 74 (2011) (noting that “in the minds of courts, practitioners, academics and law students, the term ‘IP’ chiefly means patent and copyright law, with trademark and trade secret law in the background”).

Finally, I worry that in chronicling existing and potential bad behaviors in an area that already looks much like the Wild West, I am providing a handy road map for those who wish to follow. If the legal system does not respond quickly, the article might do no more than encourage others to enter the fray, as well as providing instructions. I am hopeful that the importance of recognizing and responding to these behaviors outweighs the risk.

II. Magnification and Other Characteristics of the Modern Intellectual Property Arena

A confluence of factors in intellectual property law is creating unprecedented opportunities for mischief. To begin with, characteristics of intellectual property markets are allowing rights holders to bargain for returns well beyond the value of the rights they hold. In addition, certain intellectual property markets are experiencing a shift to monetization, in which rights that would ordinarily have garnered no return are being reconstituted and monetized. The combination of magnification and monetization is creating opportunities for behavior that is harming innovation, creating dysfunction in markets and wasting vast amounts of resources. This section will describe such issues in the context of patent and copyright. Later sections will discuss fluidity among the four intellectual property regimes.

A. Magnification

In the classic story of invention, a great thinker toils to create a wonderful innovation, files for a patent to protect what he or she has contributed to the store of human knowledge, and then produces a new product that enters the market, improving the lives of all citizens. In a variation on this theme, the valiant inventor, deeply immersed in the pursuit of innovation, lacks the capital, experience or interest to commercialize the invention. The inventor then simply licenses the patent to a third party, who brings forth the product for the betterment of society. Copyright tells a similar tale that features brilliant writers hunched over coffeehouse tables, or dedicated computer programmers toiling late into the night, accompanied only by caffeine and their dreams.

It is a lovely story, but one that bears little resemblance to the path of patents and copyrights in the modern world. Modern patent and copyright systems are characterized by extensive bargaining, as parties circle each other looking for advantages

in a complex game of multi-dimensional chess.¹⁹ For different reasons, both systems are plagued by the following factors: 1) uncertainty regarding the boundaries of rights; 2) lack of a quick and reasonably priced method for resolving disputes regarding the boundaries of the rights; and 3) potential damages that are out of proportion to the nature of the harm. These factors allow rights holders to bargain for returns far beyond the value of those rights. In addition, both systems have operated for some time with an extraordinary number of rights that are never actualized. Although the existence of such rights may clog the systems in some ways, those rights have remained largely silent--unasserted and bringing no direct returns to their owners. One can call these ghost rights or shadow rights, given that they have hovered on the periphery of the patent and copyright systems, never fully actualized or fleshed out. The copyright and patent systems are changing dramatically, however, as clever minds have created new ways for these shadow rights to be monetized. This monetization trend is further enhancing opportunities for magnification of the value of rights.

Before moving any further one should address the question of how it is conceptually possible for someone to obtain more for something than what it is worth. After all, isn't the value of something measured by whatever the owner can get in return for it? How are we to measure value in a rational manner?

Although differing definitions are possible, I suggest using the following as a starting place.²⁰ Intellectual property consists of things that are intangible, such as methods, secrets and songs. Their value is best actualized when the intangible is translated into tangible products that can be sold to consumers, anything from medications to CDs. From that perspective, the value of intellectual property can be measured by the value of the tangible product that embodies it. If the product embodies things beyond that particular intellectual property, the value can be measured by the intellectual property's contribution to the value of the tangible product.

This describes, of course, the value of an individual intellectual property right in an ideal world, and circumstances in the real world are never ideal. Measurement difficulties, information imbalances, transaction costs and other factors may cause the level of return to deviate from the actual value of the intellectual property. In addition, the design of the legal system itself, intentionally or unintentionally, may alter the returns available to the rights holder, above and beyond the value of the

¹⁹ For a description of patents in the modern world, see ROBIN FELDMAN, *RETHINKING PATENT LAW*, Chapter 2: How Modern Patents Operate (2012).

²⁰ See Raymond Shih Ray Ku et al., *Does Copyright Law Promote Creativity? An Empirical Analysis of Copyright's Bounty*, 62 *VAND. L. REV.* 1669, 1670 (2009); David S. Abrams, *Did Trips Spur Innovation? An Analysis of Patent Duration and Incentives to Innovate*, 157 *U. PA. L. REV.* 1613 (2009).

right's contribution to the value of the products encompassing it. As a simple example, a system may provide for punitive damages or other damage measurements that intentionally amplify the available returns. Rationally designed, such deviations may be unproblematic and may follow the types of conscious tradeoffs that are necessary within any legal structure. It is the unanticipated leakage or the inadequately structured design that may be problematic.

In short, intellectual property rights holders may be able to utilize aspects of the patent system to extract a greater return than the value of the right. This phenomenon is happening extensively in both the patent system and the copyright system.

B. How Magnification Arises in Patents

Although we refer to patents as a form of intellectual "property," patents are quite different from traditional forms of property such as real estate. A patent is not a physical object, but a verbal description of something that may not even exist in tangible form. As a result, it can be very difficult to say exactly what is included within the boundaries of a given patent, especially as time passes and technology develops.²¹ In fact, as I have described extensively in other work,²² it is simply impossible to know the full boundaries of a patent at the time the patent is granted.

The sheer volume of modern patents adds to the challenge. The patent system allows patents to be overlapping, and the millions of patents active in the United States makes determining the boundaries of each one impossible. Moreover, the massive number of patent applications filed each year in comparison to the number of patent examiners ensures that examiners will spend very little time on each application, leaving the litigation system to weed out patents as they become commercially significant.

The patent system also lacks a quick and inexpensive way to resolve the uncertainty about the boundaries of a particular patent. Scholars estimate that the average patent trial lasts from nine to fifteen months and costs from one to six million dollars.²³ The intangible costs of patent litigation may be as great as the dollar

²¹ See Robin Feldman, Op-Ed., *To Liberate American Innovation, We Need to Rethink Patents*, BOSTON GLOBE, Jan. 20, 2013.

²² I will describe only a few points in the text and refer readers to prior work for a full description of the problem. FELDMAN, *supra* note 19, ch. 1 (describing the theory of the bargain aspect of patents); see also Tom Ewing & Robin Feldman, *The Giants Among Us*, 2012 STAN. TECH. L. REV. 1, 19-20 (2012), available at <http://stlr.stanford.edu/pdf/feldman-giants-among-us.pdf> (describing how uncertainty promotes leverage in patent aggregation).

²³ Colleen V. Chien, *Of Trolls, Davids, Goliaths, and Kings: Narratives and Evidence in the Litigation of High-Tech Patents*, 87 N.C. L. REV. 1571, 1605 (2009); American Intellectual Property

amounts, particularly for a young company. Patent litigation can distract management, as well as scaring off customers, investors, and suppliers.²⁴

In addition to the problems of uncertainty and the costs of resolving that uncertainty, the remedy system in patents can create a distortion between a patent's value and the return that a patent holder can gain. With a finding of infringement, a patent holder can receive an injunction against the infringer, and until the recent Supreme Court opinion in *eBay v. MercExchange*, injunctions were routinely granted.²⁵ Although the pace of injunctions has slowed in the wake of *eBay*, courts still grant injunctions in a significant number of cases.²⁶ Thus, when a company producing an actual product is threatened with an infringement claim by a patent holder, the company must decide whether to risk having its entire product shut down. If the patent claim relates only to a small aspect of the product, the threat of injunction creates an inordinate risk, one much more costly than the value that the patent could possibly contribute to the whole product.

Moreover, the damage measurements available in patent cases significantly heighten the risk of magnification. According to the Patent Act, courts are to award damages "adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention."²⁷ The language is perfectly reasonable in the abstract; it is the application of the language that has been problematic.

Law Association Report of the Economic Survey 2011, reprinted in American Intellectual Property Law Association Report of the Economic Survey, Intellectual Property Insurance Services Corporation, <http://www.patentinsurance.com/iprisk/aipia-survey/> (last visited Nov 1, 2012). The average patent trial involving a monetizer lasts about nine months, while the average patent trial in other circumstances lasts about 15 months. Chien, *supra*, at 1605, tbl. 6. For smaller cases where the amount in controversy is under \$1 million, the average trial itself costs almost a million dollars. *Id.* at 1592-93. For larger cases where the amount in controversy is greater than \$25 million, the average trial costs almost \$6 million. *Id.* at 1584; *see also* James Bessen & Michael J. Meurer, *The Direct Costs from NPE Disputes* 29 tbl. 2 (Boston Univ. Law & Economics Research Paper No. 12-34, 2012), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2091210.

²⁴ Tom Ewing, *Indirect Exploitation of Intellectual Property Rights by Corporations and Investors*, 4 HASTINGS SCI. & TECH. L.J. 1, 34, 63 (2012) [hereinafter Ewing, *Indirect Exploitation*]; Tom Ewing, *Practical Considerations in the Indirect Deployment of Intellectual Property Rights by Corporations and Investors*, 4 HASTINGS SCI. & TECH. L.J. 109, 119, 131 (2012) [hereinafter Ewing, *Practical Considerations*].

²⁵ *eBay Inc. v. MercExchange, LLC*, 547 U.S. § 388 (2006).

²⁶ Douglas Ellis et al., *The Economic Implications (and Uncertainties) of Obtaining Permanent Injunctive Relief After eBay v. MercExchange*, 17 FED. CIRCUIT B.J. 437, 441 (2008). Since June 2006 to 2008 thirty-six patent cases were heard in district courts where a permanent injunction was being sought. Of those thirty-six, an injunction was granted twenty eight times and the rest (eight) were denied.

²⁷ 35 U.S.C. § 284 (2006).

Part of the problem flows from the so-called "Georgia-Pacific" test that many courts use to determine reasonable royalties. It is an elaborate, 15-part test introduced by a district court in the 1970s, in which not all factors are relevant to all cases and courts do not always use the same factors.²⁸ With such variability, the test has been described as involving more the talents of a conjuror than that of a judge.²⁹

The test is particularly troubling in the way that it has been applied to complex multipart products.³⁰ When a product is made up of many components, the price of the product may reflect not just one patented process or component, but also dozens of other patented inventions. The price may also reflect unpatented technology included in the product, as well as the value added by the manufacturer in putting everything together and marketing the product. The Georgia-Pacific test does not adequately take all of this into account,³¹ and patented inventions that make a small contribution to an overall product have received damage awards well beyond their contribution to the whole, or based on a distorted view of the whole.

For example, in *Alcatel-Lucent SA v. Microsoft*,³² a jury found that Microsoft's Media Player, which is a small part of Microsoft's Windows system, violated two patents related to the MP3 digital-music format. The jury awarded an astounding \$1.52 billion in damages. In reaching this enormous award, the royalty base was calculated on the full value of Windows-based computers, rather than on the much lower value of Windows software.³³

²⁸ See *Georgia-Pac. Corp. v. U.S. Plywood Corp.*, 318 F. Supp. § 1120 (S.D.N.Y. 1970), modified sub nom. *Georgia-Pac. Corp. v. U.S. Plywood-Champion Papers Inc.*, 446 F. 2d 295 (2d Cir. 1971).

²⁹ See *Fromson v. Western Litho Plate & Supply Co.*, 853 F.2d 1574 (Fed.Cir. 1988) (describing a practioner's comment).

³⁰ For a detailed description of patent remedies, problems with those remedies and issues discussed in this section, see FELDMAN, *supra* note 19, at 85-90; see also Mark A. Lemley, *Distinguishing Lost Profits from Reasonable Royalties*, 51 WM. & MARY L. REV. 655 (2009); Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 TEXAS L. REV. 1991 (2007).

³¹ For an example of the ability to garner a return on unpatented parts of a product through the patent, see *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1551 (Fed. Cir. 1995) (describing the entire market value rule to include recovery on sales of unpatented components with patented components when the unpatented components function together with the patented components in a manner so as to produce a single desired end product or result).

³² *Lucent Technologies, Inc. v. Gateway, Inc.*, 509 F. Supp. 2d 912 (2007) (granting Microsoft's motion for judgment as a matter of law on the damages award for insufficient evidence to establish the correct royalty base), *aff'd*, 543 F.3d 710 (2008) (affirming judgment as a matter of law due to lack of standing to sue over one patent and non-infringement on the second patent, which obviated the need to decide damages issues).

³³ Efforts may be underway to ameliorate some aspects of this problem. See *Apple, Inc. v. Samsung Elecs. Co. Ltd.*, 678 F.3d 1314 (Fed. Cir. 2012) (holding that there must be a showing of a causal nexus between likely infringement and the alleged harm to a patentee in order for a patentee to establish irreparable harm and collect infringement damages).

Although the court ordered a new trial over damages in Alcatel-Lucent, the jury verdict in the case is not the only mammoth award that has been handed down. The threat of such massive awards affects the risk calculations a company must make in choosing whether to fight the assertion of a patent. Once again, it gives patent holders the ability to bargain for more than the patent's actual value. Patent holders can posture by demanding exorbitant licensing rates in demand letters or damage awards in lawsuits because the risk of such awards is real.

I have wondered whether one could impose some measure of discipline on the system by requiring that damage award disputes be resolved through baseball style arbitration. In that system, the parties each enter a number, and the trier of fact may choose only one of the two numbers offered, not some number in between.³⁴ As a result, parties have less incentive to enter a ridiculous number, given the risk that the trier of fact will ignore it and choose what one's opponent has proposed.³⁵ Under the current system, however, the damage calculations encourage parties to inflate their demands.

The combination of uncertainty regarding the boundaries of rights, the lack of a quick and inexpensive method for resolving that uncertainty, and the possibility that damages awarded may be out of proportion to the nature of the harm combine to make the modern patent system a complex and multi-dimensional strategy game. I have described this game at length in *Rethinking Patent Law*, and will include only a brief discussion here.³⁶

The problem in simplified form is the following: when a patent holder knocks on the door, a rational company may choose to settle, rather than to face the risks and costs of defending against a patent infringement suit. This is true even if the threatened patent is of questionable validity or does not apply to the product the company is making. In anticipation of this, companies try to build up their own port-

³⁴ See, e.g., JERRY CUSTIS, LITIGATION MANAGEMENT HANDBOOK § 9:18 (2012); Matt Mullarkey, *For the Love of the Game: A Historical Analysis and Defense of Final Offer Arbitration in Major League Baseball*, 9 VA. SPORTS & ENT. L.J. 234, 238 (2010).

³⁵ See John E. Sands, *Baseball Arbitration and the 'Engineering' of Effective Conflict Management*, 13 DISP. RESOL. MAG. 10, 11 (2007) ("Because the players and clubs know the contractual criteria and know the relevant data for their specific cases, they must design their submitted demands and offers to meet what they believe the arbitration panels will find consistent with those criteria. Although their initial positions may be far apart, as hearing dates approach, players and clubs necessarily move those positions into an appropriate range that they believe an arbitration panel will likely award."). *But see* Mullarkey, *supra* note 34, at 239 ("The lack of compromise created by the arbitration systems encourages the players and owners to submit increasingly unreasonable proposals knowing that the arbitration panel cannot compromise but rather must choose one of the two options.").

³⁶ For a detailed description of how modern patents operate, see FELDMAN, *supra* note 19, at ch. 3.

folio of patents. If the person trying to assert a patent against you is a competitor who wants to keep you out of its territory, you can reach into your portfolio and threaten to counter-sue. Your counter-attack places the patent holder's own products at risk.

Groups that have large portfolios can be at a greater advantage in the game, in some circumstances.³⁷ Suppose I knock on your door with a weak patent, asking that you buy a license from me, or that you shift your product away from what I claim to control. Now suppose I tell you that I have 500 more patents. Even if you are tempted to fight the first weak patent, the risks and costs of trying to defend against each of 500 patents makes it much more likely that you will capitulate. The value of the first patent, as well as many of the 500, may be quite low, and the patents may be unlikely to withstand close scrutiny in court. Nevertheless, the patent holder can reap a substantial return from these patents, particularly if a few stronger patents are sprinkled throughout.

In the modern world of patent assertion entities have developed a variety of complex ways to enhance magnification, such as a technique that I would call unbundling. With unbundling, an entity takes a group of related patents, separates them out, and transfers different ones to different monetizers. As a result, a product company must face multiple demands from different assertion entities. This multiplies the amount of cost and risk for the product company, thereby magnifying the return. In other words, if I have to fight 10 lawsuits, it will cost me more, and the settlement value rises

Unbundling allows the entity that originally divided the group to magnify its return, either by retaining rights to a share of the profits or simply by virtue of the fact that the sale price of each decoupled patent reflects its settlement value.³⁸ The bargaining and maneuvering described above offers only a small taste of the complex interactions of the modern patent world.³⁹

³⁷ See, e.g., James F. Holderman & Halley Guren, *The Patent Litigation Predicament in the United States*, 2007 U. ILL. J.L. TECH. & POL'Y 1, 10-11 (2007); Douglas G. Lichtman & Mark A. Lemley, *Presumption of Validity*, 60 STAN. L. REV. 45, 46 (2007); Gideon Parchomovsky & R. Polk Wagner, *Patent Portfolios*, 154 U. PA. L. REV. 1, 66 (2005).

³⁸ Unbundling can be particularly effective as part of a scheme, in which a product company transfers some of its patents to monetization entities to assert against the product company's competitors, thereby raising their rivals' costs. For a further discussion of privateering, see sources cited at note 80, *infra*.

³⁹ For an example of unbundling, see David A. Balto, *Guest Post on Using the Antitrust Laws to Police Patent Privateering*, PATENTLY-O (June 3, 2013) (available at <http://www.patentlyo.com/patent/2013/06/guest-post-on-using-the-antitrust-laws-to-police-patent-privateering.html>) (describing the transfer of Nokia's patents to patent assertion entity Mosaid, and the further subdivision of those patents between Mosaid and two other assertion entities).

C. Monetization in Patents

In addition to the factors cited above, the current rush toward monetization is contributing to the ability of patent holders to bargain for more than the patent is worth, as well as creating distortions in the market for patents. Traditionally, the patent system has operated with a high percentage of what I would call shadow rights—rights that are never actualized but remain largely invisible, on the periphery of the patent system.

The vast majority of patents have never directly earned a return for the patent holder. Estimates suggest that the number is well above 90%.⁴⁰ These patents do have some impact on the system. Among other things, they clog the patent system, making it even more difficult for manufacturers to know whether a potential product would infringe any existing rights. Nevertheless, they do not extract any direct returns for their inventors.

In fact, many of these shadow patents were never intended to earn a direct return. When a company patents a particular invention, the company will engage in a series of defensive patents that are intended to cover variations or improvements that others could come up with. The intent is not to create new protects, but to keep others out of the commercial space in which the product is operating, and to protect the company if competitors try to sue.

Many of these unrealized patents, along with patents in general, are of questionable validity. The patent approval system has nowhere near the resources necessary to weed out patents that are weak. One scholar estimates that the average patent examiner spends 18 hours over a period of two to three years examining a particular patent.⁴¹ This is a remarkably small amount of time to evaluate highly technical documents that may contain dozens or even hundreds of separate claims.

Even patents that have some validity may contain claims that are weak. Patent drafters generally include very narrow claims that they can safely expect to survive, and also include a series of increasingly broad claims that reach further and further. The broad claims may be tremendously weak, and unlikely to survive in court. Nevertheless, with the limited amount of time patent examiners have to spend on each application, the patent office is unlikely to catch all of the claims that reach too far.

