August 8, 2012

Intellectual Property Wrongs

Robin C Feldman

Available at: https://works.bepress.com/robin_feldman/7/
Abstract

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 to the sequence of genes. Increasingly, these rights are being pressed into the service of schemes that have little to do with the advancement of societal goals and much to do with societal waste.

What do we, as a society, do when the 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 anticompetitive schemes. This occurs because attributes of the system are allowing intellectual property rights holders to bargain for compensation beyond the value of the right. Such amplification is playing out in ways that damage innovation, create dysfunction in markets and waste vast amounts of legal resources.

This article describes the phenomenon of amplification and chronicles troubling behaviors in copyright, patent and trade secret. It suggests that as the marketplace for ideas develops in strange and uncomfortable ways, courts should introduce a doctrine for restraining the inappropriate use of intellectual property. The article also explores examples of how the doctrine would be applied.

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,\(^2\) to customer lists, to the sequence of genes\(^3\). In our jurisprudential tradition, these rights do not spring forth from some notion of a natural or moral entitlement.\(^4\) 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.\(^8\)

---


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


\(^7\) 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).

Intellectual property rights, however, increasingly are being pressed into the service of schemes that have little to do with the advancement of these societal 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 anticompetitive schemes. This is happening because attributes of the intellectual property system are allowing intellectual property rights to be used to bargain for compensation far beyond the value of the right. This amplification 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 those are certainly wasteful and troubling, they are

---

\(^9\) The point was made by Dr. Donald Kennedy, a former President of Stanford University and Commissioner of the United States Food & Drug Administration in the keynote address at the “Faces of Forensics” conference at UC Hastings in March of 2008.

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.

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. We have spawned this demon, and we are responsible for it.

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.\footnote{\textbf{35 U.S.C. § 257}(c)(1) (2012) and commentary on the America Invents Act regarding the changes related to inequitable conduct. \textit{See also}, Therasense, Inc. v. Becton, Dickinson and Co., 649 F.3d 1276 (2012), \textit{vacated}, --- F.Supp.2d ---- (2012); Christian E. Mammen, \textit{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); Robin Feldman, \textit{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).} It is no surprise that 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.¹² Some of these doctrines theoretically could provide avenues to address some 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, rather than 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.)¹³ 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.”

Nevertheless, British courts of equity emerged in part because law courts were not allowed to see the full view of what was transpiring between the parties and because the system lacked sufficient remedial mechanisms. Modern problems in intellectual property echo both of these.

In exploring the concept of inappropriate use of intellectual property, I cannot claim to be able to perfectly delineate and categorize all cases. There will be difficult ones, in part because this is a challenging area of law, and in part because this is the nature of law. Regardless of the legal structures one can envision, clever minds will seek out the interstices between those lines, rendering that structure insufficient for resolving the new question and ensuring a constant evolution. Inability to solve with perfection, however, is no reason to abdicate responsibility, unless of course one is convinced that any action taken will cause more harm than inaction. Regardless of imperfection, we can identify what is clearly good, and what is clearly problematic, establishing a general structure for considering the question. Most important is the recognition of a broad problem of inappropriate use in intellectual property and of the necessity for formulating a response.

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

17 Robin Feldman, Rethinking Patent Law 84 (Harvard 2012) (discussing the fact that uncertainty and bargaining are inherent in the nature of patent law but that this should not lead us to abandon efforts to influence the definition of rights that will eventually emerge or the process itself).
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.\(^\text{18}\) 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 amplification and how it affects intellectual property. Part II details examples of troubling schemes in modern markets. Part III describes current legal tools, demonstrating their inadequacies. Part IV discusses the doctrine of inappropriate use of intellectual property and explores examples of how it could be applied.

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.\(^\text{19}\) As described below, fluidity among these various regimes provides ample opportunities for mischief and suggests that all forms


\(^{19}\) Charles Tait 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).
should be handled in a single, over-arching doctrine, subject to the variations each area may require.

**I. AMPLIFICATION & 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 amplification and monetization is creating opportunities for troubling 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. Amplification

The classic story of invention or creation unfolds in the following manner. An inventor 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. 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.\textsuperscript{20} For different reasons, both systems are plagued by the following factors: 1) uncertainty regarding the boundaries of rights; 2) the lack of a quick and reasonably priced method of 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 returns to their owners. I would refer to these as 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 amplification of the value of rights.

