CONTROLLING OPPORTUNISTIC AND ANTI-COMPETITIVE INTELLECTUAL PROPERTY LITIGATION

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Abstract: This Article analyzes two methods of controlling rent-seeking costs associated with opportunistic and anti-competitive intellectual property lawsuits. One method discourages rent-seeking costs by reducing the credibility of weak lawsuits. This can be accomplished by restricting preliminary injunctions, encouraging declaratory judgment suits, adjusting the substantive law to encourage summary judgment for defendants, and shifting attorney fees from rent-seeking plaintiffs to prevailing defendants. In addition, antitrust suits have a limited role in deterring the most egregious anti-competitive conduct. A more extreme method eliminates rent-seeking costs by restricting or eliminating certain intellectual property rights. Such an extreme measure is justified if a right generates relatively little direct social benefit, and pre- and post-trial control measures are not effective in containing rent-seeking costs.

INTRODUCTION

Intellectual property (IP) law effectively stimulates the creation and distribution of information and information-rich products that are vital to economic growth and well-being.[1] Unfortunately, it also promotes harmful rent-seeking by owners of IP rights who undertake opportunistic and anti-competitive lawsuits. Some IP owners value their property rights chiefly as "tickets" into court that give them a

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[1] *See* ROBERT E. EVENSON & SUNIL KANWAR, DOES INTELLECTUAL PROPERTY PROTECTION SPUR TECHNOLOGICAL CHANGE? 3 (Econ. Growth Ctr., Yale Univ., Center Discussion Paper No. 831, June 2001), *at* http://papers.ssrn.com/sol3/papers.cfm?abstract_id=275322#Paper%20Download.

credible threat to sue vulnerable IP users.[2] Socially harmful IP litigation is common because the rights are easy to get and potentially apply quite broadly, and the problem is growing worse because of the expansion of the scope and strength of IP law.[3] This Article addresses rent-seeking that arises when a party seeks to enforce an IP right that is probably invalid or seeks to stretch a valid right to cover activities outside the proper scope of the right. Such rent-seeking costs can be controlled by (1) reducing the risk that parties will acquire invalid IP rights, (2) making the scope of rights clearer, or (3) using a mix of procedural and substantive measures that mitigate the harm caused by lawsuits based on vague or invalid rights.[4]

Courts and commentators have recognized a similar problem in the antitrust realm.[5] Antitrust law is supposed to promote competition, but it can be used by a plaintiff to exclude competitors or to extract a wrongful settlement payment.[6] Some antitrust plaintiffs bring suits hoping the courts will mistakenly block activities that increase the efficiency of the plaintiffs' competitors.[7] Antitrust law has re-

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[2] "[The patent] system ... gives you a government grant which is little more than a right to litigate ...." Ronald Zibelli & Steven D. Glazer, *An Interview with Circuit Judge S. Jay Plager*, J. PROPRIETARY RTS., Dec. 1993, at 6 (objecting to the weakness of patent rights).

[3] *See* EXPANDING THE BOUNDS OF INTELLECTUAL PROPERTY, at x (Rochelle Cooper Dreyfuss et al. eds., 2001) (noting sui generis laws have been proposed or enacted to cover "products as diverse as semiconductor chips, databases, industrial design, artistic performances, computer programs, and genetic maps."); YOCHAI BENKLER, *A Political Economy of the Public Domain: Markets in Information Versus the Marketplace of Ideas*, *in* EXPANDING THE BOUNDS OF INTELLECTUAL PROPERTY, *supra*, at 270 ("[The belief] that more property rights necessarily lead to the production of more, and more diverse, information ... has been used in varying degrees to justify a phenomenal expansion of intellectual property rights in sundry directions over the past few years."); Robert P. Merges, *One Hundred Years of Solicitude: Intellectual Property Law, 1900–2000*, 88 CAL. L. REV. 2187, 2239–40 (2000) (asserting that the belief that economic policy should be grounded in a competitive baseline is starting to give way to a notion that all sorts of intangibles deserve protection from some form of property law).

[4] This Article catalogues a variety of control methods and conducts a preliminary analysis of the relative effectiveness of different methods. It does not assess the costs that might result from overbroad application of the methods, or possible harm to the productive incentives of IP owners.