⁴⁰ Parchomovsky & Wagner, *supra* note 37, at 5 (noting that estimates suggest that less than 5 percent of patents hold any value); see also Edmund W. Kitch, *The Nature and Function of the Patent System*, 20 J.L. & ECON. 265, 267 (1977).

⁴¹ Mark A. Lemley, *Rational Ignorance at the Patent Office*, 95 NW. U. L. REV. 1495, 1500 (2001).

Some scholars suggest that the limited patent examination is actually efficiency enhancing.⁴² Given that we could not possibly afford a deep examination of each patent application and each claim, it is better to focus societal resources on those patents that turn out to be important, which can be determined by those that make it to litigation.

However, if it is too great a burden on the patent office to examine each patent application extensively, imagine what would happen to the entire patent system if every patent, or even large numbers of the shadow patents, were to become monetized. That is precisely what is happening in the modern patent system.

The modern combination of Magnification and monetization is playing out in ways that are inconsistent with the goals of the patent system. The Constitutional language explains that the goal of the patent system is “to promote the progress . . . of the useful arts.” In other words, patents do not seek to promote for example, science for the sake of science, but rather to encourage the creation of products that will be useful and beneficial to society. Although enormous amounts of money are being paid through patent assertion, there is no evidence to suggest that much in the way of new products are emerging from all of the modern patent assertion activity.

One might argue that the system helps return greater sums to inventors, which has the indirect effect of creating incentives to others who might innovate. Economic evidence, however, suggests that relatively little of the patent assertion money is actually returned to inventors.⁴³ Thus, the current system is a remarkably “leaky bucket.”⁴⁴

1. The Traditional Troll

Monetization behavior began with small numbers of arbitrageurs who looked for undeveloped patents that could be asserted against successful products. Known as “patent trolls” or more charitably, “non-practicing entities,” these small-

⁴² See *id.* See also Christian Bessy & Eric Brousseau, *Technology Licensing Contracts: Features and Diversity*, 18 INT'L REV. L. & ECON. 459 (1998); Eric Brousseau & Christian Bessy, *Public and Private Institutions in the Governance of Intellectual Property Rights*, in INTELLECTUAL PROPERTY RIGHTS: INNOVATION, GOVERNANCE, AND THE INSTITUTIONAL ENVIRONMENT 243, 251 (Birgitte Andersen, ed. 2006); F. Scott Kieff, *The Case for Registering Patents and the Law and Economics of Present Patent-Obtaining Rules*, 45 B.C. L. REV. 58 (2003); see also Kelly Casey Mullally, *Legal (Un)certainty, Legal Process, and Patent Law*, 42 LOY. L.A. L. REV. 1109 (2010).

⁴³ See James E. Bessen, Jennifer Ford & Michael J. Meurer, *The Private and Social Costs of Patent Trolls*, REGULATION, Winter 2011-2012, at 26; Bessen & Meurer, *supra* note 23.

⁴⁴ Professor Carl Shapiro used this wonderfully expressive phrase to explore the implications of the patent assertion in his comments at the FTC/DOJ Workshop on Patent Assertion Entities in December of 2012.

scale operations generated tremendous returns, without producing a single product. Scholars and commentators have argued over what to call these players and how to categorize them. Universities, for example, are technically non-practicing entities. They generally license out the inventions created in their labs, rather than “practicing” the patent to manufacture a product. University behavior on the whole, however, tends to be quite different from that of garden-variety trolls, and some commentators are uncomfortable grouping them together.⁴⁵

I have suggested using the term “patent monetization entities” for these players and their fellow travellers. It has the virtue of capturing the notion that the entity is specifically designed and intended for monetizing patents, and it leaves out universities, whose core activities differ significantly from this group.⁴⁶

2. New Forms of Patent Monetization Entities

Over the last five years, new types of patent monetization entities have emerged. These entities are bigger and much more complex than the original patent trolls. Moreover, the phenomenon of patent monetization has spread from a limited number of individual players, to a large number of entities of varying configurations.

These new arrivals include mass aggregators, who operate in part as patent defense clubs, protecting their members against operating companies who would assert patents against them. The mass aggregators, however, also operate as monetizing organizations, promising large returns to their members and investors. The largest and most secretive, Intellectual Ventures, has amassed at least the 5th largest patent portfolio of any domestic company and has done so in about five years.⁴⁷

Variations on the theme abound. Some operating companies have entered the patent monetization game by either creating subsidiaries to manage their intellectual property portfolios or transferring their intellectual property to third parties, who purchase the patents either for an infusion of cash or for a return on the monetization activities of the third-party.

The explosion in monetization activities is creating pressure on corporate counsels at all companies to find ways to monetize their intellectual property portfolio, particularly their patents. With pressure from the Board to maximize immediate

⁴⁵Jacoda Wagner, *Patent Trolls and the High Cost of Litigation to Business and Start-Ups - A Myth?*, XLV Md. B.J. 12,14 (2012); see also Mark A. Lemley, *Are Universities Patent Trolls?*, 18 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 611, 612 (2008).

⁴⁶See Sara Jeruss, Robin Feldman & Joshua Walker, *The America Invents Act 500: Effects of Patent Monetization Entities on U.S. Litigation*, 11 DUKE L. & TECH. REV. 357, 361 (2012).

⁴⁷For a detailed description of mass aggregators and the potential anticompetitive effects, see Ewing & Feldman, *supra* note 22.

revenue, along with numerous approaches from IP brokers offering to buy or monetize portions of the company's portfolio, it can be difficult for corporate counsel to take the long-term view of the company's interests. In particular, if everyone is getting on board, shouldn't we join or at least hedge our bets?

The situation is reminiscent of a wonderful letter written by an anonymous tax lawyer to the Commissioner of the IRS in the 1990s.⁴⁸ Signed with the moniker, "Rusty Pipes," the letter described the fictitious tribulations of a simple, honest plumber as he watched others cut safety corners, split the cost savings with their clients, and react in horror when anti-abuse rules were introduced.

The temptation to monetize is spawning a variety of new entities. For example, Wired magazine recently interviewed a "reverse engineer" working for a monetization entity called "Rockstar Consortium."⁴⁹ Rockstar Consortium is funded by companies such as Apple, Microsoft, Research in Motion, Sony, and Ericsson. Reverse engineers at Rockstar study successful products like routers and smartphones looking for ways to claim that the successful product infringes one of Rockstar's thousands of patents. Rockstar then contacts the company and demands a license fee.⁵⁰

As monetization activities and variants are expanding rapidly, the activity feeds on itself in ways both large and small. For a small example, consider the inventor who had sued an operating company for infringing his patent. The inventor received a call from an old friend, now at a patent monetizer, who explained that purchasing the patent or a blanket license might be of interest to the monetizer. If the inventor wanted to proceed, however, he would need to file lawsuits against many more of the aggregator's members, to ensure that the purchase was of sufficient interest to the group. Individual moments like these are a reminder of the gold rush atmosphere of today's patent monetization. Everyone is scrambling for a piece of the action—for themselves, for their businesses, for their friends—and there are very few rules in place.

These patent monetization entities and their potential effects on the patent market and the broader economy are fascinating topics.⁵¹ Nevertheless, the point for the purpose of this article is the following: The patent system has long operated with the comfort of knowing that only a tiny percentage of patents will ever earn a return. In our brave new world, large numbers of patents, that would not have garnered any

⁴⁸See *The Timeless Wisdom of Rusty Pipes*, TAX NOTES TODAY, Dec. 21, 1998.

⁴⁹See Robert McMillan, *How Apple and Microsoft Armed 4,000 Patent Warheads*, WIRED, May 21, 2012, available at <http://www.wired.com/wiredenterprise/2012/05/rockstar/all/1>.

⁵⁰*Id.*

⁵¹Ewing & Feldman, *supra* note 22; Bessen & Meurer, *supra* note 23; Chien, *supra* note 23.

return in the past, are being traded and monetized. Their presence in the market, particularly in the form of commoditized, tradable rights, enhances the uncertainty and game playing that allows patent holders to obtain rights above the value of patent itself.

3. Can Monetization Impact Biotech and Pharma?

Conventional wisdom in patent circles holds that patent trolling and monetization are primarily a high tech problem – not one that affects the biotech and pharmaceutical industries. It is certainly true that certain aspects of life in the world of health science invention make the environment less hospitable to monetization. For example, a new medicine may be protected by one key patent on the molecule or the chemical formulation, rather than the hundreds of patents one can find in a typical high-tech product. In addition, timing is quite different in the two industries, both in terms of lead time and in terms of shelf life. A blockbuster drug requires years of expensive investment to develop the drug and take it through the arduous process of testing and approval. Once on the shelves, however, it can remain a force in the marketplace throughout the life of the patent. In contrast, many high-tech products can be invented cheaply and easily. Their shelf life may be considerably shorter as well, with market trends making them obsolete long before the patent has expired.

Finally, the startup costs for entering the high-tech market are lower than in biotech and pharmaceuticals. One is far less likely to find inventors making medical devices out of their garages. As a result, there may be fewer inventors in the field, outside of operating companies and universities.

It is only a matter of time, however, before monetizers find their way into biotech and pharma, using weak or tangential patents to extract payments from companies with useful products on the market.⁵² A monetizer would not need to raise the specter of being a legitimate competitor in the market in order to extract value from existing products. Rather, the amount of investment necessary to bring a product to market would make bio and pharma companies particularly appealing targets. What difference is a small settlement payment when one is on the cusp of approval?

In addition, the vast amount of unused innovation from universities offers a particularly tempting watering hole. Spurred by the Bayh-Dole Act of 1980, which gave universities the right to patent inventions that benefitted from federal funding, university patent holdings have mushroomed over time, with very few of the patents ever being licensed. This could provide an enormous shopping mall for monetizers,

⁵² Feldman, *supra* note 21.

Copyright protects the manner in which an idea is expressed. It is not the idea itself that we protect but rather the way the author chooses to express that idea.⁵⁶ Thus, copyright protects something that is intangible, and understanding the boundaries of something that is intangible is inherently subject to uncertainty.

Moreover, the legal rules themselves contribute to the atmosphere of uncertainty, particularly the notorious doctrine of fair use. Fair use is a complete defense to an action of copyright infringement. It is a fact-intensive balancing test in which the statutory factors listed are not exclusive, and the courts have determined that no one factor is dispositive.⁵⁷

A fact-intensive balancing test of this type, all but guarantees a high degree of uncertainty, particularly when the factors are open-ended. Fair use definitely follows that prediction. Most fair use cases that have been decided by the Supreme Court have been decided 5-4, in a decision that reversed a court of appeals decision, which had reversed the trial court opinion. In the realm of fair use, certainty is not ours, nor is predictability.

The costs for determining whether infringement has occurred are not necessarily as great for copyright as for patent. Copyright cases do not routinely incur the extensive expert costs and drawn out pre-trial battles that characterize patent cases.⁵⁸ In particular, the Copyright Act allows infringers to elect statutory damages, rather than proving actual damages, which can eliminate the need for complex testimony on damages.⁵⁹ In addition, the copyright system manifests particular mechanisms, some legislative and some market-based, that facilitate licensing of rights.⁶⁰ Nevertheless, any system in which a key determination is subject to such variability is

⁵⁶ For example, the idea of a story about two star-crossed lovers from feuding families with a tragic ending is not copyrightable, but the dialogue, plot sequence, and the way the interaction among the characters unfolds is copyrightable. 3 MELVILLE B. NIMMER & DAVID NIMMER, *LAW OF COPYRIGHT* § 13.03(A)(1)(b) (1963).

⁵⁷ *Sega Enters. Ltd. v. Accolade, Inc.*, 977 F.2d 1510 (9th Cir. 1993), cited with approval in *Asset Mktg. Sys., Inc. v. Gagnon*, 542 F.3d 748, 758 n.5 (9th Cir. 2008), and *Wall Data Inc. v. Los Angeles Cnty. Sheriff's Dep't*, 447 F.3d 769, 778-779 (9th Cir. 2006).

⁵⁸ "The Eastern District of Virginia is known as the 'rocket docket' because civil actions move to trial or are otherwise resolved. As Pragmatius [the plaintiff] notes in its opposition brie, the median time for the filing of a civil action to its final disposition in this district is 10 months, compared to 26.2 months in the Northern District of California." *Pragmatius AV, LLC v. Facebook, Inc.*, 769 F. Supp. 2d 991, 996 (E.D. Va. 2011); see also *Polaroid Corp. v. Eastman Kodak Co.*, which took 15 years to reach settlement; *Robert W. Kearns v. Ford Motor Company*, which took 12 years to reach a settlement [need full case cites for these two].

⁵⁹ 17 U.S.C.A. § 504 (West 2006).

⁶⁰ See *Broadcast Music Inc. ("BMI")* which collects license fees from businesses that use music, which it distributes as royalties to songwriters, composers and music publishers; *The American Society of Composers, Authors and Publishers ("ASCAP")* which also protects the rights of its members by licensing and distributing royalties for copyrighted works.

bound to engender a fair degree of uncertainty, above and beyond the uncertainty that accompanies any litigation.

Remedies within the copyright system also amplify the potential returns, expanding them beyond the value of a copyright's contribution to a product.⁶¹ As with patents, courts routinely grant injunctions in copyright infringement cases, and are even more likely to grant preliminary injunctions in copyright than in other types of cases.⁶² Moreover, legislation such as the Digital Millennium Copyright Act raises the specter of criminal sanctions as well as civil sanctions--a threat that can be particularly unnerving for individuals accused of infringement.⁶³

Finally, the copyright system manifests an additional characteristic that provides opportunities for magnification. Specifically, there is a strange mismatch between cultural norms and the law's dictates in the copyright system. Individuals regularly engage in copyright infringement--sharing songs with friends, downloading music and movies illegally, incorporating copyrighted material into their websites and electronic communications, and photocopying written materials to hand out in classes, lectures, and meetings. One can speculate about whether this rampant infringement reflects a culture of thieving and lawlessness or a popular protest of the overbroad nature of copyright law.⁶⁴ It could also reflect a variety of other social

⁶¹ Shyamkrishna Balganes, *The Uneasy Case Against Copyright Trolls*, 86 S. CAL. L. REV. 59 (2013) (noting that copyright trolls always elect statutory damages through which they are essentially guaranteed a meaningful recovery.)

⁶² *See id.*; see also ARTHUR R. MILLER & MICHAEL M. DAVIS, *INTELLECTUAL PROPERTY: PATENTS, TRADEMARKS, AND COPYRIGHT* § 26.1 (West 2012) (5th ed.).

⁶³ 17 U.S.C.A. § 1204 (West 2006). Simply must violate section § 1201 or § 1202 willfully and for commercial gain.

⁶⁴ Ben Depoorter, Alain van Hiel & Sven Vanneste, *Copyright Backlash*, 84 S. CAL. L. REV. 1251 (2011) (analyzing the results of two different conducted studies to find that enforcement measures which are seen as normatively excessive may lead individuals to believe that a legal rule is unjust, and create a social backlash that could prove counterproductive to copyright); Daniel J. Gervais, *The Price of Social Norms: Towards a Liability Regime for File-Sharing*, 12 J. INTEL. PROP. L. 40 (2003) ("Could it be that what some institutions wrongly perceived as simple intellectual property theft - which should be fought in the same way as, say, shoplifting - could also and simultaneously be portrayed as a new form of interest-based social interaction?"); Yuval Feldman & Janice Nadler, *The Law and Norms of File Sharing*, 43 SAN DIEGO L. REV. 577 (2006) ("In certain areas of life, there are many easy opportunities to violate the law where the resulting harm is apparently minimal; the presence of ready opportunity and absence of serious harm make such violations common. In extreme cases, violating the law is the norm."); Raymond Shih Ray Ku, *The Creative Destruction of Copyright: Napster and the New Economics of Digital Technology*, 69 U. CHI. L. REV. 263 (2002) (describing current social norms and explaining that many individuals believe that punishment for file sharing and copying copyrighted material for personal use is an infringement of their liberty interests, such that alleging copyright infringement in these scenarios is not an appropriate remedy).

phenomena.⁶⁵ Regardless of the explanation, the significant gulf between legal rules and societal norms in copyright adds to the magnification power within the system.

For example, many individuals are generally aware that they are violating copyright regulations, regulations they may view as inappropriate or burdensome. When faced with an accusation of infringement, it is possible that people simply capitulate regardless of the legitimacy of the claim, agreeing to the terms required or relinquishing the settlement demanded. This is particularly true in light of the differing characteristics of those who may be claiming copyright infringement and those who may be defending themselves from it. The size of the potential damages may encourage copyright infringers to settle quickly. Under the Copyright Act copyright holders can elect to ask for statutory damages instead of actual damages. Statutory damages can range between \$750 and \$30,000, and if the infringement is willful, damages may increase to as much as \$150,000 per work.⁶⁶ Thus, even if damages are minimal, for example, when the cost of the allegedly illegal copy is only one or two dollars, the threat of statutory damages looms much larger. Although criminal prosecutions are rare and unlikely to apply to most cases of infringement by individuals,⁶⁷ the specter of criminal sanctions may increase the psychological pressure for settlement, regardless of whether the settlement request is justified.

E. Shadow Rights in Copyright

As with the patent system, the copyright system has existed for some time with a significant percentage of shadow rights, that is, rights that are never actualized or enforced in any manner. The phenomenon takes shape differently in copyright than in patent, but the result is similar.

Two factors in modern history have greatly accelerated the sheer volume of unactualized copyrights. First, in an effort to conform to international norms and treaty obligations, the United States eliminated the requirements of notice and regis-

⁶⁵ For example, to offer an analogy, although most people disobey speeding laws, they may generally agree that such laws are necessary and appropriate. Similarly, copyright infringers may generally agree that current copyright provisions are necessarily, while ignoring them.

⁶⁶ 17 U.S.C. § 504 (West 2006); *Capitol Records, Inc. v Thomas-Rasset*, 692 F. 3d 899 (8th Cir. 2012) (in which a mother was fined 1.9 million dollars by a jury for sharing 24 songs on the peer-to-peer network Kazaa.)

⁶⁷ See 18 U.S.C. § 2319 (2000) (providing criminal penalties for those who willfully infringe for the purpose of commercial advantage). Criminal penalties in copyright are not used frequently as it is difficult to prove "willful infringement." See *U.S. v. Moran*, 757 F. Supp 1046 (D. Neb. 1991). Defendant made an illegal copy of a video cassette and the court determined it was not willful.

tration in 1989.⁶⁸ Prior to that time, for copyright to attach, an author had to place a copyright notice on a work and deposit a copy with Library of Congress.⁶⁹ Since 1989, copyright has attached the moment that a work is fixed in a tangible medium of expression, and fixation occurs when a work is written down, photographed, or otherwise recorded. Elimination of notice and requirement has meant that a vast number of moments of expression have fallen under the protection of copyright.

Second, the explosion of digital technology and digital communication methods has exponentially increased the number of works subject to copyright. People are constantly fixing things in a tangible medium of expression, things that would have remained inchoate in prior generations. Rather than making a phone call or engaging in a personal conversation, we email, text and Tweet. We record every moment of our friends and children's lives in still and video format, either capturing them unaltered, or manipulating them using ever-easier tools to produce our own movies, websites and self-published works. Although the amount of copyright protection may be thinner in some of these circumstances, thinner protection often relies on the ever-elusive fair use doctrine.