\textsuperscript{20} For a description of patents in the modern world, see \textsc{Feldman}, supra note 9, Chapter 2, “How Modern Patents Operate.” For a comparison of aggregation in patent and copyright fields and the implications of this behavior, see Ben Depoorter & Robin Feldman, \textit{Intellectual Property Aggregation} (forthcoming; manuscript on file with author).
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. 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 a tangible product.

This describes, of course, the value of an individual intellectual property right in an ideal world. Circumstances in the real world, however, 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 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 addition, in certain circumstances, the parties may be able to transfer part of the cost to society or to others.\textsuperscript{21} After all, if the price of what I want is very high, but I can pay for much of it with someone else’s money, the deal will look quite attractive. Where this is possible, the intellectual property holder will be able to receive greater value by ensuring that some of the costs are external to the bargain.

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 Amplification Arises in Patents.

As described above, the intellectual property systems are plagued by great 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.

In patent, the uncertainty flows from the nature of a patent itself. As I have described extensively in other work,\textsuperscript{22} it is simply impossible to know the full boundaries of a patent at the time when the patent is granted. Patents, by definition, are granted only on those things that are new, or at the very least, consist of a group of existing elements combined in a way that is new. When something new is created, we lack a shared understanding of the new thing and how it may be compared to other things. Even if there

\begin{footnotesize}

\textsuperscript{22} The description in this paragraph comes from Feldman, \textit{supra} note 9, Chapter 1 (describing the theory of the bargain aspect of patents).
\end{footnotesize}
is a shared conception, an essential truth of the invention to which we would all agree, that truth must be enshrined in language, with all the malleability and variable interpretation to which language is subject. Worse yet, the language we use to describe this new thing has been developed at a time when the thing did not exist. The words we choose to describe the new creation, insufficient as those words are at the time we choose them, will be further strained by the fact that they will use to compare future innovations that do not even exist now as we are choosing the words to describe our creation. The challenges of language are extensive.

Most important, the boundaries of an invention must be determined over time. Additional information will form, and new products will emerge that prompt us to flesh out particular aspects of the definition. The aspects of the definition that are fleshed out will depend on the serendipity of what other products emerge and the use that the patent holder chooses for its patent. We cannot know fully what the boundaries of particular patent will be until the end of the patent term, when all of the questions that will be asked, have been asked.

Thus, regardless of how brilliantly we craft legal doctrines or how scrupulously we apply them, the problems of newness ensure that the definition of an invention cannot possibly be captured in a single, freeze-frame moment when a patent is granted.\textsuperscript{23} Our inability to capture the definition of an invention at the time of the patent guarantees a high level of uncertainty within the system.

The patent system also lacks a quick and inexpensive way to resolve this uncertainty about the boundaries of a particular patent. Patent litigation is a long and

\textsuperscript{23} \textit{Id.} At 29.
extremely expensive process. Scholars estimate that the average patent trial involving a non-practicing entity lasts nine months and the average patent trial in other circumstances lasts 15 months.\textsuperscript{24} For smaller cases where the amount in controversy is under $1 million, the average trial itself costs almost a million dollars. For larger cases where the amount in controversy is greater than $25 million, the average trial costs $6 million.\textsuperscript{25} The intangible costs of patent litigation may be as great as the dollar amounts, particularly for a young company. Patent litigation can distract management, as well as scaring off customers, investors, and suppliers.\textsuperscript{26}

Finally, the remedy system in patents can create a distortion between the value of a patent 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 \textit{eBay v. MercExchange}, injunctions were routinely granted.\textsuperscript{27} Although the pace of injunctions has slowed somewhat in the wake of eBay, courts still grant injunctions in a significant number of cases. Thus, when a company, which is 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


\textsuperscript{25} \textit{Id.}


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 be
providing to the whole product.

Moreover, the damage measurements available in patent cases significantly
heighten the risk of amplification. 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.”28 The language is perfectly
reasonable in the abstract; it is the application of the language that has been problematic.