[5] *See* William J. Baumol & Januz A. Ordover, *Use of Antitrust to Subvert Competition*, 28 J.L. & ECON. 247, 250–51 (1985) ("the social costs of rent-seeking protectionism can be very high").

[6] *Id.* at 252–53 (asserting that treble damages encourage rent-seeking, though they also play a desirable deterrent role).

[7] For example, Chrysler challenged a GM-Toyota joint venture. Chrysler's incentives were exactly the opposite of the social welfare goals—Chrysler would oppose a joint venture that created socially desirable productive efficiency for GM and Toyota because that

sponded[8] by crafting standing rules that exclude plaintiffs who are unlikely to be good "private attorneys general,"[9] clarifying vague antitrust criteria so defendants can avoid the risk of anti-competitive suits,[10] and easing summary judgment requirements for antitrust defendants in certain circumstances to discourage opportunistic lawsuits.[11]

IP law probably needs to follow the same path as antitrust law by taking stronger substantive and procedural steps to mitigate the harm from rent-seeking through litigation. Section I of this Article defines opportunistic and anti-competitive IP lawsuits and explains when they are credible.[12] Sections II and III show how certain pre-trial and post-trial measures help control socially harmful litigation by undercutting its credibility.[13] Better control is possible if trial judges are more vigilant and use their discretion to restrict the availability of preliminary injunctions and to award attorney's fees to defendants in opportunistic and anti-competitive cases. Control can be further enhanced by encouraging declaratory judgments and summary judgments in favor of defendants. There is also a limited role for antitrust judgments against anti-competitive plaintiffs.

Section IV explores the feasibility of ex ante filters that could reduce the prevalence of weak suits.[14] The most encouraging developments on this front are efforts by the U.S. Supreme Court to restrict trade dress protection and by the U.S. Court of Appeals for the Federal Circuit to restrict the scope and increase the clarity of patent claims. Changes to patent and trademark examination are not likely to reduce rent-seeking costs significantly. But imposing stricter stan-

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would hurt Chrysler, and Chrysler would favor a joint venture that caused a socially harmful output restriction because that would help Chrysler. *Id.* at 256–57.

[8] Whether these responses were good policy is open to debate. Measures that control rent-seeking litigation sometimes discourage too much socially desirable litigation. *See* LAWRENCE A. SULLIVAN & WARREN S. GRIMES, THE LAW OF ANTITRUST: AN INTEGRATED HANDBOOK 910–13 (2000).

[9] *See* Cargill, Inc. v. Monfort of Colo., Inc., 479 U.S. 104, 109–13 (1986); Joseph F. Brodley, *Antitrust Standing in Private Merger Cases: Reconciling Private Incentives and Public Enforcement Goals*, 94 MICH. L. REV. 1, 2–10 (1995) (warning that the courts have gone too far in restricting private merger enforcement).

[10] *Cf.* Baumol & Ordover, *supra* note 5, at 254. *See generally* Ronald A. Cass & Keith N. Hylton, *Antitrust Intent*, 74 S. CAL. L. REV. 657 (2001).

[11] *See* Matsushita Elec. Indus. Co. v. Zenith Radio Corp., 475 U.S. 574, 585–88, 597 (1986).

[12] *See infra* notes 16–102 and accompanying text.

[13] *See infra* notes 103–197 and accompanying text.

[14] *See infra* notes 198–219 and accompanying text.

dards for certain IP rights might be an effective and socially desirable complement to ex post control measures that are never completely effective.[15]

I. Economic Analysis of Opportunistic and Anti-Competitive Intellectual Property Lawsuits

A. *Weak Lawsuits and Credible Threats*

A lawsuit is weak if the objective probability of successfully proving infringement is low at the time of filing. The probability of success is evaluated using the knowledge of a hypothetical plaintiff who files after conducting a reasonable investigation.[16] The probability of success may be low because the right asserted likely does not cover the defendant's behavior or because the right is unlikely to be valid. A weak lawsuit is anti-competitive[17] if the defendant's alleged infringing behavior occurs in a market the plaintiff participates in or intends to enter; otherwise, a weak lawsuit is opportunistic.

A plaintiff usually files an anti-competitive lawsuit seeking to impair the defendant's performance in their shared market or even to exclude the defendant from the market completely;[18] a plaintiff files an opportunistic lawsuit seeking a settlement payment.[19] Opportunis-

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[15] *See* Merges, *supra* note 3, at 2190–91 ("There is a fine line . . . between a meritorious property right and an odious government enforced rent.").