These changes have spawned an astoundingly vast amount of material that may be subject to claims of copyright—claims that, for the most part, are never actualized. How many of us have ever brought, or even considered, a claim of copyright infringement based on the mass of fixed material we have in our lives?

Modern technology also increases the potential for harvesting copyright claims. Data mining tools may allow content creators to actualize their increasingly large numbers of rights—rights that would have previously remained unasserted.

Aggregation techniques may further boost the harvesting of copyright claims. Although aggregation in copyright has not yet developed as extensively as in patent, there is evidence of significant aggregation activity. And of course, copyright's version of magnification brings opportunities for mischief, as described above.

III. Troubling Schemes

The following section discusses a variety of troubling behaviors that are emerging in intellectual property markets. The examples included are not isolated

⁶⁸Berne Convention Implementation Act of 1988, Pub. L. No. 100-568, 102 Stat. 2853 (codified as amended in various sections of 17 U.S.C.).

⁶⁹US Copyright Office - Registering a Work (July 16, 2012), <http://www.copyright.gov/help/faq/faq-register.html> (last visited January 8, 2013).

incidents, but appear to represent standard behaviors or trends in intellectual property rights interactions.

The examples were chosen for inclusion because the behavior trails are relatively easy to follow. I note that some of the examples track allegations in filings before courts and regulatory agencies, rather than final determinations of fact. At the very least, these offer insights into the types of behaviors that are possible under our current system and that our system would be ineffective at counteracting.

A. The Barnes & Noble Saga: The Power of Silence

Barnes & Noble manufactures the Nook electronic reader, which allows users to read electronic versions of books on a handheld device.⁷⁰ The Nook uses the Android operating system, based on the open source Linux system.⁷¹ Other devices, including a variety of smart-phones, also use the Android operating system.

Microsoft produces the Windows operating system. Windows competes with Linux-based systems in a variety of markets including, smartphones and electronic readers.

Federal court filings by Barnes & Noble, as well as a letter to the Department of Justice, detail the following saga between Barnes & Noble and Microsoft.⁷² In 2010, Microsoft approached Barnes & Noble saying that the Nook infringed six of Microsoft's patents. Patents generally include numerous independent claims, and it is rarely clear which claim might be relevant or why a patent holder might be asserting that a particular patent infringes a product. Normally, the patent holder would provide additional information about which claims it believes are infringed by the prod-

⁷⁰ I will refer to these collectively as "the Nook" except where there is a difference between the two for the specific issue discussed. This type of device in general may be referred to as an "eBook reader." As with other computer-like devices, the Nook uses an operating system, similar to the way that desktop computers may use Windows, Linux, or an Apple operating system.

⁷¹ The Android operating system is a Linux based operating system designed primarily for touchscreens. Android is an open source program that allows users to freely modify existing code and redistribute it. <http://developer.android.com/index.html> (last visited January 8, 2013).

⁷² *Microsoft Corp. v. Barnes & Noble Inc.*, No. 2:11-CV-00485 RAJ (W.D. Wash. Apr. 25, 2011); Letter from Gene DeFelice, Vice President, General Counsel & Secretary, Barnes & Noble, to James J. Tierney, Chief, Networks & Technology Enforcement Section Antitrust Division, United States Department of Justice (Apr. 25, 2011), available at Certain Handheld Electronic Computing Devices, Related Software and Components Thereof, Inv. No. 337-TA-769, USITC Doc. ID 463533, Exhibit B (File ID 675083). (Nov. 7, 2011) (Settled) [hereinafter B&N Answer and B&N Letter to DOJ].

uct so that the target company can make an assessment of whether to pay for a license. Gamesmanship over claims, however, is not uncommon in the patent world.⁷³

In this case, Microsoft refused to provide any details unless Barnes & Noble signed a non-disclosure agreement. Barnes & Noble objected, given that the claims are public information.

One could imagine a patent holder arguing that the while the claims are public, the patent holder's litigation approach and strategy are private. After all, the patent holder may intend to assert similar claims against other device-makers whose devices use the Android operating system. Publication of a patent, however, is intended to provide notice to all of the territory the patent holder controls.⁷⁴ Alleging confidentiality for what one asserts is the territory covered by one's patent is in tension with the notice function of a patent.

After considerable back and forth, the parties eventually agreed to a limited non-disclosure agreement that would cover "any non-public claim charts provided to Barnes & Noble by Microsoft relating to the patents in dispute."⁷⁵ Despite Microsoft's insistence that the charts must be covered by a non-disclosure agreement, however, the charts delivered did not contain any private information.

According to the filing, the patents discussed at the meeting were not essential patents for the Android operating systems, but rather minor peripheral patents. For example, the asserted patents concerned making file names for modern operating systems compatible with file names for outmoded operating systems and simulating mouse inputs using non-mouse devices.

Barnes & Noble has asserted that Microsoft asked for a remarkably high license fee at the meeting,⁷⁶ with the proposed fee amounting to more than what Microsoft was charging for its entire operating system for mobile devices. The meeting

⁷³ For an example of a common technique in patent licensing negotiation, *see generally* Jason Rantanen, *3M v. Avery: Walking the Line of Declaratory Judgment Jurisdiction*, PATENTLY-O, Mar. 29, 2012 (describing suit in which patent holder sent letter that a 3M product "may infringe" and that "licenses are available" but refused to provide claim chart information in the hopes of waving patents without giving the accused infringer sufficient cause to bring a declaratory judgment action to declare the patents invalid), *available at* <http://www.patentlyo.com/patent/2012/03/3m-v-avery-walking-the-line-of-declaratory-judgment-jurisdiction.html>.

⁷⁴ 35 U.S.C. § 112 (2006).

⁷⁵ B&N Answer (paragraph 18, lines 14-16).

⁷⁶ Letter from Gene DeFelice, Vice President, General Counsel & Secretary, Barnes & Noble, to James J. Tierney, Chief, Networks & Tech. Technology Enforcement Section Antitrust Div. Division, United States Department Dep't Department of Justice - Exhibit B (Apr. 25, 2011), *available at* <http://www.groklaw.net/articlebasic.php?story=201111122291296> (last visited Jan. 8, 2013).

was unsuccessful, and a few months later, Microsoft filed an infringement action against Barnes & Noble.⁷⁷

A year after the lawsuit was filed, the two parties announced a deal in which Microsoft would pay \$300 million dollars for a 17.6% stake in the Nook division. This gave the Nook division a desperately needed cash infusion.⁷⁸ As part of the deal, the parties agreed to settle their patent disputes and to produce a Nook application for Windows.⁷⁹

The sequence of events raises questions about the appropriate use of intellectual property. If the patents were indeed peripheral to the operating system, it is doubtful that their contribution to the Nook product constituted anything close to the value of an entire operating system. Asking for that amount, however, could have the effect of encouraging device makers to switch operating systems. If I can get the entire operating system for roughly what I have to pay for a few minor pieces of my current one, it would certainly make economic sense to switch. In that case, if the allegations are correct one could argue that the patent holder used minor patents to intimidate a competitor's customer and induce the customer to move to the patent holder's product. As a colleague noted wryly, this would be a marvelous way to attack a competing platform: threaten, litigate, drive down share price, buy company cheap, and get platform adopted.

Insistence on non-disclosure agreements raises serious concerns as well. As noted above, demanding confidentiality for what one claims is the territory covered by one's patent should be antithetical to the notice function of a patent in most circumstances. A confidentiality provision, however, may serve even more troubling aims. One could imagine that a non-disclosure agreement under such circumstances could be intended to shield inappropriate actions from view in an effort to protect the patent holder from potential antitrust charges. Cloaking one's actions in non-disclosure agreements makes it more difficult for public and private antitrust actors to make the necessary connections between different transactions that could reveal a pattern of anticompetitive conduct emerges. In that case, intellectual property is being used to shield anticompetitive behavior.

⁷⁷ In July 2010, Microsoft first met with Barnes & Noble to discuss patent issues related to the Nook. In December 2010, they met to discuss Microsoft's patent infringement claims against the Barnes & Noble Nook.

⁷⁸ Michael J. De La Merced & Julie Bosman, *Microsoft To Take Stake in Nook Unit of Barnes & Noble*, N.Y. TIMES (Apr. 30, 2012), <http://dealbook.nytimes.com/2012/04/30/microsoft-to-take-stake-in-barnes-nobles-nook-unit/> (last visited Jan. 8, 2013).

⁷⁹ See *id.*

This could be particularly problematic if the full picture of a scheme can only emerge across different transactions involving different parties. Under those circumstances, swearing each party to silence makes it very difficult for anyone to see the full picture. It may also delay recognition until the perpetrator's position is secured or the scheme is too far advanced for much to be done.

Judges themselves may be unwitting participants in this veil of silence. Courts seem to be quite willing to seal documents in these cases, reducing the ability of observers to see patterns of troubling behavior emerge across litigations.

The complexity and sophistication of modern patent schemes makes it particularly difficult for public and private antitrust actors to follow the trail. Not only are patent monetization entities transferring patents to operating companies so that the operating companies can use the patents in litigation, operating companies are also transferring their intellectual property to third-party monetization entities, sometimes as part of elaborate anticompetitive schemes.⁸⁰ Known as privateering, this practice can be an effective method of raising rival's costs and maintaining one's position on the marketplace. In this context, silence can help keep meddlesome government regulators and the private antitrust bar off your back.

Questionable requirements of silence are appearing in a variety of intellectual property contexts. Consider Intellectual Ventures, the largest and most secretive of the mass aggregators. Intellectual Ventures has assets of at least \$5 billion and is estimated to own the fifth largest patent portfolio of any domestic U.S. company.⁸¹ It has been extraordinarily difficult to get a picture of the entity and its activities, in part because of the more than 1,000 shell companies that Intellectual Ventures has established and, in part, because of the entity's non-disclosure agreements. Those who interact with Intellectual Ventures, either as investors, participants in its patent pools, or suppliers of patents, must sign strict non-disclosure agreements.

The entity's efforts to reign in disclosure appear to have been quite effective. As one reporter noted: "[W]e called people who had licensing arrangements with [In-

⁸⁰ For descriptions of "privateering" in the intellectual property world, that is, incentivizing third parties to attack one's enemies, see Ewing, *Indirect Exploitation*, and Ewing, *Practical Considerations*, *supra* note 24. For a detailed description of mass aggregators, often consisting of competitor groups, and anticompetitive concerns, see Ewing & Feldman, *supra* note 22. For additional stories on operating companies creating or interacting with monetizing entities, see Ashby Jones, *Patent "Troll" Tactics Spread*, WALL ST J. (Jul. 9, 2012) (describing how operating companies are spinning off technology to monetization entities to pursue patent claims against other companies); Andrew Tarantola, *Nokia Just Sold Hundreds of Its "Essential" Wireless Patents*, GIZMODO, Jan. 13, 2012, available at <http://gizmodo.com/5876068/nokia-just-sold-hundreds-of-its-essential-wireless-patents> (describing sale of Nokia patents to an aggressive monetization entity).

⁸¹ For a detailed description of Intellectual Ventures and other mass aggregators, see Ewing & Feldman, *supra* note 22.

lectual Ventures], we called people who were defendants in lawsuits involving [Intellectual Ventures] patents, we called every single company being sued by Oasis Research. No one would talk to us.”⁸²

Even more troubling, I spoke to one government regulator who said that at least some of the Intellectual Ventures agreements contain not only non-disclosure clauses, but also non-disparagement clauses. In other words, those who interact with Intellectual Ventures would not be permitted to say anything that is at all critical about the entity, regardless of whether the comments disclose any information about the business dealings. Not surprisingly, I have been unable to confirm whether the claim is accurate, but it does raise serious concerns even as a hypothetical. There would be something deeply disturbing if a large and powerful entity were able to use its vast intellectual property assets to silence potential criticism. Our current system would not stem this type of behavior.

A variation on the patent non-disparagement clauses has been noted in the copyright context as well. Hospitals and other health care providers operate through complicated health information technologies, often provided by outside vendors. The vendor contracts mandate that the hospital may not disclose errors, bugs, design flaws or other software-related hazards.⁸³ In other words, in order to use my copyrighted software, you must agree not to tell anyone about any problems in the software. Health care practitioners have expressed concern that they cannot even share information about errors in a program, such as the way a program calculates dosages or a patient weight, with other organizations they work with, even if those errors could lead to serious patient harm.⁸⁴

The problem of non-disparagement or do-not-criticize clauses is particularly disturbing in light of the origin of the power being exercised. In a society that prizes freedom of speech, it would be particularly troubling if intellectual property, created and granted by the sovereign, were being used to negotiate for, or even impose, restrictions on free flowing discourse.

Improper use of non-disclosure agreements is a good example of why a doctrine of inappropriate use of intellectual property would have to include all forms of

⁸² Alex Blumberg & Laura Sydell, *This American Life: When Patents Attack*, NAT'L PUB. RADIO, July 22, 2011, available at <http://www.npr.org/blogs/money/2011/07/25/138576167/when-patents-attack>.

⁸³ See Kenneth W. Goodman et al., *Challenges in Ethics, Safety, Best Practices and Oversight Regarding HIT Vendors, their Customers, and Patients: A Report of the AMIA Special Task Force*, 18 J. AM. MED. INFORMATICS ASS'N. 77 (2011).

⁸⁴ See *id.*; Ross Koppel & David Kreda, *Health Care Information Technology Vendors' "Hold Harmless" Clause: Implications for Patients and Clinicians*, 301 J. AM. MED. ASS'N. 1276, 1277-78 (2009).

intellectual property. Patent holders routinely draft contracts to cover not just the patent itself, but also trade secrets and things called “know-how” and “show-how.” Many of these contracts are drafted so that issues that have the potential of running afoul of patent laws are conveniently placed under trade secrets. Thus, without universal coverage of the notion of inappropriate use, parties would simply draft their contracts so that the non-disclosure clauses are justified for purposes unrelated to the patents.

B. Using Patent Schemes for Insulation

Perhaps one of the most useful aspects of patent monetization entities is that they create an offensive weapon that can be used against opposing parties without creating opportunities for the opposing parties to respond. Normally, if a company that actually makes a product wants to threaten patent litigation against another company that makes a product, there is a risk that the target will file counter-claims, waving its own patent portfolio and threatening the first company’s products. Thus, the most powerful position for launching a patent strike against another company is when one does not have any products at risk. Patent monetization entities are the perfect vehicles because they do not produce any products at all. An operating company can create a monetization entity with its intellectual property, drop the assets into it, and then allow the entity to go after targets – thereby insulating the company from any counter-offensive. These entities are the perfect attack dog, with little at risk in the way of either vulnerable products or other assets that could be attached if a court wanted to award attorneys fees or other penalties. Of course, all of this litigation certainly is not helping consumers.⁸⁵ Vast amounts of societal resources are wasted in the course of all of this positioning and patent battling.

Monetization entities not only insulate companies from patent counter-attacks, they may also insulate companies in other ways. For example, transferring intellectual property from a US subsidiary to a foreign parent can create a layer of protection against discovery. Courts have ruled that where the parent is a foreign corporation, even when the subsidiary is a US corporation, documentation in the hands of the parent are beyond the subpoena power in litigation, and the parties must proceed according to the Hague Convention.⁸⁶ One practitioner noted that they

⁸⁵ Josh Kosman, *Patently False: Critics Calling Out Deal by Microsoft & Nokia Over Anti-trust Alarms*, N.Y. POST, Sept. 15, 2011 (citing Michael Carrier), available at http://www.nypost.com/p/news/business/patently_false_E4uHQUF5XLDMMkgM7wb8K

⁸⁶ See, e.g., *Ethypharm S.A. France v. Abbott Labs, C.A. No. 08-126-SLR-MPT, Memorandum Order Regarding Discovery Matters* (D. Del. Nov. 15, 2010) at 11, available at <http://www.scribd.com/doc/43887138/Ethypharm-S-A-France-v-Abbott-Laboratories-C-A-No-08-126->

encountered this stumbling block when Sony and Nokia transferred their patents to a foreign monetization entity.⁸⁷

In addition, concerns have been raised about patent transfers that could have the effect of “laundering” the original patent holder’s commitments to a standards setting body.⁸⁸ When a particular patent constitutes an essential patent under a standards agreement, the patent holder generally must license the patent to all on fair, reasonable and nondiscriminatory terms, also known as “FRAND.” The standards setting body’s rules may also specify that the patent holder should ensure that its obligations carry forward with any assignment of the patent. This, however, may not always happen, and it is not clear, for example, that a bankruptcy court or trustee must require that patents transferred in bankruptcy continue to observe prior obligations to a standards setting body.⁸⁹

Similarly, although standards setting bodies may require that when patent holders transfer their essential patents, the transfer agreement specifies that the new owner will maintain the FRAND and other standards-related obligations of the prior owner, enforcement may be less than ideal.⁹⁰ For example the Institute of Electrical and Electronics Engineers Standards Association (“IEEE-SA”), a major electronics standards setting body in the United States, has the power to revoke a member’s privileges or even withdraw the member’s patent from the standard, if a member fails to comply with its obligations.⁹¹ This, however, may have little impact. A standard may already be so entrenched in the technology that revocation would have little effect.⁹² In addition, if a member has gone bankrupt or has otherwise left the field, revoking the member’s privileges may be irrelevant.

IEEE-SA could still have an impact on the party who has received the patent by withdrawing the patent from the standard, but again, this action is only effective if the standard is not already entrenched. Any further enforcement is left to other members, who have the right to bring suit, but a member must be willing individually to shoulder a burden from which all will benefit.

SLRMPT-D-Del-Nov-15-2010.

⁸⁷ See *infra* text accompanying note 184 (explaining the larger context of the transaction).

⁸⁸ Letter from Steve Mills, IEEE Standards Ass’n, to Donald S. Clark, Secretary, Fed. Trade Comm’n, Association - Re: Patent Standards Workshop, Project No. P11 1204, (Aug. 5, 2011) [hereinafter IEEE Letter], available at <http://www.ftc.gov/os/comments/patentstandardsworkshop/00046-80184.pdf> (last visited Jan. 8, 2013), at 8.

⁸⁹ See *id.* at 9.

⁹⁰ For an example of avoiding FRAND commitments through transfer of patents, see *supra* note 39.

⁹¹ For a description of IEEE compliance mechanisms, see *id.* at 7.

⁹² *Id.*

C. Unsavory Pressure Tactics

A variety of unsavory pressure tactics have developed along with the patent monetization mania. For example, in May of 2011, an intellectual property blog posted a copy of a letter to the FBI from the owner of a Russian company, Kaspersky Labs.⁹³ The letter asked that the FBI file criminal charges against a mass aggregator, RPX, for extortion, mail or wire fraud, and racketeering. According to the letter, Kaspersky Labs and 23 other companies had been sued by a patent troll. During the lawsuit, patent aggregator RPX emailed Kaspersky saying that it had acquired the patents in the lawsuit. It offered to release Kaspersky from the suit in exchange for a 3-year membership in RPX at a cost of \$160,000 a year.

Kaspersky asserts that in the months that followed, it received more letters and emails from RPX, ratcheting up the pressure to join. RPX noted that other defendants in the suit had joined, and that the deadline to join would soon expire. It explained that if Kaspersky did not join, RPX would make these and other patents from its pool available to others who had already joined RPX. Thus, if those other RPX members were ever in a dispute against Kaspersky, they would be able to assert the RPX patents against Kaspersky.