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.29 With such variability, the test has been described as
involving more the talents of a conjuror than that of a judge.30

The test can be particularly troubling when it is applied to complex multipart
products.31 In those circumstances, the cost of the product sold may be a factor, not just
of the patented process or component itself, but also of dozens of other patented
inventions, as well as unpatented technology and the value added by the manufacturer in

modified sub nom. Georgia-Pac. Corp. v. U.S. Plywood-Champion Papers Inc., 446 F. 2d
295 (2d Cir. 1971).
30 See Fromson v. Western Litho Plate & Supply Co., 853, F.2d 1574 (Fed.Cir. 1988)
(describing a practitioner’s comment).
31 For a detailed description of patent remedies, problems with those remedies and issues
discussed in this section, see Feldman, supra note 9, at 85-90; see also, Mark A. Lemley,
Distinguishing lost Profits from Reasonable Royalties, 51 WILLIAM & MARY L. REV. 655
(2009); Mark A Lemley and Carl Shapiro, Patent Holdup and Royalty Stacking, 85
putting everything together and marketing the product. The Georgia-Pacific test does not necessarily take this into account, and patented inventions that make a small contribution to an overall product can receive 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, 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.

Although the court ordered a new trial over damages in Alcatel-Lucent, the jury verdict there is not the only mammoth award that has been handed down. The threat of such an outsized award 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.

The combination of great uncertainty about the coverage of any individual patent, an expensive resolution system and the prospect of devastating injunctions or massage damage awards combine to make the modern patent system a complex and multi-

---

32 Lucent Technologies, Inc. v. Gateway, Inc., 509 F.Supp.2d 912 (2007) (granting Microsoft’s motion for JMOL on the damages award for insufficient evidence to establish the correct royalty base), aff’d, 543 F.3d 710 (2008) (affirming JMOL 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).
dimensional strategy game. I have described this game and its various strategies at length in RETHINKING PATENT LAW, and will only describe a few pieces of it here.\footnote{For a detailed description of how modern patents operate, see FELDMAN, supra note 9, at Chapter 3.}

The key issues in very brief form are 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 portfolio of patents. If the person trying to assert a patent against you is a competitor who wants to keep you out of part, or all, of their 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.\footnote{See, e.g., James F. Holderman & Halley Guren, Litigation Predicament p. 112; Douglas G. Lichtman & Mark A. Lemley, Presumption of Validity 46; Gideon Parchomovsky & R. Polk Wagner, Patent Portfolios, 154 U. Pa. L. Rev. 66 (2005).} 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 they may be unlikely to withstand close scrutiny in court. Nevertheless, the patent holder may reap a substantial return from these patents, particularly if a few stronger patents are sprinkled throughout. The bargaining and
maneuvering described above offers only a small taste of the complex interactions of the patent world.

B. 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.” These are 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%. These patents do have some impact on the patent system. Among other things, they clog the 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 from the creation of products for society.

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.

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.36 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, but they also include a series of increasingly broad claims that reach further and further. The broad claims may be tremendously weak, and unlikely to survive close scrutiny 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.

Some scholars suggest that the limited patent examination is actually efficiency enhancing.37 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. Large numbers of shadow patents are being separated from any product they might have been associated with and monetized.

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-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, however, tends to be quite different from that of garden-variety trolls, and some commentators are uncomfortable grouping them together.

I would suggest 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.

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.38

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 case or for a return on the monetization activities of the third-party.

For example, Wired magazine recently interviewed a “reverse engineer” working for a monetization entity called “Rockstar Consortium.”39 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 the Rockstar’s thousands of patents. Rockstar then contacts the company and demands a license fee.40

40 Id.
Although these patent monetization entities and their potential effects on the patent market and the broader economy are fascinating topics,\(^{41}\) 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 be monetized. In our brave new world, large numbers of patents, that would not have garnered any 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.

C. Amplification and Monetization in Copyright

The copyright system manifests some of the same characteristics of uncertainty of boundaries, high cost of dispute resolution, and the risk of costly remedies. Although the details of these characteristics differ substantially from the way in which they arise in the patent system, these characteristics foster the same type of amplification, in which the rights holder can bargain for more than the value of the copyrighted work. Copyright is also experiencing aggregation and monetization schemes, although not nearly as large and widespread as in the patent system.

Uncertainty in the copyright system flows from a variety of factors, including the following. Specifically, it protects the manner in which an idea is expressed--not the content of the idea, but the way the author or other creator chooses to express that idea.

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.