[16] *But see* Robert G. Bone, *Modeling Frivolous Suits*, 145 U. Pa. L. Rev. 519, 533 (1997) (stating that a lawsuit is frivolous "(1) when a plaintiff files knowing facts that establish complete (or virtually complete) absence of merit as an objective matter on the legal theories alleged, or (2) when a plaintiff files without conducting a reasonable investigation which, if conducted, would place the lawsuit in prong (1).").

[17] One might consider every intellectual property lawsuit against a competitor to be anti-competitive because exclusionary remedies are available to successful plaintiffs. That would be simplistic because it ignores the incentive effect produced by the profit derived from the exclusionary power of intellectual property. Nevertheless, the label "anti-competitive" might be appropriate when applied to strong claims that are derived from an underlying IP law that is overly protective. Regardless of the appropriate label, those issues are outside the scope of this Article.

[18] This Article does not address the problem of IP licenses designed to cartelize a market. One goal of this Article is to understand how to control anti-competitive litigation by structuring the law to reduce the credibility of weak IP lawsuits. Licenses that facilitate cartels do not depend on the credibility of the threat to sue; strong, weak, or sham rights can all be used to disguise collusion. Therefore, the control measures discussed in this Article are not targeted at the problem of collusion.

[19] Lawyers and economists have devoted significant attention to the problem of opportunistic lawsuits; they have developed a variety of theories to explain such suits, and a variety of policy recommendations to control them. *See generally* Robert H. Gertner, *Asymmetric Information, Uncertainty, and Selection Bias in Litigation*, U. Chi. L. Sch. Roundtable 75

tic and anti-competitive lawsuits are initially puzzling because it is hard to see why a defendant would yield to the threat of a weak suit. The puzzle can be solved by explaining why a defendant rationally believes a plaintiff with a weak lawsuit would actually prosecute the lawsuit through trial. There are three main reasons weak IP lawsuits are credible.[20]

First, the scope of IP rights is highly variable. Reasonable judges often disagree on the interpretation of a patent claim. The standard for trademark infringement, likelihood of consumer confusion, is inherently noisy. Copyright law asks the fact-finder to make a difficult subjective decision whether the defendant unlawfully appropriated the plaintiff's expressive work. Besides vague standards for infringement, trials often feature conflicting expert testimony about matters relevant to the scope of an IP right. Compounding these problems is the risk of error by judges and juries. Trial errors are difficult to dispel in IP litigation[21] because the complexity of the evidence can make it

(1993); Bone, *supra* note 16; Chris Guthrie, *Framing Frivolous Litigation: A Psychological Theory*, 67 U. CHI. L. REV. 163 (2000); Avery Katz, *The Effect of Frivolous Lawsuits on the Settlement of Litigation*, 10 INT'L REV. L. & ECON. 3 (1990); Barry Nalebuff, *Credible Pretrial Negotiation*, 18 RAND J. ECON. 198 (1987); D. Rosenberg & S. Shavell, *A Model in Which Suits Are Brought for Their Nuisance Value*, 5 INT'L REV. L. & ECON. 3 (1985); Steven Shavell, *Sharing of Information Prior to Settlement or Litigation*, 20 RAND J. ECON. 183 (1989). Most of the literature discusses opportunistic suits in the context of tort, civil rights, or shareholder derivative suits. *See, e.g.*, Bone, *supra* note 16, at 529–33.

[20] A lawsuit may also be credible when the plaintiff fails to investigate the defendant's conduct adequately. *See* Bone, *supra* note 16, at 550–66. Weak patent and trade dress lawsuits arise when plaintiffs fail to examine defendants' products to see if they are colorably infringing. *See, e.g.*, Judin v. United States, 110 F.3d 780, 784 (Fed. Cir. 1997) (reversing the Court of Federal Claims and insisting that a Rule 11 sanction should be applied to a patent owner who only observed an allegedly infringing device from a distance); Loctite Corp. v. Fel-Pro, Inc., 667 F.2d 577, 584–85 (7th Cir. 1981) (requiring expert testing before filing a patent infringement lawsuit in a case involving a sophisticated technology); Ferraris Med., Inc., v. Azimuth Corp., No. 99-66-M, 2002 U.S. Dist. LEXIS 13589, at *6 (D.N.H. July 24, 2002) (concluding in a trade dress infringement case "that neither Ferraris nor its legal counsel adequately investigated the facts"). A relatively uninformed plaintiff can credibly prosecute a weak lawsuit until litigation has moved far enough along that the defendant has a chance to show that its action falls outside the broadest plausible scope of the plaintiff's IP right.