Finally, RPX noted that although it had pledged not to use any of its patents offensively, it could always transfer its patents to third parties—presumably nasty, aggressive third parties—who would use those patents to file offensive infringement lawsuits. Of course, the only people that the nasty, aggressive third parties would be allowed to sue would be non-RPX members, because RPX would secure a license for all of its members before the transfer. Conveniently, most of Kaspersky's competitors were already RPX members, so if Kaspersky did not join, Kaspersky would be left holding the bag.

If the letter is accurate, who could blame the Russian company for imagining that it was the victim of a racketeering scheme. The sad part is that these and other types of squeeze tactics are threatening to become the norm in intellectual property interactions in this country.

Other types of unsavory pressure tactics revolve around taking advantage of the timing of our ever-fickle stock market. In July of 2012, for example, Yahoo settled a patent litigation that it had filed against Facebook shortly before Facebook planned

⁹³ See Patrick, *Patent Aggregator RPX Accused of Extortion, Racketeering & Wire Fraud*, GAMETIME IP (May 31, 2011), <http://gametimeip.com/2011/05/31/patent-aggregator-rpx-accused-of-extortion-racketeering-wire-fraud/> (last visited Jan. 8, 2013).

to go public.⁹⁴ No money changed hands in the settlement, although the parties did agree to expand an existing partnership, as well as to further integrate Facebook's tools into Yahoo's content pages. News reports noted that when the lawsuit was filed, technology commentators criticized Yahoo for behaving like a patent troll and simply looking for a big payday.⁹⁵

In reporting on the settlement, the New York Times hinted broadly that Yahoo had benefitted from patent suits and IPO timing in the past. The article noted that in 2003, Yahoo purchased Overture, a search engine technology company that had sued Google for patent infringement.⁹⁶ A year later, Google paid 2.7 million shares of its stock, settling the case before its IPO.⁹⁷

This is certainly not the only example of coordinating patent filings with stock market timing. Other companies appear to have benefitted from patent suits timed in conjunction with IPOs, purchase offers and other significant events.⁹⁸

The topic of questionable pressure tactics provides a perfect bridge from patents to other types of intellectual property. Although most of the article focuses on copyrights and patents, trade secrets have their own history of unsavory pressure tactics. A common improper use of trade secrets involves bringing a weak or even meritless trade secret claim against a former employee or former business partner to keep that person from competing against you. There have been a number of cases around the country in which the trade secret plaintiff, at the end of the day, had to pay fees and/or costs to the defendant for bringing a claim when a reasonable party should have known that the claim could not be established.⁹⁹ Such fees are somewhat of a deterrent, but much damage can be done long before parties get to that point, and many parties are not able to afford to follow a suit all the way through. In addition, the relatively low risk of having fees or costs assessed by a court may be a small price to pay for the intimidation effect that may keep an employee from even recognizing that the company is asserting a weak claim.

⁹⁴ See Michael J. De La Merced, *Yahoo and Facebook Settle Patent Lawsuits*, N.Y. TIMES (Jul. 6, 2012), <http://dealbook.nytimes.com/2012/07/06/yahoo-and-facebook-said-to-settle-patent-lawsuits/>.

⁹⁵ *Id.*

⁹⁶ See *Overture Services, Inc. v. Google Inc.*, Justia Dockets Filings (Apr. 23, 2002), available at <http://dockets.justia.com/docket/california/candce/3:2002cv01991/6770/> (last visited Jan. 8, 2013).

⁹⁷ *See id.*

⁹⁸ Ewing, *Indirect Exploitation*, *supra* note 24; see also *infra* text accompanying notes 120 - 122 (describing the j2 Global antitrust allegations).

⁹⁹ See, e.g., *Degussa Admixtures, Inc. v. Burnett*, 471 F. Supp. 2d 848 (W.D. Mich. 2007); *Digital Envoy, Inc. v. Google, Inc.*, 370 F. Supp. 2d 1025 (N.D. Cal. 2005); *SASCO v. Rosendin Elec., Inc.*, 207 Cal. App. 4th 837 (2012); *HD Net LLC v. North American Boxing Council*, 972 N. E. 2d 920 (Ind. Ct. App. 2012); *FLIR Systems, Inc. v. Parrish*, 174 Cal. App. 4th 1270 (2009).

As described above, society might be concerned about such tactics even outside of large and powerful entities. Intellectual property rights holders are able to use uncertainty, an expensive resolution process, and the possibility of out-sized remedies to amplify the power of their rights. Thus, even smaller entities who might not otherwise have power in a particular market may still be able to use their intellectual property in ways that allow them to hide embarrassing or illegal conduct, harass competitors, or pressure others into surrendering their rights. The ones that make it to court, not to mention the ones that make it all the way to a judgment, are a small sample of the entire pool.

Unsavory pressure tactics are appearing in conjunction with copyright claims as well as patent and trade secret claims. For example, a San Francisco law firm, has acquired copyrights to a number of pornographic movies.¹⁰⁰ The firm uses digital tools such as the torrent infringement tracker at www.youhavedownloaded.com to find people infringing the copyright. Prenda Law then sends a letter demanding that the infringers pay a thousand dollar fine or defend themselves in court.

Needless to say, a number of alleged infringers have chosen to pay quickly and quietly, regardless of whether the accusation had any merit. One might suspect that the accused infringers are motivated, not by potential embarrassment of an accusation of illegal downloading, but rather by the potential embarrassment of any association with pornography.

Copyright porn trolling is appearing in a variety of forms. For example, there are reports that mass copyright litigation against file sharing, which was pioneered by the recording industry, is now shifting toward litigation against sharing of pornography, although the cases are encountering some resistance in the courts.¹⁰¹

An odd variation on the intersection of copyright and pornography is the website incautious.org. [Incautious.org](http://incautious.org) claims to have harvested “public comments” posted on sexually-oriented websites in which users left their phone numbers and explicit comments for performers. The comments and phone numbers are then turned into paintings, which are offered for sale at 50 euros each. Presumably, the

¹⁰⁰ *Suits Against Individuals*, PRENDA LAW INC., <http://wefightpiracy.com/suits-against-individuals.php> (last visited Jan. 8, 2013); see also Megan Guess, *Angry Judge Blasts Port Trolls: “Someone Has an Awful Lot to Hide,”* ARS TECHNICA, Mar. 11, 2013, available at <http://arstechnica.com/tech-policy/2013/03/angry-judge-blasts-porn-trolls-someone-has-an-awful-lot-to-hide/>.

¹⁰¹ See Timothy B. Lee, *Judge Rejects Copyright Trolls’ BitTorrent Conspiracy Theory*, ARS TECHNICA, Apr. 1, 2012, available at <http://arstechnica.com/tech-policy/2012/04/judge-rejects-copyright-trolls-bittorrent-conspiracy-theory/>.

primary customer for the supposed artwork would be the person wishing to prevent publication of his or her phone number.

It is unclear whether the website is a joke, a parody, or a serious endeavor to extract money. It could also be an effort to raise awareness about privacy, along the lines of the website PleaseRobMe.com, which tried to alert Twitter users to the dangers of telling a wide audience where they were, and by implication, that their home was empty. Nevertheless, it is a reminder of what unscrupulous players can attempt to do in the modern digital world.

D. Fishing for Infringers

Although not at the scale or level of complexity as patent, copyright also is beginning to experience a variety of trolling behavior outside of the pornographic industry.¹⁰² Consider the case of Righthaven. Righthaven was a copyright monetization entity involving newspaper rights. Founded in 2010 by a Las Vegas attorney and an investment banker, Righthaven partnered with newspaper companies and acquired newspaper copyrights that it enforced by suing bloggers who quoted the newspaper content on the web.¹⁰³ Although a fair use defense might have been available, many defendants were willing to settle for a few thousand dollars rather than risk a long and expensive litigation. Righthaven's business initially flourished, collecting over \$300,000.¹⁰⁴ Righthaven also collected a number of domain names and trademarks through its settlements. Although the purpose for acquiring these is unclear, one might speculate that Righthaven intended to use them in further intellectual property monetization schemes.

Righthaven's luck came to an end when its aggressive tactics attracted the attention of public interest group Electronic Freedom Foundation, which stepped in to represent some of the defendants. The monetizer's fortunes really took a turn for the worse, however, when it began lying to a federal judge and refusing to follow court orders. Eventually, Righthaven forfeited its assets to pay outstanding fines, and the company's primary attorney has been barred from practicing in Federal Court, pending a Nevada Attorney Disciplinary Hearing.

¹⁰² For additional discussions of modern copyright mass litigation and trolling concerns, see James DeBriyn, *Shedding Light on Copyright Trolls: An Analysis of Mass Copyright Litigation in the Age of Statutory Damages*, 19 UCLA ENT. L. REV. 79 (2012); Tim Wu, *Jay-Z Versus the Sample Troll: The Shady One-man Corporation That's Destroying Hip-hop*, SLATE (Nov. 16, 2006), <http://www.slate.com/id/2153961/>.

¹⁰³ Ian Polonsky, *You Can't Go Home Again: The Righthaven Cases and Copyright Trolling on the Internet*, 36 COLUM. J.L. & ARTS 71, 78 (2012).

¹⁰⁴ *Id.* at 80.

Copyright trolling, however, has reached into far more respectable corners. For example, some scientific publishers have begun suing patent attorneys for copyright infringement based on the fact that the attorneys must have submitted copies of copyrighted journals as part of patent applications.¹⁰⁵ Patent attorneys are required by the Patent & Trademark Office to submit physical copies of relevant articles from academic journals. Apparently, the firms already pay for on-line access to the journals and the Patent and Trademark Office has access to most of the articles as well. The publishers are suing on the grounds that the physical copy that was attached to the application constitutes an infringing copy.¹⁰⁶

One academic journal acknowledged that its research into the infringement activity consists of "trolling through USPTO records."¹⁰⁷ When an article of theirs is cited, the journal checks to see if the firm has licensed more than one copy of the article. The journal then sues those who have not, knowing that the firm will have submitted a copy to the PTO, as well as keeping a copy of the filing for itself, and that copies of the article also reside on the firm's computers.

The US Patent Office has issued a memo arguing that copies submitted as part of a patent application constitute fair use.¹⁰⁸ Nevertheless, the actions are moving forward.

Changes in technological know-how may accelerate this type of copyright trolling. Legal Informatics, which is the study of the structure and properties of information, as well as the application to the organization, storage, retrieval, and dissemination of information, is poised to take off at an explosive pace in the coming years.¹⁰⁹ As greater amounts of data are electronically stored, and as data mining techniques improve, intellectual property monetizers, those pursuing both patent and copyright claims, may find all types of approaches for exploiting the data. For

¹⁰⁵ See *Copyright: Law Firms Sued for Submitting Prior Art to the USPTO*, PATENTLY-O, Mar. 2, 2012, available at <http://www.patentlyo.com/patent/2012/03/copyright-lawfirms-sued-for-submitting-prior-art-to-the-uspto.html>; see also *American Institute of Physics Wiley Physics v. McDonnell Boehnen Hulbert & Berghoff (MBHB)*, No. 12 C 1446, 2013 WL 505252 (N.D. Ill. 2013).

¹⁰⁶ See *id.*

¹⁰⁷ "Trolling through USPTO records" is the typical language used in a cease and desist letter. See *The New Choice: Inequitable Conduct or Copyright Infringement*, PATENTLY-O, Jan. 23, 2012, available at <http://www.patentlyo.com/patent/2012/01/copyright-license-for-ids-submissions.html> (last visited Jan. 8, 2013).

¹⁰⁸ See *id.*; see also Bernard J. Knight, *USPTO Position on Fair Use of Copies of NPL Made in Patent Examination*, Jan. 19, 2011, available at http://www.uspto.gov/about/offices/ogc/USPTOPositiononFairUse_of_CopiesofNPLMadeinPatentExamination.pdf (last visited Jan. 8, 2013).

¹⁰⁹ Sanda Erdelez & Sheila O'Hare, *Legal Informatics: Application of Information Technology in Law*, 32 ANN. REV. INFO. SCI. & TECH. 367, 367 (1997).

example, consider all of the information that is generated publicly with any lawsuit—from depositions, to expert testimony, to exhibits. Much of that information is in the public record. Once it can be sufficiently mined, monetization entities can sift for evidence of innumerable types of copyright and patent claims.

In drafting this article, I strongly considered eliminating the prior paragraph. I worry that it could provide the spark that encourages monetization entities to head in the direction of data mining and legal informatics—making me an unwilling catalyst for activities that are harmful to innovation and waste society's resources. Nevertheless, having heard a number of my students discuss the potential within this area, I concluded that it is better to initiate the discussion and hope that courts and legislatures will take advantage of the potential to move ahead of, or at least be prepared for, the phenomenon.

E. Choosing Vulnerable Targets

Some modern monetizers have made a practice of targeting those who have little information about the patents at issue and little ability or incentive to do anything but pay up. For example, one technology blog documents a licensing campaign brought by a company called Project Paperless.¹¹⁰ Project Paperless sent letters to small companies demanding license fees for using common office equipment for scanning and emailing documents. The letter essentially told targets that if they use a scanner or a copier with scanner capabilities to scan a document directly to an employee's email as a PDF, they are infringing Project Paperless's patents and must pay a license fee.¹¹¹

The technology blog found demand letters from Project Paperless and its successors demanding license fees that ranged from \$900 to \$1,200 a person. The blog noted that the Project Paperless patents have been transferred to a network of at least eight different shell companies, which are sending out numerous demand letters to small businesses from New Hampshire to Minnesota.

Targeting small businesses in this way makes it unlikely that very many of them will fight back, although the technology blog describes one target that did. In general, a small business will know nothing about patents related to scanning. More-

¹¹⁰See Joe Mullin, *Patent Trolls Want \$1,000 – For Using Scanners*, ARS TECHNICA, Jan. 2, 2013, available at <http://arstechnica.com/tech-policy/2013/01/patent-trolls-want-1000-for-using-scanners/>.

¹¹¹See *id.* (reproducing one of the demand letters from a successor in interest to Project Paperless).

over, with the average cost of a patent suit in the range of one to five million dollars, a small business would have little choice but to pay.¹¹²

The Wall Street Journal reported on a similar scheme by a Chicago-based monetizer, Innovatio IP Ventures.¹¹³ Innovatio has sent 8,000 letters to restaurants, hotels and retailers who use WiFi equipment made by companies such as Cisco. Targeting customers, who are unlikely to know much about WiFi equipment and are less likely to have the incentive to resist a demand, is more appealing than going after Cisco itself, although Cisco has tried to fight back on behalf of its customers.¹¹⁴

Although choosing smaller, more vulnerable end-users may be a fruitful method of patent assertion, choosing larger end-users may provide a method of increasing one's revenue from patent assertion, as well. For example, if patent remedies are measured in relation to the revenue from the product sold, and the settlement value is based on the potential costs and risks of the lawsuit, larger businesses are a better target. For example, suppose I am a small supplier of software with annual revenues of \$50 million. The potential remedy that a patent holder can obtain by suing me, and thus the value of the threat, will be limited to my revenues. However, suppose I sell my software to major brokerage houses whose total revenue is \$500 million a year. The potential threat of a portion of the larger revenue may increase the settlement value. In addition, as with unbundling patent portfolios, multiplying the number of lawsuits multiplies the total amount of costs imposed, also increasing the settlement return. Thus, targeting end-users can be magnify returns more effectively than targeting a single manufacturer.

¹¹² See, e.g., Matthew Sag & Kurt Rohde, *Patent Reform and Differential Impact*, 8 MINN. J.L. SCI. & TECH. 1, 32 (2007) (citing AM. INTELLECTUAL PROP. LAW ASS'N, REPORT OF THE ECONOMIC SURVEY 22 (2005)) (noting that an "American Intellectual Property Law Association Economic Survey places the average cost of patent litigation at around \$650,000 for a low valued patent and up to \$4.5 million for a higher value patent"); Richard S. Gruner, *How High Is Too High?: Reflections on the Sources and Meaning of Claim Construction Reversal Rates at the Federal Circuit*, 43 LOY. L.A. L. REV. 981, 1027 (2010) (citing AM. INTELLECTUAL PROP. LAW ASS'N, REPORT OF THE ECONOMIC SURVEY 25 (2007)) ("The American Intellectual Property Law Association has estimated that the average cost of preparing a patent case to the completion of the discovery phase (but not through the end of the related trial) is approximately \$5,000,000 for a high-damages case.")

¹¹³ See Ashby Jones, *Cisco Calls Patent Trolls Racketeers*, WALL ST. J. (Nov. 11, 2012) (describing lawsuit filed by Cisco), available at <http://online.wsj.com/article/SB10001424127887324073504578113082258844080.html>. But see Jan Wolfe, *Judge Tosses Cisco's RICO Claims Over NPE's Patent Licensing Campaign*, AM. LAW LITIG. DAILY (2013), available at http://www.americanlawyer.com/digestTAL.jsp?id=1202587118199&Judge_Tosses_Ciscos_RICO_Claims_over_NPEs_Patent_Licensing_Campaign&slreturn=20130106010710 (noting dismissal of the RICO claims while allowing the contract claims related to standard essential patents to remain).

¹¹⁴ See *id.*

A more sophisticated and interesting variation on the theme of “choosing one’s targets wisely” can be seen with the patent assertion history of j2 Global. j2 Global began as an electronic fax company, which has now expanded into cloud storage and other services.¹¹⁵ The company’s history of assertion and acquisition is particularly notable.

In 2006 and 2007, four sets of antitrust claims were filed against j2 Global and its patent-holding subsidiary Catch Curve. For purposes of discussing these suits, I will generally refer to j2 Global and its subsidiary as “j2 Global.”¹¹⁶ The antitrust allegations were filed by various private parties, either as initial lawsuits or as counterclaims in defense of patent infringement suits brought by j2 Global.¹¹⁷

The four antitrust suits describe activities in the market for Internet fax services for small and home offices. In this market, companies provide their customers with a fax number and server functions so that the customers can send and receive fax messages directly from their computers.¹¹⁸ According to the allegations, j2 Global acquired a set of patents in 2005 that related to allowing telephone switchboard services to store and receive faxes when the line was busy.¹¹⁹ At the time the patent applications were filed, faxing took place across telephone lines, and according to one of the complaints, the inventors admitted that they did not conceive of faxing over anything by telephone lines.

Once the company had acquired the patents, j2 Global began extensively asserting the patents against competitors in the Internet fax market through licensing demand letters and patent infringement suits. The behaviors alleged in the antitrust complaints are troubling. For example, one complaint alleged that j2 Global filed its

¹¹⁵ For a description of j2 Global’s business in 2008, see a company press release at <http://investor.j2global.com/releasedetail.cfm?ReleaseID=318866>. For a description of its current lines of business, including electronic faxing and cloud storage, see the company’s website at <http://www.j2global.com/productOverview>.

¹¹⁶ I will also use the j2 Global designation to refer to j2Global’s predecessor company.

¹¹⁷ Three of the sets of the antitrust claims were filed by competitors – Venali, IDG and Go Daddy. The fourth was filed as a class action by a customer of Internet fax services claiming injury through elevated prices and reduced competition in the market. See *Catch Curve, Inc. v. Venali, Inc.*, 519 F. Supp. 2d 1028 (C.D. Cal. 2007) (denying motion to dismiss antitrust counterclaims); *Go Daddy Group Inc., v. j2 Global Comms., et al*, No. 2:06-cv-02474-NVW (D.C. AZ 2006) (initial action for antitrust and declaratory judgment of noninfringement); *Integrated Global Concepts, Inc., v. j2 Global Comms., Inc., et al* No. 07CV3494 (N.D. Ill. 2007) (initial suit alleging antitrust and other violation); *Justin Lynch v. j2 Global Comms., Inc., et al*, No. CV-07-4304 DDP-(MANx) (C.D. Cal 2007) (class action).