Thus, copyright protects something that is intangible. Although the expression must be fixed in a tangible medium for copyright to attach, the subject of the copyright remains the intangible expression. 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 infringement. It is determined by balancing a set of factors that reflect varying policy considerations about the limitations of the right to copy and the types of activities that should be preserved for the public. In particular, the Copyright Act directs that anyone may make fair use of a copyrighted work “for purposes such as criticism, comment, news reporting, teaching . . . , scholarship, or research.” The Act further notes four factors to consider in determining whether a particular use is fair. These include the purpose and character of the use, the nature of the copyrighted work, and amount and substantiality of the portion used in relation to the work as a whole, and the effect of the use on the potential market for the copyrighted work.42 These factors are to be balanced, and the courts have determined that no one factor is dispositive.43 In addition, the factors listed are not exclusive. Neither are the categories of uses listed as fair in the Act (criticism, comment, news reporting etc.). In other words, courts may determine that other types of

42 See id.
43 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).
uses are fair or to consider other factors in determining whether particular instances of the listed uses are fair.\textsuperscript{44}

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. In addition, the copyright system manifests particular mechanisms, some legislative and some market-based, that facilitate licensing of rights. Nevertheless, any system in which a key determination is subject to such variability is 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. 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.\textsuperscript{45} 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.

\textsuperscript{44} The language of §107 says for purposes “such as” and factors to consider “shall include.” See id.
Although not as complex and extensive as in the patent system, the copyright system is experiencing some forms of aggregation. Section II will discuss some examples of aggregation and others can be found in the article, “Intellectual Property Aggregations.” As described with patents, each of these characteristics creates the potential for amplification.

Finally, the copyright system manifests an additional characteristic that provides opportunities for amplification. 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. It could also reflect a variety of other social phenomena. 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. Regardless of the explanation, the significant gulf between legal rules and societal norms in copyright adds to the amplification power within the system.

For example, many individuals are generally aware that they are violating copyright regulations, regulations that they may see as inappropriate or burdensome. When faced with an accusation of infringement, people may simply capitulate, agreeing

---

46 See Depoorter & Feldman, supra note 11.
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. Those who pursue copyrights tend to be larger entities, such as the Recording Industry Association, computer software companies, and artists with blockbuster works. The level of resources and experience with the copyright system, may be significantly higher when parties such as these pursue copyright claims against individuals or smaller groups. The size of the potential damages may encourage copyright infringers to settle quickly. Civil damages of up to $30,000 per work are available, and willful infringement can create damages of $150,000 per work.\footnote{17 U.S.C. 504.}

Although criminal prosecutions are rare and unlikely to apply to most cases of infringement by individuals,\footnote{See 18 U.S.C. 2319 (providing criminal penalties for those who willfully infringe for the purpose of commercial advantage).} the specter of criminal sanctions may increase the psychological pressure for settlement, regardless of whether the settlement request is justified.

D. 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.

In particular, the creative life historically has not been a remunerative one for most authors, artists and other copyright holders. Although exceptions abound, few
copyright holders have earned much of anything from their works. 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 registration in 1989. 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. Since 1989, copyright has attached the moment that a work is “fixed in a tangible medium of expression.” Fixation occurs when a work is written down, photographed, or otherwise recorded. Elimination of notice and requirement has meant that a vastly greater number of moments of expression have fallen under the protection of copyright.

Second, the explosion of digital technology and digital communication methods has vastly increased the number of works subject to copyright. People are constantly fixing things in a tangible medium of expression 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 generally relates to the ever-elusive fair use doctrine.

Regardless of the strength of the copyright, copyright attaches in the moment of fixation for all of these, assuming that they meet other minimal requirements, such as originality and a “modicum of creativity.” This results in an astoundingly vast amount of

material that may be subject to claims of copyright. Copyrights in the vast majority of this material 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?

In addition to expanding the amount of material subject to copyright, modern technologies also increase the possibility of copyright infringement. It takes little effort to use a song for a video at one’s family event, copy a cartoon or a snippet of a movie into an email or onto one’s Facebook page or website, or post a recording of a TV show on YouTube.

Modern technologies also may vastly increase 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.\(^\text{50}\) And of course, copyright’s version of amplification brings opportunities for mischief, examples of which will be described below.

## II. TROUBLING SCHEMES

The following section discusses a variety of troubling behaviors that are emerging in intellectual property markets. These behaviors generally take advantage of the

\(^{50}\) See Depoorter & Feldman, *supra* note 20.
opportunities for amplification as well as the additional possibilities that arise from aggregation. The examples included are not isolated incidents, but appear to represent standard behaviors or trends in intellectual property rights interactions. The examples were chosen for inclusion here 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.\footnote{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.} The Nook uses the Android operating system, based on the open source Linux system. Other hand-held 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 laptops, desktops, smartphones and electronic readers.