[21] A weak lawsuit is credible if the court is likely to err in favor of the plaintiff. Even though the defendant recognizes that she *should* win at trial, if the risk of error is high enough, then the plaintiff holds a credible threat. Risk of trial error is not a plausible explanation of weak lawsuits in some areas of the law because a defendant likely could win summary judgment and defeat the lawsuit early on at a relatively low cost. *See* Bone, *supra* note 16, at 534–37 (noting that nuisance suits based on trial error are uncommon). For example, if a tort defendant has proof that an opportunistic plaintiff was injured by some cause unrelated to the defendant, then the lawsuit is not credible because it would be easy to share that evidence with a court. *See id.*

difficult for a deserving defendant to win summary judgment or even prevail at trial.[22] High variance in the scope of rights makes it profitable for IP plaintiffs with apparently narrow rights to gamble that a court will grant them broad rights. A common strategy used in opportunistic e-commerce lawsuits is to dust off a pre-Internet patent and argue that the patent claims extend to the Internet.[23]

Second, a weak lawsuit may present a credible threat to a defendant who has trouble distinguishing weak lawsuits from strong ones.[24] A plaintiff with a weak lawsuit can successfully bluff a defendant because in the early stages of IP litigation the plaintiff is likely to have better information about the scope and validity of the IP rights. *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.* illustrates the role of asymmetric information in making weak lawsuits credible.[25] Food Machinery obtained a patent on a sewage treatment process by fraudulently concealing information that the process had been used in public more than one year before the filing of a patent application.[26] Food Machinery filed a patent infringement lawsuit when

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[22] Robert C. Nissen, *The Art of the Counterclaim:* Festo *Won't End Frivolous Infringement Cases, But It Does Make It Easier to Fight Back*, INTELL. PROP., May 7, 2001, at 64 ("Defending against frivolous infringement allegations can be a nightmare. At best, after spending hundreds of thousands or even millions of dollars, a defendant is restored to the position it held before the case was filed. At worst, a defendant is found liable because the jury was bewildered by the complex technologies at issue.").

[23] *See* Interactive Gift Express, Inc. v. CompuServe, Inc., 231 F.3d 859, 863–64, 877 (Fed. Cir. 2000) (allowing patent owner to try to show that pre-Internet claim language applies to Internet retail transactions); Brad King, *Want Video on Demand? Press Pause*, WIRED NEWS, Sep. 11, 2002, *at* http://www.wired.com/news/digiwood/0,1412,55026,00.html (explaining that a company owning a 1992 patent covering video on demand is seeking to license MovieLink, a joint venture of five movie studios that delivers movies over the Internet; the patent owner has broad claim language in the patent the might be construed to cover Internet delivery); Brenda Sandburg, *Closely Watched Hyperlink Patent Case Tossed*, THE RECORDER, Aug. 23, 2002, *available at* http://www.law.com (discussing *British Telecommunications PLC v. Prodigy Communications Corp.*, where the district court judge ruled that a BT patent covering access to text-based information over a telephone network did not cover hyper-linking on the Internet; BT hoped to get hundreds of millions of dollars in royalties). These claims have some plausibility because the doctrine of equivalents has been used to expand patent rights beyond literal claim language in cases of later developed technology. For example, patent scope has been expanded in response to the unforeseen development of micro-computers.

[24] For a model of patent litigation in which plaintiffs with weak claims can successfully bluff their way to a settlement payment, see generally Michael J. Meurer, *The Settlement of Patent Litigation*, 20 RAND J. ECON. 77 (1989). For a discussion of this type of model outside the IP context, see Bone, *supra* note 16, at 542–49; Guthrie, *supra* note 19, at 173 ("frivolous litigation is most likely to occur under conditions of asymmetric information").

[25] *See* 382 U.S. 172, 178 (1965).

[26] *Id.* at 174.