¹¹⁸ *Integrated Global Concepts, Inc., v. j2 Global, et al.*, *supra* note 117 (complaint at p. 2) [hereinafter IGC Complaint].

¹¹⁹ The 2005 acquisition was made by the predecessor company to j2 Global, which is described in this article within the “j2 Global” designation. See IGC Complaint, *supra* note 118 (p. 22); *supra* note 116 (for explanation of the collective name “j2 Global”).

patent infringement lawsuit against a competitor to coincide with the competitor's initial public offering, in an effort to reduce the amount of capital that the competitor would be able to raise.¹²⁰ Behavior alleged in other suits included 1) disrupting a competitor's joint venture that would have allowed the competitor to offer its product to a hundred million users; 2) intimidating a competitor's customers by threatening to sue them; and 3) filing patent infringement lawsuits against three competitors three weeks after the competitors objected when j2 Global tried to trademark a word that they believed was generic; and 4) refusing to lower the licensing price when a licensing target would only license part of the portfolio (in other words saying, you can license fewer of our patents, but it will cost you the same price).¹²¹ All four of the suits alleged a pattern of aggressive behavior, unsupportable patent interpretations, and intimidation aimed at a broad array of competitors.¹²²

The factual record is limited in the j2 Global antitrust cases. Of the four sets of antitrust claims, only *Venali* has proceeded as far as summary judgment, where it was dismissed for failure to overcome the stringent immunity from antitrust liability

¹²⁰See *Go Daddy Group Inc., v. j2 Global Comms., et al*, No. 2:06-cv-02474-NVW (D.C. AZ 2006) (complaint filed Oct 17, 2006 at p. 14).

¹²¹See *Catch Curve, Inc. v. Venali, Inc.*, 519 F. Supp. 2d 1028 (C.D. CA 2007); *Integrated Global Concepts, Inc., v. j2 Global Comms., Inc., et al* No. 07CV3494 (N.D. Ill 2007) (complaint filed Oct 17, 2006 at p. 28) (allegations related to trademark dispute); *Go Daddy Group Inc., v. j2 Global Comms., et al*, No. 2:06-cv-02474-NVW (D.C. AZ 2006) (complaint filed Oct. 17, 2006 at p. 14-15) (describing joint venture disruption and customer threats in relation to Venali); *Justin Lynch v. j2 Global Comms., Inc., et al*, No. CV-07-4304 DDP-(MANx) (C.D. CA 2007) (complaint filed Aug. 1, 2007 at p. 13) (describing issues regarding pricing of whole or part of patents in relation to Venali).

¹²²*VenaliInc's Amended Counterclaim at 4, Catch Curve, Inc. v. Venali, Inc.*, 519 F. Supp. 2d 1028 (C.D. CA 2007) (No. CV 05-4820 DDP AJW) ("j2 has caused multiple objectively baseless lawsuits to be filed against its competitors to force them to spend precious time, energy and money in order to defend themselves. In the process of waging these bad faith and anticompetitive lawsuits, j2 and Catch Curve intimidate and harass the customers of j2's competitors by notifying them of the patent lawsuits and, in some cases, threatening to include the customers in the lawsuits."); Complaint at 3-4, *Integrated Global Concepts, Inc., v. j2 Global Comms., Inc., et al*, 2007 WL 1849948 (N.D. Ill 2007) (No. 07CV3494) ("j2 and other defendants have within the past four years waged a fraudulent and vicious campaign to intimidate providers of Internet facsimile services into paying money to j2 and/or Catch Curve for licenses of patents that the defendants know do not cover the competitors' activities but to achieve a settlement which costs less than litigating the issues."); Complaint at 2-3, *Go Daddy Group Inc., v. j2 Global Comms., et al*, 2006 WL 5125608 (D.C. AZ 2006) (No. 2:06-cv-02474-NVW) ("j2 has sought to remain the dominant provider not by offering a better, more attractive service at a competitive price, but by waging a campaign of acquisition, intimidation, and litigation designed to raise its rivals' costs or prevent them from offering competitive services altogether. . . j2 and Catch Curve have waged a vicious campaign to intimidate providers of internet facsimile services to pay j2 and Catch Curve for licenses to groups of patents that do not cover the competitors' activities."); *Justin Lynch v. j2 Global Comms., Inc., et al*, No. CV-07-4304 DDP-(MANx) (C.D. CA 2007).

that exists for filing lawsuits.¹²³ However, working from j2Global's own filings and press releases, as well as the few published decisions in the cases, the following information emerges.

First, j2 Global has sued a striking number of its competitors, and many, although not all, of the lawsuits were against relatively small competitors.¹²⁴ J2 Global argues that most of the companies offering Internet fax services have modest revenues, which limits the potential damages and makes it economically sensible for the parties to settle for relatively small amounts.¹²⁵ Nevertheless, suing small companies has the happy coincidence of ensuring that most will be unable to fight back, given that patent litigation can cost 1-5 million dollars.¹²⁶ For a small revenue company, it is difficult to justify that type of expenditure – and even more difficult to find a patent litigator willing to take your case.¹²⁷

In addition to its wide-ranging assertion campaign, j2 Global also has had a remarkably large appetite for acquiring competitors and related companies, both here and abroad. A quick search of press reports as well as j2 Global's releases shows j2 Global acquiring more than 20 companies, including acquisitions in Canada, the UK, Ireland, Europe, Hong Kong, and Australia.¹²⁸ Some of the companies acquired

¹²³ See *infra* text accompanying notes 171-183 (describing immunity from antitrust liability for petitioning the government).

¹²⁴ See, e.g., j2 Global, Inc. v. Integrated Global Concepts, Inc., No. CV 12-03439 DDP, 2012 WL 1551356 (C.D. Cal. Apr. 20, 2012); j2 Global Commc'ns Inc. v. Captaris Inc., No. CV 09-04150 DDP, 2009 WL 4615851 (C.D. Cal. Sept. 15, 2009) (Captaris and Open Tex Corp. named as defendants); j2 Global Commc'ns Inc. v. Protus IP Solutions Inc., No. CV 09-04146 (C.D. Cal. June 11, 2009); MXGO Technologies Incvs 1 & 1 Mail & Media Inc., No. CV 11-00413 (E.D. Tex. Sept. 15, 2011) (GoDaddy named as a defendant); j2 Global Commc'ns Inc. v. EasyTel.Net, No. CV 05-05785 (C.D. Cal. Aug. 9, 2005).

¹²⁵ See *Catch Curve, Inc. v. Venali, Inc.*, 2008 WL 5152076 (C.D. Cal.) (Catch Curve, Inc. and j2 Global Comms, Inc.'s Reply Memo. of Points & Authorities in Support of Their Motion for Partial Summary Judgment, September 30, 2008 at pp 15-16).

¹²⁶ See, e.g., *Sag & Rohde*, *supra* note 112; *Gruner*, *supra* note 112.

¹²⁷ One could speculate, although it would be purely speculation, that the company tried going after larger targets, found it too difficult to get anything out of them, and along the way, learned that going after smaller entities was much more effective.

¹²⁸ See *Venali*, <http://www.linkedin.com/company/venali> (last visited Mar. 23, 2013); j2 Global Acquires Australia-Based Zintel Communications, j2 Global, <http://investor.j2global.com/releasedetailRLR.cfm?ReleaseID=653072> (last visited Mar. 23, 2013); j2 Global Acquires Cloud-Based CRM Provider Landslide Technologies, Inc., j2 Global (Feb. 6, 2012), <http://investor.j2global.com/releasedetail.cfm?releaseid=646253>; j2 Global Acquires Zimo Communications Ltd. and Its Numberstore™ Cloud Voice Service, j2 Global (Feb. 16, 2012), <http://investor.j2global.com/releasedetail.cfm?releaseid=649119>; j2 Global Acquires Offsite Backup Solutions, LLC, j2 Global (Jan. 23, 2012), <http://investor.j2global.com/releasedetail.cfm?releaseid=641499>; j2 Global Acquires Data Haven Limited, j2 Global (July 11, 2011), <http://investor.j2global.com/releasedetail.cfm?releaseid=590305>; j2 Global Inc (JCOM.OQ), <http://www.reuters.com/finance/stocks/companyOfficers?symbol=JCOM.OQ> (last visited

were ones that J2 Global had previously sued for patent infringement,¹²⁹ raising the question of whether the lawsuits and patent assertions could have played a role in reducing the price, distracting management, or otherwise disadvantaging a target prior to purchase. In particular, j2 Global has been able to acquire some of the companies that have created the greatest headaches for them, including two of the three companies that purportedly objected to j2 Global's trademark filing as well as Venali. (Venali had filed antitrust claims,¹³⁰ which were dismissed on summary judgment, and was eventually successful in proving that j2 Global's [AudioFAX] patents related only to telephone fax systems and not to Venali's Internet fax services.)¹³¹ The indi-

Mar. 23, 2013) (j2 Global acquires eFax); j2 Global Acquires UK Voice Provider, Alban Telecom Limited, j2 Global (July 26, 2010), <http://investor.j2global.com/releasedetail.cfm?ReleaseID=491961>; j2 Global Communications, Inc. Acquires keepITsafe, j2 Global (Oct. 21, 2010), <http://investor.j2global.com/releasedetail.cfm?ReleaseID=521177>; j2 Global Acquires Unified Messaging and Communications Business of mBox Pty, Ltd., j2 Global (Apr. 1, 2010), <http://investor.j2global.com/releasedetail.cfm?ReleaseID=456271>; j2 Global Acquires Phone People Holdings Corporation, j2 Global (May 15, 2008), <http://investor.j2global.com/releasedetail.cfm?ReleaseID=310517>; j2 Global Acquires Onebox Unified Communications Assets From Call Sciences, j2 Global (Aug. 9, 2004), <http://investor.j2global.com/releasedetail.cfm?ReleaseID=197185>; j2 Global Acquires RapidFax Business from Easylink Services International, j2 Global (Dec. 13, 2007), <http://investor.j2global.com/releasedetail.cfm?ReleaseID=281668>; j2 Global Acquires Digital Faxing Business of Mediaburst Limited, j2 Global (June 4, 2008), <http://investor.j2global.com/releasedetail.cfm?ReleaseID=313749>; j2 Global Acquires MailWise and Mijanda, j2 Global (Dec. 1, 2008), <http://investor.j2global.com/releasedetail.cfm?ReleaseID=351115>; j2 Global Acquires YAC Limited, j2 Global (July 19, 2007), <http://investor.j2global.com/releasedetail.cfm?ReleaseID=255199>; j2 Global Acquires Data On Call Assets, j2 Global (July 6, 2005), <http://investor.j2global.com/releasedetail.cfm?ReleaseID=197161>; j2 Global Acquires CallWave Internet Fax Assets, j2 Global (Feb. 25, 2009), <http://investor.j2global.com/releasedetail.cfm?ReleaseID=197161>; j2 Global Communications To Acquire The Electric Mail Company, Global Growth Partners, http://www.globalgrowthpartners.com/pdf/j2_Global_Communications_To_Acquire_The_Electric_Mail_Company.pdf (last visited Mar. 23, 2013); j2 Global, <http://www.answers.com/topic/j2-global-communications> (last visited Mar. 23, 2013) (j2 Global acquires Cyberbox of Hong Kong, M4Internet, and Unifax).

¹²⁹ See *j2 Global Commc'ns Inc. v. Venali Inc.*, No. CV 04-01172 (C.D. Cal. Feb. 20, 2004); *j2 Global Commc'ns Inc. v. EasyLinkServs. Int'l Corp.*, No. CV 08-00263 (E.D. Tex. June 26, 2008); *j2 Global Commc'ns Inc. v. Mijanda Inc.*, No. CV 05-05300 (C.D. Cal. July 21, 2005).

¹³⁰ According to assertions in another antitrust case, Venali had argued among other things that j2Global's initial patent assertions represented a veiled acquisition attempt. See *Justin Lynch v. j2 Global Comms., Inc., et al*, No. CV-07-4304 DDP-(MANx) (C.D. Cal. 2007) (complaint filed June 29, 2007 at p. 12).

¹³¹ For the non-precedential Federal Circuit opinion upholding the district court's summary judgment of non-infringement, see *Catch Curve, Inc. v. Venali, Inc.*, 363 F. App'x 19 (Fed. Cir. 2010).

vidual company acquisitions, as well as other asset acquisitions, do not appear to have been significant enough to trigger FTC or DOJ reporting requirements.

A fascinating point in the lawsuits concerns the varying interpretations of some of j2 Global's key patents. Prior to acquiring the telephone switchboard patents, j2 Global was sued by the former owner of those patents. In that litigation, j2 Global denied that the telephone switchboard patents could apply to Internet faxing,¹³² which uses entirely different technology and has no issues about needing to store information because the fax line is busy. After settling that lawsuit, j2Global acquired the telephone switchboard patents and began asserting them against competitors on the theory that the patents did, indeed, apply to Internet faxing.

As j2 Global points out in one of its briefs, when one is sued by a patent holder, it is standard practice to deny that the patent applies to one's product.¹³³ Nevertheless, some court decisions have agreed that the telephone switchboard patents do not apply to Internet faxing. For example, the Federal Circuit in the Venali case agreed with the district court that "for a machine to be a 'fax' machine that sends 'fax' messages, it must use a certain protocol Otherwise, nothing distinguishes these machines from any other machine used for communication."¹³⁴

The broad reach asserted with the telephone switchboard patents is troubling, as is the type of patent. I have written about such method patent before, in which broad prose language is used to describe the invention, without describing the particular way in which the inventor has solved the problem or limiting what the inventor is claiming as territory.¹³⁵

For example, one of the claims says little more than "a method of delivering a facsimile image" that involves assigning phone numbers on a telephone switchboard to intended recipients, "answering at the call handling facility the received telephone call and interacting using the facsimile protocol" and "directing the fax message to one of the destinations selected from the group consisting of (i) a mailbox . . . and (ii) a fax receiving device."¹³⁶ This type of language is standard in certain patent areas, and its broad, nonspecific wording can provide extraordinary reach without much of a knowledge contribution.

¹³² See *Catch Curve, Inc. v. Venali, Inc.*, *supra* note 125 (brief at p. 13).

¹³³ See *id.*

¹³⁴ See *Catch Curve, Inc. v. Venali, Inc.*, 363 F. App'x 19, 22 (Fed. Cir. 2010).

¹³⁵ See FELDMAN, *supra* note 19, at 111-13, 130-35. Mark Lemley refers to this as "functional claiming." Mark Lemley, *Software Patents and the Return of Functional Claiming* 7 (Stanford Pub. Law, Working Paper No. 2117302, 2012), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2117302.

¹³⁶ See *Catch Curve, Inc. v. Venali, Inc.*, 363 F. App'x 19, 22 (Fed. Cir. 2010), at 3-4 (reproducing one of the claims).

As described above, the district court in *Venali* dismissed Venali's antitrust claims against j2 Global on summary judgment, ruling that Venali could not overcome the stringent immunity from antitrust liability that exists for filing lawsuits. One part of the summary judgment decision is particularly striking. The court felt that although prior suits were not resolved by a court or jury on the merits and no prior court had construed any of the patent claims, the fact that prior cases had ended in settlements should be considered "litigation success."¹³⁷ The court reasoned that because patent owners seek an injunction or damages through an infringement suit, the fact that defendants paid licensing fees reflected a successful case.

The problem with this logic is the feedback loop it creates.¹³⁸ In the modern world of patent monetization, an aggressive and well-financed patent holder can pressure smaller or less sophisticated targets into settling, simply because the costs of litigation are too burdensome. By choosing one's targets wisely, a savvy monetizer can target vulnerable plaintiffs early on and establish a string of settlements, which can then be used to convince other targets to settle and to convince a court that the entire campaign had merit to begin with.

As for j2 Global, the company appears to have moved on to additional patent portfolios and new horizons. A press report indicates that j2 Global has joined forces with the large patent aggregator, Acacia.¹³⁹ According to the report, j2 Global and another company have granted an exclusive license for a set of patents to an Acacia subsidiary, Unified Messaging. The Acacia subsidiary has sued about 100 companies, including Google, Facebook, Twitter, HomeAway and Etsy. Other large entities, such as Travelocity, T-Mobile, Reliant Energy and Bank of America reportedly have already settled with the subsidiary.¹⁴⁰

¹³⁷ See *Catch Curve, Inc., v. Venali, Inc.*, (D.C. CA.) Case No CV 05-04820 DDP AJWx (filed Nov. 3, 2008) at 18; see also *In Re Terazosin*, 335 F. Supp. 2d 1336,1358 n. 13 (noting that "[T]he court cannot agree with Plaintiffs that a plaintiff who has filed suit and receives the relief sought (e.g., monetary compensation, a change in conduct, etc.) could only have been deemed to have 'won' under PRE if it continued to litigate the case and received a favorable judgment from the court").

¹³⁸ Cf. James Gibson, *Risk Aversion and Rights Accretion in Intellectual Property Law*, 116 YALE L.J. 882, 882 (2007)(arguing that "[s]eeking a license where none is needed is problematic because "the existence (vel non) of licensing markets plays a key role in determining the breadth of rights, [so] these . . . decisions eventually feed back into doctrine, as the licensing itself becomes proof that the entitlement covers the use").

¹³⁹ Information in this paragraph was reported in Vicky Garza, *Patent troll targets Home Away*, Austin Business Journal (July 6, 2012), available at <http://www.bizjournals.com/austin/print-edition/2012/07/06/successful-patent-troll-targets-homeaway.html?page=all>.

¹⁴⁰ See *id.*

As noted, it is difficult to know the facts of j2 Global, but the available information indicates the potential for a lucrative and troubling strategy that could be adopted under the current legal regime. Acquire broadly worded patents from a prior era. Choose an emerging market or submarket characterized by smaller players. Assert those patents aggressively using broad interpretations in a way that weakens competition and makes competitors ripe for acquisitions. Ensure that the size of the competitors will make it difficult for them to fight back effectively and for antitrust regulators to focus on any acquisition of a company or portfolio. (In the spirit of modern patenting, I suppose I should patent the description in the paragraph above as a “method of doing business,” although it might be obvious in light of prior art – among other problems.)

F. Walking to the Edge of the Line

Several of the examples listed above describe practices in which intellectual property rights holders intimidate potential targets by suggesting, tacitly or explicitly, that they are entitled to rights beyond what they actually have under the law. The following is a similar example from copyright, and it is one that embodies other questionable tactics as well.

The example relates to cognitive testing in medical examinations.¹⁴¹ For decades, the standard approach for testing a patient’s mental status has been to use the Mini-Mental State Examination. The examination is a brief set of questions and challenges to pose for a patient, including “who is the president of the United States” and “count backwards from 100 by sevens.” It covers basic math, language and motor skills. The Mini-Mental State Exam was first published in a scholarly journal written by Marshal Folstein, Susan Folstein, and Paul McHugh in 1975.¹⁴²

Part of the value of the test lies in the fact that it has been so widely used. Vast numbers of studies have been conducted with it, a fact that ensures easier cross-referencing and comparison of research data. Medical students can recite it in their sleep. Medical professionals can compare a single patient across many years and

¹⁴¹ For a more detailed discussion of the current controversy surrounding the Mini-Mental State Exam and the legal validity of the copyright claims, see Robin Feldman & John Newman, *Copyright at the Bedside: Should We Stop The Spread?*, STAN. TECH. L. REV (forthcoming 2013). See also John Newman & Robin Feldman, *Copyright and Open Access at the Bedside*, 365 NEW ENG. J.MED. 2449 (Dec. 29, 2011) (describing the problem and encouraging the creation of a cultural norm in the field of medicine, in which medical researchers ensure continued availability of their tests through open source licensing for any copyrights that might exist).