Federal court filings by Barnes & Noble, as well as the company’s letter to the Department of Justice, detail the following saga between Barnes & Noble and
Microsoft. In 2010, Microsoft approached Barnes & Noble saying 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 product 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.

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 and the Nook product is public as well, Barnes & Noble saw no need for a non-disclosure agreement.

One could imagine a patent holder arguing that while the claims are public, the patent holder’s litigation approach and strategy is 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.

---


53 For an example of a common technique in patent licensing negotiation, see Jason Rantanen, 3M v. Avery: Walking the Line of Declaratory Judgment Jurisdiction, Patently-O, March 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
to all of the territory the patent holder controls. Alleging confidentiality for what one
asserts is the territory covered by one’s patent is antithetical to 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.” 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, with the proposed fee amounting to more than what Microsoft was
charging for its entire operating system for mobile devices. The meeting was
unsuccessful, and a few months later, Microsoft filed an infringement action against
Barnes & Noble.

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.54 As part of the deal, the

---

54 See Michael J. De La Merced & Julie Bosman, Microsoft To Take Stake in Nook Unit
parties agreed to settle their patent disputes and to produce a Nook application for Windows.  

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, what a marvelous way to attack a competing platform: threaten, litigate, drive down share price, buy company cheap, and get platform adopted.

The insistence on a non-disclosure agreement 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. This confidentiality provision, however, might have served even more troubling aims. One could imagine that a non-disclosure agreement under such circumstances could have been 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


35 See id.
actors to make the necessary connections between different transactions emerge to reveal
a pattern of anticompetitive conduct emerges. If so, intellectual property is being used to
shield anticompetitive behavior.

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.

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. 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. As described above, Intellectual Ventures has assets of at least $5

56 For a detailed description of mass aggregators--often consisting of competitor groups--
and anticompetitive concerns, see Ewing and Feldman, supra note 38. For additional
stories on operating companies creating or interacting with monetizing entities, see
(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” Patents, Gizmodo, January 14, 2012 (describing sale of
Nokia patents to an aggressive monetization entity) available at
billion and is estimated to own the fifth largest patent portfolio of any domestic U.S. company.\textsuperscript{57} 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:

\begin{quote}
[W]e called people who had licensing arrangements with [Intellectual 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.\textsuperscript{58}
\end{quote}

Even more troubling, I spoke to one government regulator who said that at least some of the Intellectual Ventures agreements apparently 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

\textsuperscript{57} For a detailed description of Intellectual Ventures and other mass aggregators, see Ewing & Feldman, supra note 38.

intellectual property assets to silence potential criticism. Our current system would not stem this type of behavior.

The problem is even more disturbing in light of the origin of the entity’s power. 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 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. In particular, if a company that actually makes a product wants to threaten patent litigation against another company, 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. Creating a monetization entity with one’s intellectual property, dropping the assets into it, and then allowing the entity to go after targets, insulates the company from any counter-offensive. They 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.\textsuperscript{59} Vast amounts of societal resources are wasted in the course of all of this positioning and patent battling. In simple terms, litigation should not be a competition tool; companies should compete with better products and services.

The mass aggregator, Intellectual Ventures appears to have raised this to the level of an art form. The aggregator frequently creates a subsidiary corporation for each intellectual property transaction, and one study was able to locate 1,300 Intellectual Ventures subsidiaries.\textsuperscript{60}

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 the Hague


\textsuperscript{60} See Ewing & Feldman, \textit{supra} note 38

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. When a particular patent constitutes an essential patent in a particular area under a standards agreement, the patent holder generally has a commitment to 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. 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.\footnote{See id. at p. 9.}

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. For example the IEEE, the 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

\footnotesize

\begin{itemize}
  \item See text accompanying note 110, infra (explaining the larger context of the transaction).
  \item See id. at p. 9.
\end{itemize}
comply with its obligations.\textsuperscript{64} This, however, may have little impact. A standard may already be so entrenched in the technology that revocation would have little effect.\textsuperscript{65} In addition, if a member has gone bankrupt or has otherwise left the field, revoking the member’s privileges may be irrelevant.

IEEE 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.

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.\textsuperscript{66} 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.

\textsuperscript{64} For a description of IEEE compliance mechanisms, see id. at p. 7.
\textsuperscript{65} Id.
\textsuperscript{66} GameTime IP Blog on May 31, 2011.
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 to go
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.68

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. A year later, Google paid 2.7 million shares of its stock, settling the case before its IPO.69

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.