¹⁴² See Marshal F. Folstein, Susan Folstein & Paul R. McHugh, “Mini-mental state”: A practical method for grading the cognitive state of patients for the clinician, 12 J. PSYCHOL. RES. 189, 189-98 (1975).

many different hospitals and clinical settings because all of the institutions are likely to have used the same test.

All of this began to change in 2000. After decades of widespread use, the authors of the Mini-Mental State Exam created a monetization structure in which an entity named Psychological Assessment Resources (PAR) began asserting copyright against hospitals and physicians.¹⁴³ In the wake of PAR's assertion tactics, the Mini-Mental State Exam has disappeared from the latest editions of medical textbooks, pocket guides and clinical toolkits.¹⁴⁴ PAR is not alone in asserting copyright in medical tests, and the phenomenon is spreading in the health care field.

A variety of legal arguments could be made to undermine PAR's assertion of copyright.¹⁴⁵ Hospitals and physicians, however, have been loath to enter a legal battle that would be long, expensive and offers an uncertain outcome. More threatening than monetary damages is the possibility of criminal liability. No matter how rare or unlikely to apply under these circumstances, physicians in particular are spooked by even the slightest and most remote possibility of a criminal charge.

A busy hospital wishing to switch away from using the popular test would have to ensure that no one made a single copy of it—not for a training manual, reminder card, the hospital's website, or to download on any individual computer anywhere in the hospital. And what about if a medical professional in the hospital administered the test, asking the questions one by one? Would that constitute making a copy of the test?

Perhaps the claim with the weakest legal grounding would be any copyright claim based on administering the test verbally to a patient. Copyright covers a variety of ways one might make a copy of a creative work, but what kind of copy could this be? There is no written copy, no videotape, no other recording. The only possible approach would be to argue that using the test is analogous to producing a play or a song. When a physician administers the test, he or she is "performing the work."¹⁴⁶

Describing the claim in this manner, however, highlights one of the problems with copyright claims for medical testing at all. To the extent that one is claiming to control the test itself, rather than some description explaining the circumstances for using the test or what to do with particular results, one is actually trying to claim a process. Copyright specifically does not cover processes and methods.¹⁴⁷ Thus, claim-

¹⁴³ For a description of the monetization structure, see Feldman & Newman, *supra* note 141, at 4.

¹⁴⁴ *Id.*

¹⁴⁵ For a detailed discussion of the validity of the legal claims, see *id.*

¹⁴⁶ See *id.*

¹⁴⁷ 17 U.S.C. § 102(a) provides: "In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, con-

ing copyright in this type of medical test is really a backdoor method for trying to get a patent without meeting the rigorous requirements for patentability.¹⁴⁸

PAR's licensing approach comes as close as possible to the line of requiring license fees for administration of the test, without actually specifying it. In fact, one could be forgiven for assuming that PAR is licensing each administration of the test, given the crafty language used.

For example, PAR's licensing policy,¹⁴⁹ which is available on its website, repeatedly refers to "using" the test or "use" of the test. Purchasers are instructed to purchase the number of test protocols needed for their intended purposes. In addition, the website specifies that one must purchase a test manual in addition to purchasing the test, if one plans to use all or part of the test. Most important, PAR will calculate fees due only after interested parties have submitted a permission request. Among many other things, the permission request form asks how many people you will be testing and if you are using this for clinical purposes--in other words, if you are treating patients.¹⁵⁰ Given this licensing approach, it seems likely that PAR's fee calculations are based, at least in part, on how many times one will administer the test orally to a patient. The language on the website would certainly lead many people to think that payment per administration of the test is required.

Other troubling aspects include the timing of the rights assertion. In this case, the authors of the test allowed the public to use the test freely and openly for decades. Intellectual Property rights were only asserted after the test had become fully entrenched in the medical landscape.¹⁵¹

One might also note that creating a monetization entity has benefits in addition to protecting the authors from liability and ease of administration. Creating a separate entity insulates the scholars to some extent from the bad publicity of the monetization entity, leaving the sense that is just big, bad PAR making us all pay.

cept, principal, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work."

¹⁴⁸ See *id.*

¹⁴⁹ *Permissions & Licensing*, PAR, <http://www4.parinc.com/ProRes/permissions.aspx> (last visited Jan. 8, 2013).

¹⁵⁰ See *Permission Request Form*, PAR, http://www4.parinc.com/webuploads/permission_request/Permission_Req_Form_distributed.pdf (last viewed Jan. 8, 2013). The form does also ask how the test will be administered and gives paper/pencil and online/Internet as examples. Thus, PAR could possibly argue that they would only charge for those administrations that involve a full, written copy of the test. The question does not ask for a breakdown, however, between administration orally and administration through written copy, making it unlikely that PAR is differentiating in this way.

¹⁵¹ For an argument that investment and value creation in the development of de facto standards in this case should weigh against copyright protection, see Feldman & Newman, *supra* note 141.

Finally, the Mini-Mental State Exam provides another example of integrating different intellectual property regimes. In the “frequently asked questions” section of the website, PAR explains that under trade secret law, those who use the test are not permitted to release the results of the test to those who are not qualified to review and interpret them.¹⁵² The materials go on to explain that usefulness and validity would be compromised if the materials became available to the general public.

One can certainly understand the authors’ concerns that if patients know the various questions and answers by heart, the test will be far less useful for evaluating mental state.¹⁵³ Nevertheless, PAR’s statement that “PAR’s instruments are trade secrets” is somewhat odd. The secrecy requirement in trade secrecy generally measures whether the information gives the owner an advantage over others competitors who do not know it.¹⁵⁴ The fact that patients might not know the test is irrelevant to the inquiry. The appropriate question is whether the test itself is well known by competitors in the medical field. Given how widely the test is known, one might argue that it could not possibly constitute a secret, at least not in the way that secrecy is ordinarily measured for the purposes of trade secret.

Moreover, limiting the release of test data might have other advantages for PAR unrelated to the need to keep patients from being able to “psych out” the test. If results cannot be released without PARs permission to anyone who is not medically trained, then medical researchers cannot publish their results in medical journals, which are generally available to any member of the public willing to subscribe to them or to pay an access fee. In theory, PAR could demand a payment for a license to release the data or could insist that all data must be released through its own publication service, which could charge an access fee. This could provide an additional arena for revenue generation, although one that could have negative implications for the free flow of scientific data.

A reminder of the relationship between different intellectual property regimes provides a good conclusion for this section. As mentioned above, the fluidity among the different intellectual property regimes suggests that any attempt to cabin inappropriate behaviors should encompass all intellectual property regimes. Perhaps the best example of the problem comes from a recent email I received from a practitioner who serves as in-house counsel at a technology company. The company had been paying royalties to use a particular patent. Shortly before the patent was sched-

¹⁵²*Frequently Asked Questions*, PAR, <http://www4.parinc.com/Faqs.aspx> (last visited Jan. 8, 2013).

¹⁵³This, of course, is an unavoidable problem for administering the test to medical professionals themselves.

¹⁵⁴*Morlife, Inc. v. Perry*, 66 Cal Rptr. 2d 731 (Cal. App.1997); *see also* *Am. Paper & Packaging Products, Inc. v. Kirgan*, 228 Cal. Rptr. 713 (Cal. App. 2d 1986).

uled to expire, the company received a proposed contract from the patent holder for licensing of trademark rights. The trademark contract was absolutely identical to the patent contract, listing the same property, the same uses, and the same conditions. The sole difference between the two documents was that the word “patent” had been replaced throughout by the word “trademark.”¹⁵⁵

IV. Current Tools are Inadequate

The legal system does have a variety of tools that could be used to address various aspects of the problem of the inappropriate use of intellectual property. Each of the tools, however, is ill suited for the task at hand.

A. Tools Within Intellectual Property

The intellectual property system itself has tools that, in theory, might address inappropriate use. These include patent misuse, copyright misuse, and the doctrine of inequitable conduct before the Patent Office, each of which will be discussed below.

Patent misuse traditionally has been defined as an impermissible attempt to expand the time or scope of the patent. Since 1992, the Federal Circuit also has required that the attempted expansion must have “anticompetitive effect.”¹⁵⁶

Patent misuse, however, has many drawbacks as a solution to the types of problems described above. It is an affirmative defense only and cannot be raised in circumstances other than to defend against a claim of infringement. In addition, the sole remedy available for patent misuse is a draconian one. If a patent holder is found to have misused a patent, the patent becomes unenforceable against anyone, until the effects of the misuse have dissipated. To my knowledge, no court has ever had the opportunity to interpret what it means for the effects to have dissipated.

Perhaps because of the draconian nature of the remedy, the Federal Circuit simply refuses to apply patent misuse. One would have to search quite vigorously to

¹⁵⁵ For purely anecdotal purposes, I note that recent PLI programs in 2012 and 2013 included a number of segments on copyright and trademark monetization. See *IP Monetization 2012: Maximizing the Value of Your IP Assets*, PRACTISING LAW INSTITUTE (May 10, 2012), http://www.pli.edu/Content/OnDemand/IP_Monetization_2012_Maximize_the_Value_of/_/N-4nZ1z1330y?fromsearch=false&ID=142947.

¹⁵⁶ For a detailed history of Patent Misuse and variations between the Federal Circuit interpretation and prior precedent, see Robin Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 HASTINGS L.J. 399, 415-31 (2003).

find any judgment of patent misuse that the Federal Circuit has upheld in its 30-year history.

Copyright has its own misuse doctrine, but it is not much more robust than patent misuse. The doctrine was not used successfully until the 1990 *Lasercomb* case.¹⁵⁷ Since that time, copyright misuse has been used only sporadically, with most of the cases taking place in the 1990s and in the context of software.¹⁵⁸

One of the few, and most interesting, discussions of the doctrine of copyright misuse in the twenty-first century appears in the Seventh Circuit's 2003 *WIREDATA* opinion, written by Judge Posner.¹⁵⁹ Commenting on the doctrine of copyright misuse, Judge Posner noted the following: "hoping to force a settlement or even achieve an outright victory over an opponent that may lack the resources or the legal sophistication to resist effectively, is an abuse of process."¹⁶⁰ Other courts, however, have not taken up the analysis offered by Judge Posner.

Patent law also has a doctrine of inequitable conduct before the Patent Office. After a less than stellar history, in which the defense appeared almost *de rigueur* in all cases, and the doctrine's primary use appeared to be in bashing one's opponent, Congress severely curtailed the doctrine in 2011.¹⁶¹ To some extent, the Federal Circuit had already beaten them to the punch, significantly limiting the doctrine in the *en banc Therasense* case earlier that year.¹⁶²

¹⁵⁷*Lasercomb America, Inc. v. Reynolds*, 911 F.2d 970, 972 (4th Cir. 1990); Kathryn Judge, Note, *Rethinking Copyright Misuse*, 57 STAN. L. REV. 901, 902 (2004).

¹⁵⁸For extended analysis of copyright misuse, see Neal Hartzog, *Gaining Momentum: A Review of Recent Developments Surrounding the Expansion of the Copyright Misuse Doctrine and Analysis of the Doctrine in its Current Form*, 10 MICH. TELECOMM. & TECH. L. REV. 371 (2004); Brett Frischmann, *The Evolving Common Law Doctrine of Copyright Misuse*, 15 BERKELEY TECH. L.J. 865 (2000); Judge, *supra* note 157; see also 4 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 13.09[A] (2003) (noting that *Lasercomb* remains the exceptional case).

¹⁵⁹See *Assessment Tech. of WI, LLC, v. WIREDATA*, 350 F.3d 640 (7th Cir. 2003).

¹⁶⁰See *id.* at 647.

¹⁶¹35 U.S.C. § 282(a)(3) provides that the failure to disclose the best mode shall no longer be a basis, in patent validity or infringement proceedings, on which any claim of a patent may be cancelled or held invalid or otherwise unenforceable. Other major changes in the AIA include moving to a first-to-file system from first-to-invent. In addition, prior user rights can now act as a defense to infringement liability. For discussion of problems with inequitable conduct prior to 2011, see Christian E. Mammen, *Controlling the "Plague": Reforming the Doctrine of Inequitable Conduct*, 24 BERKELEY TECH. L.J. 1329 (2009); see also Robin Feldman, *The Role of the Subconscious in Intellectual Property Law*, 2 HASTINGS SCI. & TECH. L.J. 2 (2010).

¹⁶²*Therasense, Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276 (Fed. Cir. 2011) (citing Mammen, *supra* note 161).

B. Tools Outside of Intellectual Property

Other legal tools, outside of intellectual property law, conceivably could be pressed into service to address inappropriate uses – particularly if they were adjusted. Even in combination, however, these doctrines would leave much of the modern behavior unaddressed.

1. Laches & Implied Contract

The equitable doctrine of laches might be available in response to certain forms of questionable behavior, particularly in copyright. In a claim for patent infringement, laches is an equitable defense that the patentee did not enforce its patent rights in a timely manner.¹⁶³ As Learned Hand noted in 1916, “it is inequitable for the owner of a copyright, with full notice of an intended infringement, to stand inactive . . . and to intervene only when his speculation has proved a success.”¹⁶⁴

The Fourth Circuit, however, has held that equitable rules such as laches, which are concerned with time delays, cannot be applied to bar claims for which a statute has dictated the prescribed time period for enforcement of rights. In other words, if Congress has decided that copyright holders may enforce their rights for the life of the author plus 70 years, courts cannot decide that any claims brought within that stated period are untimely.¹⁶⁵

In a decision promulgated the same year as the Fourth Circuit’s opinion, however, the Ninth Circuit reached the opposite conclusion. The copyright holder had failed for 36 years to complain of the defendant’s exploitation of the James Bond character, and the Ninth Circuit found that laches barred the suit.¹⁶⁶ The Supreme Court has yet to speak on the issue, however, and the status of the doctrine in these circumstances remains unclear.

The doctrine of implied contract also might be available as a defense in certain cases of copyright trolling behavior. For example, in 2006, a federal district court in Nevada ruled in the *Field v. Google* case that a website could not sue Google for

¹⁶³ BLACK’S LAW DICTIONARY 953 (9th ed. 2009) (defining laches as, “[u]nreasonable delay in pursuing a right or claim . . . in a way that prejudices the party against whom relief is sought.”).

¹⁶⁴ Haas v. Leo Feist, 234 F. 105, 108 (S.D.N.Y. 1916); see also *Universal Pictures Co. v. Harold Lloyd Corp.*, 162 F.2d 354 (9th Cir. 1947); *Blackburn v. Southern Cal. Gas Co.*, 14 F. Supp. 553 (S.D. Cal. 1936).

¹⁶⁵ See *Lyons Partnership v. Morris Costumes, Inc.*, 243 F.3d 789, 797 (4th Cir. 2001).

¹⁶⁶ See *Danjaq LLC v. Sony Corp.*, 263 F.3d 942 (9th Cir. 2001); see also NIMMER, *supra* note 158, at § 12.06[1].

copyright infringement stemming from the fact that Google caches¹⁶⁷ the website as part of its search engine function.¹⁶⁸ The court cited a Southern District of New York opinion finding that a copyright owner's knowledge of the accused infringer's actions coupled with the owner's silence constituted an implied license.¹⁶⁹ *Field v. Google*, however, expands the doctrine of implied license well beyond any decisions the relevant circuit court has made in this area. In finding implied copyright license, the Ninth Circuit generally has relied on facts involving a prior relationship between the parties and the implications of the interactions of the parties. It is unclear whether the *Field* approach will be upheld in the Ninth circuit, or other circuits. It is also possible that the broad nature of the doctrine could create as many problems as it solves.¹⁷⁰

2. Antitrust and Sham Litigation

One might imagine that the answer to many of the modern intellectual property shenanigans would lie in the notion of preventing parties from abusing the court system. After all, the heart of at least some of these schemes involves threatening or bringing less than meritorious lawsuits to damage or harass competitors. Antitrust actions based on abusive use of the legal system, however, are unlikely to provide a fruitful path unless the Supreme Court is willing to significantly adjust the legal precedents in this arena.¹⁷¹

The problem begins with the Noerr-Pennington doctrine, which protects the rights of citizens to petition the government without fear of antitrust liability.¹⁷² The doctrine originally developed to protect attempts to persuade the legislative branch to adopt a law, or the executive branch to enforce a law, in a way that would have an anticompetitive effect.¹⁷³ Over time, the doctrine has expanded to protect the right to petition the courts.¹⁷⁴

¹⁶⁷ When Google makes and analyzes a copy of each webpage that it finds, and then stores the code in a temporary repository one describes this as "caching" the page.

¹⁶⁸ *Field v. Google, Inc.*, 412 F.Supp.2d 1106 (D. Nev. 2006).

¹⁶⁹ See *Keane Dealer Servs., Inc. v. Harts*, 968 F.Supp. 944, 947 (S.D.N.Y.1997).

¹⁷⁰ See Liam Knepprath-Malone, *Examining the Dichotomy in Implied License Law in the Ninth Circuit* (2012) (unpublished manuscript)(on file with author) (arguing, among other things that applying *Field* outside of the internet arena would be problematic).

¹⁷¹ See FELDMAN, *supra* note 19, at 166-69 (providing a detailed description of problems with the doctrines in sham litigation and antitrust as they intersect with patent law).

¹⁷² *Eastern R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961).

¹⁷³ See *id.*; see also *United Mine Workers v. Pennington*, 381 U.S. 657 (1965).

¹⁷⁴ See *Cal. Motor Transp. Co. v. Trucking Unlimited*, 404 U.S. 510 (1972).

There is an exception to the Noerr-Pennington doctrine for sham litigations. The sham litigation doctrine attempts to prevent parties from using the governmental process itself as an anticompetitive weapon.¹⁷⁵ The problem for intellectual property cases involves the elements that must be established to demonstrate sham litigation. Specifically, in the 1993 *Professional Real Estate* case, the Supreme Court held that in order to show that legal actions constitute sham litigation, those actions must be both 1) objectively baseless, in the sense that no reasonable litigant could realistically expect success on the merits, and 2) subjectively baseless such that the lawsuit conceals an attempt to use administrative or judicial processes to interfere with a competitor.¹⁷⁶

A court is allowed to examine the subjective portion of the evidence only if the court first concludes that no reasonable litigant could have expected to succeed.¹⁷⁷ Given the uncertainties in intellectual property law, litigants can almost always establish some possibility that one might succeed—at least enough to avoid a finding that the filing was entirely baseless.

A few courts have suggested that different approaches may be available when parties file a multiplicity of lawsuits.¹⁷⁸ In some cases, the number of suits coupled with other evidence may suggest a potential abuse of the legal process. In addition, for many patent assertion lawsuits, the goal is not the outcome of the litigation; rather, the goal is to impose the costs of the litigation process on the product company. Putting the two notions together, a multiplicity of suits or other types of patent assertion behavior could indicate that a patent holder is motivated by something other than the outcome of the lawsuits. This type of result should be antithetical to

¹⁷⁵ See *City of Columbia v. Omni Outdoor Advertising*, 499 U.S. 380 (1991).

¹⁷⁶ See *Prof'l Real Estate Investors v. Columbia Pictures Indus.*, 508 U.S. 49, 60-61 (1993); see also *id.* at 58 (characterizing the *Cal. Motor Transport* Court's discussion of the difficulty in evaluating whether a claim is baseless as endorsing an objective standard); *Cal. Motor Transp. v. Trucking Unlimited*, 404 U.S. at 513.

¹⁷⁷ See *Prof'l Real Estate v. Columbia*, 508 U.S. at 60 ("First, the lawsuit must be objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits.")

¹⁷⁸ See *USS-POSCO Indus. v. Contra Costa County Bldg. & Constr. Trades Council*, 31 F.3d 810-811 (9th Cir. 1994) (citing *Cal. Motor Transport v. Trucking Unlimited*, 404 U.S. 508); see also *See Primetime 24 Joint Venture v. NBC*, 219 F.3d 100-101 (2d Cir. 2000); *Livingston Downs Racing Ass'n v. Jefferson Downs Corp.*, 192 F. Supp. 2d 538-539 (M.D. La. 2001); cf. *Ernest v. Hahn, Inc., v. Codding*, 615 F. 2d 830 (9th Cir. 1980). The Ninth Circuit hedged its bets more recently, however, in the 2009 case of *Kaiser v. Abbott Labs.* See *Kaiser Found. Health Plan Inc. v. Abbott Labs. Inc.*, 552 F.3d 1033 (9th Cir. 2009). In addition, the Federal Circuit has signaled that it does not agree with the Ninth Circuit's approach. See *Nobelpharma AB v. Implant Innovations*, 141 F.3d 1059 (Fed. Cir. 1998).

proper use of the legal system, and could form the basis of a method of establishing sham litigation. For such an approach to be successful, however, courts would have to be willing to allow the doctrine of sham litigation to evolve in light of the modern realities of patent assertion.

Even without the sham litigation doctrine, however, antitrust may provide other avenues. Private or public antitrust authorities may be able to bring actions based on anticompetitive actions other than filing lawsuits. Effective antitrust enforcement in this area will require a shift in the way that we define relevant markets.¹⁷⁹ For example, antitrust authorities examine three different kinds of markets — markets for goods, technology markets, and innovation markets.¹⁸⁰ In examining markets for goods, authorities will consider the particular goods and their substitutes. Technology markets relate to circumstances in which intellectual property is marketed separate from any underlying products in which it is used. To analyze technology markets, courts will look at particular intellectual property and its close substitutes. Finally, innovation markets consist of the research and development directed at particular new or improved goods. Here, authorities are watching to ensure that existing producers do not strangle potentially competitive technologies in their infancy.

Understanding the full extent of some of the modern intellectual property schemes, however, requires an analysis of a different type of market. One must look at the market for monetization of patents or for monetization of copyrights as their own markets, in order to properly analyze the impact of certain modern behaviors.¹⁸¹ One cannot possibly understand the impact of behavior by mass aggregators, for example, without thinking of the market for patent monetization as a whole.

In particular, in looking for potential anticompetitive effects of patent monetization, one must look on three different levels. First, one must consider ways in which a patent monetization entity with market power in a particular intellectual property market may be using, obtaining or maintaining that power in an anticompetitive manner. Second, as described above, one must worry about ways in which patent monetization activities could have anticompetitive effects in the market for patent monetization itself. In both of these dimensions, it is disconcerting to see product competitors forming alliances so frequently and so freely in a patent moneti-

¹⁷⁹ See Ewing & Feldman, *supra* note 22, at 35-37 (discussing at length the changes necessary for effective antitrust analysis under these circumstances).

¹⁸⁰ U.S. DEPT. OF JUSTICE AND FED. TRADE COMM'N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY 8-11 (1995), <http://www.justice.gov/atr/public/guidelines/0558.htm> [hereinafter ANTITRUST LICENSING].

¹⁸¹ See Ewing & Feldman, *supra* note 22, at 35-37 (describing at length the necessity for analyzing monetization markets.)

zation capacity. Large monetizers and aggregators have the potential to operate as the “hub” in a “hub-and-spokes” conspiracy, in which a centralizing entity can orchestrate agreement among horizontal competitors. There may be shifting alliances as well, in which some of the spokes use the hub to combine against other spokes. It is hard to imagine that competitor combinations of this kind, with the opportunities they provide for collusion, can be good for consumers. This is particularly problematic in markets characterized by intense innovation. Those who are currently in the market are likely to have a preference for reducing next-generation substitutes and for bashing those who threaten to develop them.

Finally, one has to worry about behavior in the market for patent monetization that could affect the underlying individual Intellectual Property markets, even in the absence of actual power in any of those individual markets.¹⁸² In other words, in the modern world of patent monetization, one may not need to have power in a particular IP market to affect prices in that market. It is an odd circumstance, but entirely possible in this new market.

Consider the following: one no longer needs to have a basket of automobile patents big enough to constitute market power in the auto market in order to affect the auto market. Perhaps all one would need is a small number of patents in that market and a reputation for tough tactics. If one happens to have a large grab bag of assorted patents, so much the better. After 50 patents, most licensing targets will cease to examine the patents on their individual merits.

For example, suppose I have a patent related to the banking industry. My claim that this banking patent actually applies to your automobile production may be pretty farfetched. If I have enough farfetched claims to cause trouble for you, however, and I am threatening to throw them at you one after another, and I have a reputation for playing hardball, that may be enough for you to pay what I ask. It may also be enough for every other automobile manufacturer to pay what I ask, as well. Under those circumstances, it is possible that I could affect the market for automobiles without having much to speak of in the way of automobile patents. If prices rise throughout an industry, beyond a reasonable return on investment, this creates a loss of consumer welfare. In short, this type of rent-seeking behavior, in which patent holders seek a return above the economic value of their patents, can have an extensive effect on consumer prices and consumer welfare.

¹⁸² This discussion in this paragraph and the hypothetical in the following paragraph were first presented in Robin Feldman, *Comments on Notice of Roundtable on Proposed Requirements for Recordation of Real-Party-in-Interest Information Throughout Application Pendency and Patent Term*, U.S. PATENT & TRADEMARK OFFICE (Jan. 24, 2012), http://www.uspto.gov/patents/law/comments/rpi_information.jsp.

Most important, none of these levels of antitrust analysis is possible unless public or private antitrust actors have the information necessary to identify and trace anticompetitive behavior. Under current circumstances, intellectual property rights holders are able to use the magnified power from their rights to bargain for invisibility and silence. This problem highlights the final limitation in depending on antitrust action to cabin the inappropriate use of intellectual property. Antitrust analysis is concerned with market prices. It is not designed to address concerns over actions in which intellectual property rights are being used for purposes such as hiding embarrassing or illegal conduct, avoiding obligations, or pressuring others into surrendering rights. These are not necessarily market power concerns, and yet the behaviors still may be damaging to society.

In the same vein, antitrust aims its guns at the big players who can throw their weight around in a particular market. Problems in modern intellectual property interactions, however, extend far beyond this group. Tremendous uncertainty, the costs of resolving that uncertainty, and outsized remedies allow intellectual property rights holders to magnify the power of their intellectual property. This is a problem for the proper functioning of the intellectual property system, but not necessarily one that antitrust law is designed to consider.

3. Market Responses

In addition to the potential doctrines that exist for addressing the inappropriate use of intellectual property, there also have been sporadic market attempts to respond. Some companies have tried to address these problems by pledging to use their intellectual property responsibly. For example, the popular and influential company Twitter recently announced that it is amending the agreements it signs with employees who create inventions for the company. Under the amendment, the company agrees to use patent rights flowing from those inventions only defensively—that is, to protect itself against hostile action—and any offensive use of those patents will require the inventor's consent.¹⁸³

Twitter's approach is particularly interesting because it creates a certain level of binding obligation, beyond a mere pledge. Pledges, of course can be withdrawn and corporate policies shifted. For example, in 2005, Nokia expressed support for the value of an open source approach in telecommunications patents and pledged not to

¹⁸³ See Fred Wilson, *The Twitter Patent Hack*, AVC (Apr. 18, 2012), http://www.avc.com/a_vc/2012/04/the-twitter-patent-hack.html.

assert patents against the open source Linux Kernel.¹⁸⁴ That policy changed, however, when the company entered into a partnership with Microsoft and transferred more than a thousand key patents to a known patent troll.¹⁸⁵

One could also argue that the emergence of patent mass aggregators demonstrates a market effort to manage intellectual property patents. After all, these organizations, on one level, give operating companies a way to fend off patent litigation.

Mass aggregators are creating risks and harms of their own, however. When a patent troll recently sued a mass aggregator alleging antitrust violations,¹⁸⁶ it was hard to decide which side to cheer for, although easy to see that there is little for consumers to cheer about, no matter who wins.

In sum, the market approaches are likely to be no more successful at managing the problem of inappropriate use of intellectual property than the scattered legal doctrines already in existence. Although antitrust holds some promise—assuming that the doctrines can be adjusted and that full information can be secured—none of the approaches, individually or in combination, can fully address the scope of the problem.

¹⁸⁴ See *Legally Binding Commitment Not to Assert Nokia Patents against the Linux Kernel, Statements*, NOKIA, <http://web.archive.org/web/20060213045608/http://www.nokia.com/iprstatements> (last visited Jan. 8, 2013); *Form 20(f)*, SEC (Dec. 31, 2005), <http://www.sec.gov/Archives/edgar/data/924613/000104746906002736/a2167693z20-f.htm>; see also [NOKIA, OUR INSTITUTIONAL STRATEGY, (Dec. 4, 2009) (available at <http://fi.nokia.com/blob/view/-/164864/data/3/-/>)] (noting that open source approach is key to engaging a broad community -- developers, operators, chipset vendors, OEMs etc. We believe that the larger the ecosystem, the greater the innovation and thus the user experience).

¹⁸⁵ See Press Release, MOSAID, MOSAID Updates Shareholders on Special Committee Process, Addresses Wi-LAN Mischaracterizations (Sept. 12, 2011), <http://www.mosaid.com/corporate/news-events/releases-2011/110912.php>; see also Ben Dummett, *Nokia Sells 2,000 Patents: Mosaid Technologies Will Share Revenue Wrung From Wireless Know-How*, WALL ST. J. (Sept. 2, 2011), <http://online.wsj.com/article/SB1000142405311190471660457654444141198816.html>. For press commentary critical of the move, see *Mosaid v. Red Hat – Before You File a Complaint, Learn the Law (And the Facts)*, GROK LAW (Jan. 10, 2012), <http://www.groklaw.net/articlebasic.php?story=2012010910240033> (complaining that “the patent troll [MOSAID Technologies] has now climbed into bed with Microsoft and Nokia to try and cause more havoc with Android); see also Josh Koshman, *Patently False: Critics calling our deal by Microsoft and Nokia over antitrust alarms*, NY POST (Sept. 15, 2011), http://www.nypost.com/p/news/business/patently_false_E4uHQUFC5XLDmMkgM7wb8K; see also Dr. Roy Schestowitz, *MOSAID Acquires 2,000 Nokia Wireless Patents*, TECHRIGHTS (Nov. 18, 2011), <http://techrights.org/2011/11/18/b-and-n-vs-mosaid/>.

¹⁸⁶ See Nick McCann, *Antitrust Battle Against ‘Patent Trolls’*, COURTHOUSE NEWS SERVICE (Mar. 9, 2012), <http://www.courthousenews.com/2012/03/09/44560.htm>.

V. The Doctrine of Inappropriate Use of Intellectual Property

There are many ways in which one can appropriately bargain with intellectual property and many types of uses that are perfectly reasonable. Granting intellectual property rights without allowing an opportunity for a decent return would be a self-defeating prospect. Nevertheless, there are certain things one should not be able to bargain for with intellectual property rights. Whether it is a hit on one's mother-in-law or a missile attack on a competitor's main customer, it is perfectly obvious that some things are beyond the pale.

I would suggest that society should draw the line far short of criminal activity. Using intellectual property rights for behavior such as silencing public criticism, hiding embarrassing or illegal conduct, avoiding obligations, pressuring others into surrendering rights, harassing competitors, and engaging in anticompetitive schemes should also be outside the bounds.

The Supreme Court itself has recently suggested that the economic rights embodied in intellectual property are limited, implying that intellectual property rights holders are not necessarily entitled to any economic bargain they can strike. Although the decision was in the context of the doctrine of exhaustion, the Court pointedly noted the following: "the Constitution's language nowhere suggests that its limited exclusive right should include a right to divide markets or a concomitant right to charge different purchasers different prices for the same book, say to increase or to maximize gain."¹⁸⁷ This decision follows a series of cases in recent years in which the Supreme Court has steadily narrowed intellectual property rights.¹⁸⁸

In proposing a doctrine of inappropriate use of intellectual property, I am not suggesting that such behavior should result in a cancellation of intellectual property rights. The draconian nature of patent misuse, in which one's patent rights become entirely unenforceable, may have contributed to the reluctance of courts to actually use the doctrine. A more flexible and nuanced approach is required, so that courts can respond with the same level of sophistication as those who would engage in intellectual property wrongs.

¹⁸⁷ See *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1371 (2013).

¹⁸⁸ See, e.g., *Assoc. for Molecular Pathology v. Myriad Genetics, Inc.*, 106 U.S.P.Q.2d 1972 (U.S. 2013); *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289 (2012); *Bilski v. Kappos*, 130 S. Ct. 3218 (2010); *Quanta Computer, Inc. v. LG Elecs., Inc.* 553 U.S. 617 (2008); *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398 (2007); *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007); *eBay Inc. v. Merc Exchange, LLC*, 547 U.S. 388 (2006); *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 547 U.S. 28 (2006); *Merck KGaA v. Integra Lifesciences I, Ltd.*, 545 U.S. 193 (2005); *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722 (2002).

A. The Contours of the Doctrine

To some extent, one could analogize the approach to a combination of unclean hands and *in pari delicto*. (Although various courts and commentators mistakenly equate the two, they are distinguishable.)¹⁸⁹ The doctrine of unclean hands traditionally springs from the notion that the court will not sully its robes by becoming involved in the dispute. Thus, under the doctrine of unclean hands, a court will refuse to hear a party's request for equity, if the target of the lawsuit can establish that the party who sued has, itself, behaved inequitably.¹⁹⁰ Using unclean hands as an analogy, judges in some circumstances of inappropriate use of intellectual property could follow the example of Judge Posner and reject the lawsuit altogether,¹⁹¹ on the grounds that the court need not become an additional tool in the parties' arsenal.

In other circumstances, however, the court may wish to respond in a manner that would require actually hearing the case. For example, in circumstances in which intellectual property rights are being used to avoid obligations or force another party to remain silent, the court might wish to respond by taking the case and nullifying the silence provision or requiring the intellectual property holder to satisfy the obligation it has sought to avoid. This type of approach would more closely resemble the doctrine of *in pari delicto*, in which the court may consider the improper behavior of the parties when crafting a remedy.

Such an approach would also avoid the necessity of trying to determine a primary or dominant objective when a party's behavior appears to have multiple motivations. Where the behavior has both a legitimate aim and the happy coincidence of allowing a party to avoid its obligations, for example, a court may choose to leave the appropriate results of the behavior and simply require continued satisfaction of obligations.

The challenge, of course, will be defining the category of inappropriate behavior in a manner that is sufficiently robust that the doctrine does not become essentially another weapon in the arsenal that parties launch against each other. I have no illusions that this will be an easy process. Nevertheless, one should begin with a simple acknowledgement that a doctrine of inappropriate use of intellectual property should be developed. That, in itself, would be a significant and useful development,

¹⁸⁹ For an enlightening and extensive explanation of the difference between the doctrine of unclean hands, the doctrine of *in pari delicto* and the failure of courts to appreciate the difference, see DAN B. DOBBS, DOBBS LAWS OF REMEDIES: DAMAGES—EQUITY—RESTITUTION, Vol. 3, 573-78 (West, 2d ed. 1993).

¹⁹⁰ See *id.*

¹⁹¹ See *supra* text accompanying notes 16 - 17.

signaling to intellectual property rights holders that their behavior will be more closely scrutinized than in the past.

From that point, one could begin by identifying behavior that is perfectly appropriate. For example, two competitors who ask the courts to resolve the boundaries of where each of their rights lie, ideally are engaging in a perfectly reasonable use of the court's time. At the other extreme resides behavior that is clearly inappropriate. This category includes a number of the behaviors described here, such as providing the means for a third party to attack a competitor's customers in order to raise the cost of a competing product, using intellectual property to buy silence, or transferring rights to avoid obligations.

The process of defining the boundaries of appropriate intellectual property behavior will have to be as flexible, dynamic and creative as the parties it governs. In this process, various doctrines from other areas of law can provide useful analogies. For example, the general structure of antitrust inquiry, in which certain behaviors are problematic *per se* and all others receive a more in depth analysis, would provide a useful model. The doctrine of inappropriate use of intellectual property could follow in a similar vein, with some of the behaviors described in this article establishing the initial *per se* categories.

As the boundaries of inappropriate behavior are defined, the doctrine of inappropriate use could give judges the flexibility to craft remedies tailored to the wrong that has been inflicted. Consider behavior in which intellectual property rights holders have used their rights to require nondisclosure requirements that reach more broadly than confidential information. In those circumstances, a court could simply invalidate the gag. The inquiry required would be no more onerous than what courts undertake in numerous circumstances. Judges are frequently called upon to decide what information must be kept confidential and away from the public's eye in lawsuits, particularly where parties claim that the information would reveal trade secrets or other competitive information. The same type of inquiry could determine whether the contours of an intellectual property demand for nondisclosure constitutes an inappropriate use of intellectual property.

Similarly, in cases in which parties have transferred their intellectual property rights to third parties to insulate themselves from counterclaims or liability, the court could choose to ignore the structure of the scheme created. This would be somewhat analogous to the step transaction doctrine in tax law, in which the IRS will collapse the steps of a transaction when it is structured to include inappropriate steps

that allow the taxpayer to evade its tax obligations.¹⁹² One could also analogize the approach to the corporate law doctrine of piercing the corporate veil, when owners of a corporate entity are held directly responsible for the actions of the corporation.¹⁹³ In a similar vein, the court could choose to make the original intellectual property rights holder remain subject to counterclaims or responsible for damages, for example, closing the distance that the intellectual property rights holder has tried to create for itself. Moreover, if intellectual property rights holders are able to shed their obligations to standards bodies through creative transfers, a court could restore those obligations.

As the Supreme Court noted in the *Medimmune* case, one should not have to wait so long in the process as to risk one's business in order to be able to challenge the behavior.¹⁹⁴ With this admonition in mind, the doctrine of inappropriate use of intellectual property should be an affirmative doctrine as well as a defensive one. In other words, a party should be able to bring an action for inappropriate use against an intellectual property rights holder, rather than having to wait to be sued for infringement in order to raise it as a defense.¹⁹⁵ By allowing an affirmative claim, behavior that occurs well before any lawsuit has been initiated would more likely be subject to scrutiny.