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

68 Id.
69 See id.
defendant for bringing a claim when a reasonable party should have known that the claim
could not be established. 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.

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, Prenda Law, a San Francisco law
firm, has acquired copyrights to a number of pornographic movies. 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. 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.

D. Fishing for Infringers

Although not at the scale or level of complexity as patent, copyright also is beginning to experience its own trolling behavior. 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 attempted to acquire rights to a portfolio of newspaper content and to enforce those rights by suing bloggers who quoted the newspaper content on their web. 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. 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 Righhaven 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 all of 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.
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.\(^7^0\) 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.\(^7^1\)

One academic journal acknowledged that its research into the infringement activity consists of “trolling through USPTO records.” 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.\(^7^2\) Nevertheless, the actions are moving forward.


\(^7^1\) See id.

\(^7^2\) See id; see also USPTO Memo, available at [http://www.uspto.gov/about/offices/ogc/USPTOPositiononFairUse_of_CopiesofNPLMad_einPatentExamination.pdf](http://www.uspto.gov/about/offices/ogc/USPTOPositiononFairUse_of_CopiesofNPLMad_einPatentExamination.pdf)
Changes in technological know how may accelerate this type of copyright
trolling. Legal Informatics, that is, the automated sorting of documents for purposes
related to the practice of law, is poised to take off at an explosive pace in the coming
years. 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 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. 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.\textsuperscript{73} 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.\textsuperscript{74}

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 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

\textsuperscript{73} 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 & Bree Johnston, Copyright at the Bedside: Should We Stop The Spread?, (forthcoming); see also John Newman & Robin Feldman, Copyright and Open Access at the Bedside, 365 NEW ENG. J. OF 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).

Psychological Assessment Resources (PAR) began asserting copyright against hospitals and physicians. 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. 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. 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

---

75 For a description of the monetization structure, see Feldman et al., supra note 73 at 4.
76 Id.
77 For a detailed discussion of the validity of the legal claims, see id.
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.” 78

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. Thus, claiming 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.79

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,80 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

78 See id.
79 See id.
80 http://www4.parinc.com/ProRes/permissions.aspx
are using this for clinical purposes—in other words, if you are treating patients. 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.

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.

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

---

81 See Permission Request Form, available at http://www4.parinc.com/webuploads/permission_request/Permission_Req_Form_distributed.pdf. 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.
interpret them.\textsuperscript{82} 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.\textsuperscript{83} 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. 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 hope 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.

\textsuperscript{82} \url{http://www4.parinc.com/Faqs.aspx}
\textsuperscript{83} This, of course, is an unavoidable problem for administering the test to medical professionals themselves.
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 scheduled 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.”

III. 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.
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.”

Patent misuse, however, has many drawbacks as a solution to the types of problems described above. Patent misuse 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 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. 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.

---

85 Princo Corp, v. ITC, (Fed. Cir. 2010) (en banc).
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. 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.

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 rigeur* in all cases, and the doctrine’s primary use appeared to be in bashing one’s opponent, Congress severely curtailed the doctrine in 2011. 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.

**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. 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."\(^{92}\)

   The Fourth Circuit, however, has held that equitable rules such as laches, which are concerned with time delays, cannot be applied to bar claims in 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.\(^{93}\)

   In a decision promulgated the same year as the Fourth Circuit’s opinion, however, the Ninth Circuit reached the opposite conclusion. In a case in which the copyright holder had failed for 36 years to complain of the defendant’s exploitation of the James Bond character, the Ninth Circuit ruled that laches barred the suit.\(^{94}\) The Supreme Court has yet

---


\(^{93}\) See *Lyons Partnership, L.P. v. Morris Costumes, Inc.*, 243 F.3d 789, 797 (4th Cir. 2001).

\(^{94}\) See *Danjaq LLC v. Sony Corp.*, 263 F.3d 942 (9th Cir. 2001); see also Nimmer on Copyright § 12.06[1].
to speak on the issue, 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 copyright infringement stemming from the fact that Google caches the website as part of its search engine function.\(^9^5\) 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.\(^9^6\) *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.\(^9^7\)

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

---


\(^9^7\) See Liam Kneprath-Malone, *Examining the Dichotomy in Implied License Law in the Ninth Circuit* (unpublished manuscript on file with author) (arguing, among other things that applying *Field* outside of the on-line arena would be problematic).
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. 98

The problem begins with the Noerr-Pennington doctrine, which protects the rights of citizens to petition the government without fear of antitrust liability. 99 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. 100 Over time, the doctrine has expanded to protect the right to petition the courts. 101

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. 102 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. 103

98 See Feldman, supra note 9, at 166-169 (providing a detailed description of problems with the doctrines in sham litigation and antitrust as they intersect with patent law).


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


103 See i Prof’l Real Estate Investors v. Columbia Pictures Indus., 508 U.S. 49, 60-61; see (1993); also id. at 58 (characterizing the Cal. Motor Transport Court’s discussion of the
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. 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.

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. As I have discussed at length in other work, however, effective antitrust enforcement in this area will require a shift in the way that we define relevant markets. Antitrust authorities examine three different kinds of markets—markets for goods, technology markets, and innovation markets. 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.

difficulty in evaluating whether a claim is baseless as endorsing an objective standard); Cal. Motor Transport v. Trucking Unlimited, 404 U.S. at 513.
104 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.”).
105 See Feldman, Giants Among Us, supra note 38, at 35-37 (discussing at length the changes necessary for effective antitrust analysis under these circumstances).
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 the monetization of copyrights as their own markets, in order to properly analyze the impact of certain modern behaviors.\textsuperscript{107} One cannot possibly understand the impact of behavior by mass aggregators, for example, without thinking of the market for patent monetization as a whole.

Altering the market definition may allow authorities to reach a broader swath of troubling behavior in intellectual property markets, but it cannot reach all of the problems. With a few exceptions, such as price fixing among competitors, antitrust doctrine is focused only on parties who have market power, which is defined as sufficient power in a market that they can raise prices or restrict supply in that market. In other words, 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. As described above, the tremendous uncertainty, the costs of resolving that uncertainty, and the outsized remedies available provide opportunities for intellectual property rights holders to amplify the power of their intellectual property. Examining power within a particular market can never fully account for an intellectual property holder’s ability to distort markets.

Most important, antitrust analysis is only possible if 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

\textsuperscript{107} See Feldman, Giants Among Us, supra note 38, at 35-37 (describing at length the necessity for analyzing monetization markets.)
amplified 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 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.

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 assert patents

---

108 See Depoorter & Feldman, supra note X.
against the open source Linux Kernal. 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.

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.

110 See Nokia website, Legally Binding Commitment Not to Assert Nokia Patents against the Linux Kernel, available at http://web.archive.org/web/20060213045608/http://www.nokia.com/iprstatements; Securities and Exchange Form 20(f), December 31, 2005 available at http://www.sec.gov/Archives/edgar/data/924613/000104746906002736/a2167693z20-f.htm; see also Nokia White Paper (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 richer the user experience).

111 See MOSAID press release citing Microsoft statement that:

We are pleased to have secured a license to the Nokia patents now acquired by MOSAID for Microsoft's products and services. In return, we have a passive economic interest in the revenue generated from the licensing of those patents to third parties. The marketplace for intellectual property is incredibly dynamic today, and this agreement is an effective way to make these Nokia innovations available to the industry and to unlock the considerable value of this IP portfolio.

Mass aggregators are creating risks and harms of their own, however. When a patent troll recently sued a mass aggregator alleging antitrust violations, 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.

The problem stems from society’s grant of intellectual property rights and its failure to properly cabin the use of those rights. A complete and comprehensive solution must aim at these roots.

IV. 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. Furthermore, 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.

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 misuse their intellectual property rights.

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.)\(^\text{113}\) 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.\(^\text{114}\) Similarly, judges in some circumstances of inappropriate use of intellectual property could follow the example of Judge Posner and reject the lawsuit.

\(^{113}\) 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**, (West 1993, 2d ed.) Vol. 3, pages 573-578.

\(^{114}\) See id.
altogether, 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.

This 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, signaling to

---

115 See text accompanying note x, supra.
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.

From there, we can begin the process of moving towards the more difficult cases in the middle. It is a process that will have to be flexible, dynamic and as creative as the parties it governs. We would not be writing on a blank slate. Doctrines in other areas of the law would be useful for developing the contours of this one—including the antitrust and tax law models described below.

As described above, antitrust doctrine would be insufficient to address the full breadth of the problem. Nevertheless, 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.

A. *Examples of the Doctrine Applied*
The following section will describe ways in which a doctrine of inappropriate use of intellectual property might respond to some of the troubling behaviors outlined above in Section II. For example, where intellectual property rights holders have used their rights to require nondisclosure requirements that reach more broadly than confidential information, a court could invalidate the gag. This would require little more than the type of inquiry that courts undertake in many other 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 constitute an inappropriate use.