¹⁹² The Step Transaction Doctrine provides that steps may be collapsed together if it is determined that the steps are part of an overall plan by the taxpayer. The doctrine ensures that a taxpayer may not avoid the consequences of related steps by separating them into smaller steps or a more circuitous route. WEST'S LEGAL FORMS, BUSINESS ORGS. DIV. VII § 59.31 (3d ed. 2012); see also DOBBS, *supra* note 189, at 567 (discussing cases in which a court refused to grant restitution to a party who made a transfers to avoid creditors and was then defrauded by the person to whom the property had been transferred when the person refused to transfer it back).

¹⁹³ The doctrine of piercing the corporate veil is an exception to the rule that protects shareholders from liability for the debts of the corporation in which they hold shares. The following provides an excellent summary of the doctrine of piercing the corporate veil:

This exception, known as the "piercing the veil" doctrine, has long been a rule, equitable in nature, applied by American courts to fasten liability on shareholders of corporations of varying size and character for corporate debts of all kinds. The "veil" of the "corporate fiction," or the "artificial personality" of the corporation, is "pierced," and the individual or corporate shareholder exposed to personal or corporate liability, as the case may be, when a court determines that the debt in question is *not really a debt of the corporation*, but ought, in fairness, to be viewed as a debt of the individual or corporate shareholder or shareholders.

Stephen B. Presser, PIERCING THE CORPORATE VEIL § 1:1 (2013).

¹⁹⁴ See *Medimmune Inc. v. Genentech Inc.*, 549 U.S. 118 (2007) (holding that a licensee does not have to stop paying royalties and repudiate the license, subjecting itself to liability for damages, in order to challenge a patent's validity).

¹⁹⁵ In contrast, as described above, patent misuse is a defensive doctrine only which can form the basis of an affirmative lawsuit, outside the confines of a declaratory judgment suit. See *supra* text accompanying notes 156 - 157.

Although the remedial measures above concern responses other than damages, a fully robust doctrine should include a damage remedy. Where the inappropriate actions of an intellectual property rights holder causes damage to an individual or an entity, damages should be available. Thus, for example, when intellectual property rights holders engage in litigation schemes that weaken an entity's share price before an IPO or a merger, they could be asked to pay for damages inflicted, as well as enjoined from engaging in the schemes.

B. Courts or Legislatures?

The flexibility required for responding appropriately to inappropriate uses of intellectual property suggests that the courts or regulatory bodies would constitute more effective vehicles than legislatures. If nothing less, the 2011 patent reform legislation – which took many years to develop, resulted in a collection of tinkering alterations, and satisfied very few people – should provide a cautionary tale.

Certain pieces, nevertheless, could require legislative action. For example, if the Fourth Circuit prevails and the Supreme Court confirms that courts lack the power to bar claims that fall within a statutorily directed time frame, for example, legislation may be necessary to accomplish some of the aims outlined above. Even with such a limitation, however, much could and should be accomplished without the need for major legislative action.

In the realm of major legislative action, a number of legislative proposals have been suggested or introduced in recent months. Important aspects of these proposals include instituting sunshine rules to show who owns patents and where the money is flowing; expanding opportunities for review of broad and questionable patents; protecting end-users; tightening the standards for granting new patents; and altering the rules that allow patent trolls to engage in “hide-and-seek” demands – in which trolls can impose costs on product companies without having to explain the basis for what they are claiming. In the short term, Congress and the Patent & Trademark Office can and should take immediate steps such as these to stem some of the most obvious abuses. Solving the problem, not just nibbling around the edges, will take both long-term and short-term action, including establishing a system that can sufficiently address the shifting landscape. Thus, I am not suggesting that the doctrine of inappropriate use of intellectual property should be the exclusive approach to solving problems in the realm of intellectual property magnification and monetization. Nevertheless, a nimble and flexible equitable doctrine would be an important part of any comprehensive approach.

In addition to the short-term actions that can be undertaken, crafting long-term and comprehensive solutions, as well as exploring the contours of a proper doctrine of inappropriate use of intellectual property, will require a great amount of in-

formation. How do we know what will be effective for fixing the problems when so much of the behavior is hidden? We cannot solve what we cannot see. The following section describes the problem and how to address it.

VI. The Shape of the Iceberg

Mounting anecdotal evidence points to the looming problems all companies are facing as a result of the shift to intellectual property monetization, the dangers of magnification, and the troubling behaviors emerging as new markets develop. Reliable empirical data, however, is difficult to come by. Some evidence is available related to the rapid rise in the percentage of patent litigation filed by patent monetization entities. For example, a recent study showed that the percentage of patent infringement lawsuits filed by patent monetization entities has risen from 22% to almost 40% over the five years from 2007-2011.¹⁹⁶ Other studies have examined different aspects of monetization behavior in patent litigation as a whole or in specific industry segments.¹⁹⁷

Anecdotal evidence suggests, however, that litigation is only the tip of the iceberg.¹⁹⁸ Much of the patent assertion activity seems to occur without litigation, and a company may receive hundreds of demand letters with only a few resulting in litigation. This, of course, considers only the monetization activity in *patents*, rather than all areas of intellectual property.

At a recent FTC/DOJ workshop on the antitrust implications of patent assertion activity, casual conversation concerned the shape of the iceberg that lies below. Even as we are beginning to understand a little about the tip of the activity represented by the lawsuits filed, what does the rest of the activity look like? Is it similar to the tiny part that is visible, or is it entirely different in size and quality?

Careful empirical analysis of the question is almost impossible. Monetization behavior is buried in complex layers of subsidiaries and revenue sharing arrangements. It is also shrouded in strict non-disclosure agreements, so that even those who wish to share their experiences with regulators (or academics) are constrained. Even when the activity proceeds to trial, courts are frequently willing to seal all or part of the documents. Most important, the reporting requirements built so carefully by competition authorities and securities regulators are not designed to capture the

¹⁹⁶ See Sara Jeruss, Robin Feldman, & Joshua Walker, *The America Invents Act 500: Effects of Patent Monetization Entities on US Litigation*, 11 DUKE L. & TECH. REV. 357, 361 (2012).

¹⁹⁷ *Id.*; see also Sara Jeruss, Robin Feldman, & Joshua Walker, *The America Invents Act 500 Expanded: Effects of Patent Monetization Entities*, UCLA J.L. & TECH (forthcoming 2013).

¹⁹⁸ See Jeruss et al., *supra* note 196, at 362.

emerging monetization behavior, or perhaps the monetization behavior is designed to avoid such reporting.

Additional information is critical for properly shaping the contours of any and all responses to the problem. The power to obtain that information lies in one place: with the Federal Trade Commission under the broad investigatory power of Section 6(b) of the Federal Trade Commission Act.

A. Section 6(b) of Federal Trade Commission Act

The Federal Trade Commission (FTC) possesses both targeted law enforcement authority and broad investigatory authority.¹⁹⁹ In the realm of investigation, the FTC has the power to conduct wide-ranging economic studies of businesses and practices that affect commerce, as well as to report on the information, through annual and special reports and through recommendations for legislation.²⁰⁰ Of particular importance to its investigatory powers, § 6(b) of the Federal Trade Commission Act authorizes the FTC to require entities to generate and produce reports or written answers to questions outside of the scope of any specific law enforcement operation.²⁰¹ The power to compel the creation of information, in addition to simply requiring entities to turn over documents that already exist, has been an extraordinarily robust and effective mechanism for understanding complex effects in the marketplace and for crafting appropriate responses.²⁰²

Some FTC economic investigations utilize only publicly available information, thus avoiding the powers enunciated in § 6(b). These types of investigations were first seen in the 1970s and are issued as “working papers”, briefing books, and “issue papers.” Although the FTC has occasionally pursued information through simultaneous subpoenas and § 6(b) orders,²⁰³ the power outlined in § 6(b) is typically manifested by the issuance of special orders in industry-wide investigations.²⁰⁴ These

¹⁹⁹ See generally OFFICE OF POLICY PLANNING, FTC, HISTORY OF SECTION 6 REPORT-WRITING AT THE FEDERAL TRADE COMMISSION (1981) [hereinafter HISTORY OF § 6], available at <http://www.ftc.gov/be/econrpt/231984.pdf>.

²⁰⁰ 15 U.S.C. § 6(a), (f) (1982).

²⁰¹ 15 U.S.C. § 46(b) (West 2006); 1 STEPHANIE W. KANWIT ET AL., FED. TRADE COMM’N § 13:5 (West 2012).

²⁰² Fed. Trade Comm’n v. Invention Submission Corp., 965 F.2d 1086, 1089 (D.C. Cir. 1992).

²⁰³ For example, see Gasoline Pricing Investigation (Response to Petition), 141 FTC 498, 504 (2006).

²⁰⁴ KANWIT, *supra* note 201.

special orders mandate the production of documents containing answers to questionnaires that seek specific information that is then compiled by the FTC.²⁰⁵

Many of the FTC reports have influenced new legislation,²⁰⁶ and an early FTC Task Force commented that, “[o]f all its activities, the Commission's investigations have probably had the most substantial impact and enduring value.”²⁰⁷ In particular, a number of reports from the FTC's early history played a significant role in enduring legislation. For example, the FTC's *Report on the Meatpacking Industry* (1919-1920) led to the Packers and Stockyards Act of 1921, the *Report on the Grain Trade* (1924-1926) had a strong influence on the passage of the Grain Futures Act, and the *Chain Stores Report* (1931-1934) was critical to passage of the Robinson-Patman Act of 1936. FTC reports also pointed the way to the enactment of the Securities Act of 1933, the Stock Exchange Act of 1934, and the Public Utility Holding Company Act of 1935.²⁰⁸

Two examples of more recent reports include an influential study on the pharmaceutical industry in 1977 and a series of four studies on the alcoholic beverage industry ranging from 1999 to 2012. The pharmaceutical industry investigation began in 1977.²⁰⁹ The resulting report, issued in 1979, examined the structure of the industry and concluded that trademarked brand names provided monopolistic market power and that state drug anti-substitution laws hindered fair competition.²¹⁰ The reported findings heavily influenced legislation, and at least one state adopted the FTC's proposed law almost verbatim.²¹¹ Furthermore, the report assisted successful court challenges to state drug anti-substitution laws and supported an investigation that led to a Supreme Court decision to overturn limits on disclosing retail drug prices.²¹²

The FTC investigated the alcohol industry in three studies issued from 1999 to 2008.²¹³ The studies were directed at the dual purposes of studying the impact of

²⁰⁵ See *Order to File Special Report*, FTC (Apr. 2012), available at <http://www.ftc.gov/os/2012/04/120412alcoholreport.pdf>.

²⁰⁶ HISTORY OF § 6, *supra* note 199, at 7.

²⁰⁷ *Id.* at 2. (citing Boyle, *Economic Reports and the Federal Trade Commission: 50 Years' Experience*, 24 FED. BAR J. 489 (1964)) (quoting FEDERAL TRADE COMMISSION, TASK FORCE REPORT ON REGULATORY COMMISSION, app. N, at 127 (1949)).

²⁰⁸ *Id.* at 2-7.

²⁰⁹ FTC BUREAU OF ECONOMICS, SALES, PROMOTION AND PRODUCT DIFFERENTIATION IN TWO PRESCRIPTION DRUG MARKETS (1977), available at <http://www.ftc.gov/be/econrpt/197702salespromo.pdf>.

²¹⁰ FED. TRADE COMM'N, STAFF REPORT ON DRUG PRODUCT SELECTION (1979).

²¹¹ See HISTORY OF § 6, *supra* note 199, at n. 189.

²¹² See *Virginia State Bd. of Pharmacy v. Virginia Citizens Consumer Council, Inc.*, 425 U.S. 748 (1976).

²¹³ See generally FTC BUREAU OF ECONOMICS, SELF-REGULATION IN THE ALCOHOL

alcohol advertisement on underage consumers and determining the effectiveness of voluntary industry guidelines in decreasing underage consumption.²¹⁴ The recommendations of the reports resulted in agreements among industry groups to adopt voluntary placement standards for radio, television, print, and Internet advertisements, a system of periodic internal audits of advertisement placements, and a structure for external review of compliance.²¹⁵ Though underage drinking is still a reality, the data show that underage drinking has gradually declined since the studies were initiated.²¹⁶ In 2012, the FTC again utilized its power under § 6 to issue orders to 14 major alcoholic beverage distributors, seeking detailed information on advertisement and marketing practices.²¹⁷ In these and other wide-ranging economic investigations, the powers enabled by § 6(b) have provided an important tool for helping to develop legislative approaches, influencing industry practices, and understanding challenges in the marketplace.

B. Structuring an FTC § 6(b) Investigation into Intellectual Property Assertion and Monetization

In structuring an FTC § 6(b) investigation into intellectual property monetization behavior, it will be critical to ensure adequate confidentiality of business information. It is certainly possible that an FTC investigation could conclude that some of the information that entities currently classify as that which cannot be disclosed is the type of information that ought to be publicly catalogued. For example, the Patent and Trademark Office is currently considering proposed sunshine rules that would require patent holders to disclose not only who owns a patent but also who are the real parties in interest.²¹⁸ One could imagine additional recommendations along these lines emerging from an FTC investigation. Nevertheless, a larger number of compa-

INDUSTRY (2008), available at <http://ftc.gov/os/2008/06/080626alcoholreport.pdf>; see also FTC BUREAU OF ECONOMICS, ALCOHOL MARKETING AND ADVERTISING (2003), available at <http://www.ftc.gov/os/2003/09/alcohol08report.pdf>.

²¹⁴ See *supra* note 213.

²¹⁵ Press Release, FTC Office of Public Affairs, FTC Orders Alcoholic Beverage Manufacturers to Provide Data for Agency's Fourth Major Study on Alcohol Advertising (April 12, 2012), available at <http://www.ftc.gov/opa/2012/04/alcoholstudy.shtm>.

²¹⁶ FTC BUREAU OF ECONOMICS, SELF-REGULATION IN THE ALCOHOL INDUSTRY 2 (2008) (accompanying figures demonstrate a gradual decrease in alcohol consumption among minors from 1999 to 2007).

²¹⁷ See Fed. Trade Comm'n, *Order to File Special Report*, FTC Matter No. P104518 (Apr. 2012), available at <http://www.ftc.gov/os/2012/04/120412alcoholreport.pdf>.

²¹⁸ See Notice of Roundtable on Proposed Requirements for Recordation of Real-Party-in-Interest Information Throughout Application Pendency and Patent Term, 77 Fed. Reg. 70,385 (proposed November 26, 2012).

nies are more likely to cooperate willingly with an investigation, if the agency can minimize concerns about leakage of information that businesses currently consider confidential.

In this context, a potential untapped fountain of information may exist in the filings of patent cases themselves. Many of the court documents in patent litigations have been sealed. Although much of the information undoubtedly concerns technical details related to technologies, other information under seal may document evidence of monetization activity—information that was collected for the litigation. Once again, entities are less likely to resist an order to provide such information if the information will be anonymized or otherwise kept confidential within the walls of the FTC.

Willing cooperation is not essential for a § 6(b) investigation, and the federal courts have upheld the FTC's right to compel compliance.²¹⁹ Obviously, however, willing participants can be more useful than those who resist, not the least of which because the agency can avoid the trouble of having to secure various court orders to compel compliance.

Any investigation will also have to walk a delicate line between 1) surveying a sufficiently wide selection of entities to ensure empirical reliability and 2) locating and examining behaviors that are troubling with sufficient depth. In order to pursue both of the goals effectively, the agency could consider initiating a two-part investigation. In one prong of the investigation, the FTC could request information systematically, looking at numerous industries and varying firm sizes within those industries and requesting information from a random sampling of companies within each industry and size classification.

The shroud of secrecy that surrounds much of the monetization activity makes it particularly difficult to know where to look, however, and a different prong of the investigation could be designed specifically to address that problem. Here, the FTC could take a deeper look at a number of entities and industry segments as case studies. As part of deciding what to examine for the case studies, the FTC could provide a mechanism in which entities could confidentially suggest that their own com-

²¹⁹ See *United States v. Morton Salt Co.*, 338 U.S. 632, 651 (1950) (concluding that the FTC possesses authority under Section 6 to compel the submission of special reports); *F.T.C. v. Texaco, Inc.*, 555 F.2d 862, 883 (D.C. Cir. 1977) (holding that the FTC is "specifically authorized to compel production of evidence from any place in the United States, at any designated place of hearing") (internal citations omitted); *Appeal of FTC Line of Bus. Report Litig.*, 595 F.2d 685, 703 (D.C. Cir. 1978) (holding that an FTC orders must enforced "if it does not transcend the agency's investigatory power, the demand is not unduly burdensome or too indefinite, and the information sought is reasonably relevant," then enforcing the orders at issue).

pany's experiences could provide a fruitful case study. In other words, a company could confidentially say to the FTC, "please require that I ignore my non-disclosure agreements and respond to your in-depth investigation, because my experiences are ones that you should look at." In this way, one could provide a signal to the FTC without violating any obligations to third parties.

The list of case studies actually undertaken by the FTC could be drawn from a combination of those who confidentially volunteered and those whom the FTC identified on its own. If handled carefully, this approach could shield the identity of the volunteers and avoid the possibility of market retaliation against them.

Much of the public discussion at the moment concerns the effects of monetization on the patent system, and it is certainly true that problems appear to be deeper and more widespread in patent at this point than in other areas of intellectual property. As a result, patents would undoubtedly be the major focus of any FTC investigation. Nevertheless, given the fluidity between the different intellectual property protections systems and the increasing appearance of monetization behavior outside of patents, it could be beneficial to include some questions that touch on other intellectual property systems, particularly copyright. Looking at the ways in which monetization is being manifested in other systems could allow us to address problems before they reach the level of disruption we are seeing in the patent system.

A carefully considered § 6(b) investigation could help guide Congress, the courts and regulatory agencies in defining what is, and what is not, appropriate use of intellectual property rights. It could also be essential in identifying the behaviors that are occurring, understanding their impact, and crafting optimally effective responses in a way that is the least disruptive to commerce.

VII. Conclusion

Innovation is one of our most valuable national resources. Properly constructed, the intellectual property system can nurture that innovation, encouraging the development of the products, services and economic benefits that accompany a thriving creative and commercial environment. When those intellectual property rights, created by society in the hopes of ensuring the concomitant benefits to the industrial and creative arts, are diverted to the service of more noxious pursuits, we must create the tools that will allow our legal system to respond.

Above all, litigation should not be a competition tool. Allowing this to flourish unchecked directs society's creative resources away from building a better mousetrap and towards building better legal traps. Developing the notion of inappropriate use of intellectual property is a first step in giving society its own suffi-

ciently sophisticated arsenal to respond to the harmful use of the rights we ourselves have created.

I have noted in the past that bargaining over the boundaries of patent rights is inevitable.²²⁰ The reality of this prospect, however, does not relieve us of the burden of controlling the bargaining. Rather, recognition of the bargain aspect of patents increases society's responsibility for encouraging the productive use of patents and discouraging the more destructive aspects of the bargaining.

The same is true for all intellectual property rights. Society has created these rights, removing activities that could be enjoyed by the whole of society and appropriating them to the benefit of the few, in the hopes that the creation of these rights will redound to the benefit of all. It is our responsibility to rein them in.

I am reminded of a story told to medical students to illustrate the workings of an insane mind. A man emerges from his house each day, picks up his newspaper and then drops a large bolder onto his foot. Why would he repeat this painful activity day after day? Because he believes that it is of benefit to him. With intellectual property rights, we inflict some pain on ourselves in the hopes of bringing about long-term gain. The size of the boulder, however, is fast approaching the point at which it changes from short-term pain to pure insanity.

²²⁰ See FELDMAN, *supra* note 19.