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. 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. In a similar vein, the court could choose to make the original intellectual property rights holder continue subject to counterclaims or responsible for damages, for example, closing the distance that the intellectual property...

---

116 Cf. Dobbs, supra note 113, 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.)
rights holder has tried to create for itself. In addition, if intellectual property rights holders are able to shed their obligations to standards bodies through creative transfers, a court could restore those obligations.

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.\textsuperscript{117} By allowing an affirmative claim, behavior that occurs well before any lawsuit has been initiated would more likely be subject to scrutiny. 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.\textsuperscript{118}

Although the examples described above outline remedies 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?

\textsuperscript{117} 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 text accompanying notes x-y.

\textsuperscript{118} 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).
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 more than 5 years to develop, consisted of a collection of tinkering alterations, and satisfied very few people—should provide a cautionary tale. Nevertheless, 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. Nevertheless, much could and should be accomplished without the need for major legislative action.

C. A Rebuttable Presumption

In this final subsection, I would like to propose a corollary to the doctrine that is likely to be more controversial than the recommendations outlined above. It is certainly not a necessary component of an inappropriate use doctrine, although I suggest that it could be a useful and appropriate one. It springs from a general sense that the intellectual property system has lost its bearings, developing into a multi-dimensional game of strategy in which litigation, rather than innovation, is leading the way.

119 See text accompanying notes x-y above.
I would suggest that we consider in some form, most likely through legislation, the notion that failure to use one’s intellectual property after a certain period of time, should bring about a rebuttable presumption of inappropriate use. It would be a notion somewhat analogous to laches, that one should not be allowed to lie in wait, as value accumulates and society comes to believe that a particular activity may be enjoyed freely, and then pounce upon the value that has developed. It would also go a long way towards derailing the monetization behavior that is now becoming rampant and that threatens to create harm and havoc throughout the intellectual property system. The notion would be simply that when an intellectual property rights holder has failed for a sufficient period of time to make any effort to develop the intellectual property into a product or get others to develop it, there is a rebuttable presumption that the later use of the intellectual property is inappropriate.

I note that the presumption is fully rebuttable, although the clarification is unlikely to provide any shield from the fury that will be hurled at the suggestion advanced here. Objections, are likely to include the following: first, it may take time to find an avenue for developing one’s intellectual property rights, with smaller or individual inventors at a particular disadvantage in this aspect. It is unfair to punish innovators if they are not immediately successful. In addition, inventors, particularly large sprawling companies, cannot pursue every idea they develop. They must be allowed to keep some on the shelf, pursuing one avenue at a time. Finally, companies should be

---

121 Among other problems, the Patent Act provides that failure to use a patent does not constitute patent misuse. Although this is a reference to a different doctrine altogether, one with draconian consequences, one could argue that it creates problems for a judicial doctrine that requires some form of effort to develop one’s patent.
free to pursue their intellectual property rights as they see fit. Requiring affirmative activity interferes with legitimate market choices.

Although all of the concerns are valid, they are manageable. One would not have to succeed but only make a valid attempt to develop one’s intellectual property. In addition, it is important to emphasize that the presumption is a rebuttable one, which could be countered in appropriate circumstances. Finally, for those who complain that the rebuttable presumption will hurt the practice of shelving intellectual property rights for future development by an entity, I would suggest that the practice of allowing rights holders to shelve vast amounts of innovation ultimately may be counterproductive for societal advancement. A shift away from that practice might be beneficial on multiple levels.

In addition to the benefit of derailing some of the trolling behavior, the rebuttable presumption would also cabin the vast amount of shadow IP rights that are constantly being created. The looming problems associated with having an extensive body of rights, ones that were never destined to be used productively but that are increasingly being recruited for monetization, could be significantly curtailed with the rebuttable presumption.

As society careens towards an intellectual property system completely unmoored from the goals of its founders, where vast numbers of IP rights that were never intended for productive use are monetized, commoditized and asserted as a tax on anything to which they can be attached, the rebuttable presumption may offer an effective societal response.
V. CONCLUSION

Innovation is our most valuable of the national resource. 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 sufficiently 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.\textsuperscript{122} 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.

\textsuperscript{122} See Feldman, Rethinking Patent Rights, \textit{supra} note x.
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 boulder 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.