Walker entered the market.[27] Walker uncovered evidence of the prior use and proved the patent was invalid; thus, Food Machinery failed in its attempt to bluff Walker out of the market.[28] It seems likely, however, that many similar attempts succeed in deterring market entry or forcing a restrictive license onto an entrant, although we have no way to observe successful bluffs.[29]

Finally, a weak lawsuit may be credible because of the costs it may impose on the defendant. A defendant may settle an opportunistic lawsuit to avoid the nuisance of mounting a defense.[30] A defendant may settle an anti-competitive suit because the cost of a defense threatens the defendant's solvency.[31] Alternatively, the threat of a weak lawsuit may deter entry into a market if the plaintiff establishes a reputation for prosecuting weak suits through to the end.[32] A plaintiff with a predatory reputation rationally views losing a weak lawsuit as a profitable investment in that reputation.[33]

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[27] *Id.*

[28] *See id.*

[29] *See* ROBERT H. BORK, THE ANTITRUST PARADOX: A POLICY AT WAR WITH ITSELF 347 (1978) (expressing concern about the threat of predation through *Walker Process*-type fraud); SETH SHULMAN, OWNING THE FUTURE 68 (1999) ("[a]n invalid patent is a dangerous weapon") (quoting Richard Stallman disparaging the current state of software patents); Mark A. Lemley, *Rational Ignorance at the Patent Office*, 95 NW. U. L. REV. 1495, 1515 (2001) (describing social costs of "bad" patents); Gary Myers, *Litigation as a Predatory Practice*, 80 KY. L.J. 565, 594 (1992) (noting that litigation can be used to prevent or delay a competitor's entry into a market).

[30] *See, e.g.*, Lucian Arye Bebchuk, *A New Theory Concerning the Credibility and Success of Threats to Sue*, 25 J. LEGAL STUD. 371, 373 (1996); Rosenberg & Shavell, *supra* note 19, at 4–6. Bone argues this approach does not explain large nuisance settlement payments. The magnitude of the settlement payment in these models depends on the difference in litigation costs borne by the defendant compared to the plaintiff. Bone explains that most lawsuits do not feature large asymmetries in the costs borne by plaintiffs and defendants. *See* Bone, *supra* note 16, at 537–41. IP cases often do impose much higher litigation costs on defendants than plaintiffs. One source of asymmetry arises from disruption of the defendant's business caused by preliminary injunctions and other factors. *See infra* notes 103–128 and accompanying text. Another asymmetry arises because some opportunistic plaintiffs sue multiple defendants and spread the cost of litigation across those cases.

[31] *See* L. Batlin & Son, Inc. v. Snyder, 536 F.2d 486, 492 (2d Cir. 1976) (en banc) ("To extend copyrightability to minuscule variations would simply put a weapon for harassment in the hands of mischievous copiers intent on appropriating and monopolizing public domain work.").

[32] For a non-IP example of bad faith litigation deterring entry, see *Otter Tail Power Co. v. United States*, 410 U.S. 366, 368 (1973) (noting that power company maintained monopoly by using litigation to prevent rival's entry).

[33] *See* Patrick Bolton et al., *Predatory Pricing: Strategic Theory and Legal Policy*, 88 GEO. L.J. 2239, 2300–01 (2000) (describing reputation effect predation). A number of commentators have developed reputational models. *See* David M. Kreps & Robert Wilson, *Reputation and Imperfect Information*, 27 J. ECON. THEORY 253 (1982); Paul Milgrom & John Roberts,

Predatory theories of monopolization have fallen out of favor in antitrust law; the Supreme Court skeptically stated that predatory pricing is nearly always irrational.[34] Such skepticism is not warranted, though, because recent economic theory and evidence provides strong support for concerns about the danger that predatory pricing poses.[35] Although predatory litigation has not been studied as closely as predatory pricing, it seems more likely to succeed.[36] Predatory litigation has an advantage over predatory pricing because the cost to the predator declines after the first lawsuit—the plaintiff can use the work product from the first litigation in subsequent litigation.[37] Predatory pricing does not offer a comparable advantage; the predator has to reduce its prices to combat every new entrant and thus incurs a relatively constant cost.[38]

B. *Opportunistic Suits*

Anecdotal evidence suggests that the problem of opportunistic IP litigation is serious and getting worse.[39] Defendants fear the high cost of IP litigation[40] and settle opportunistic claims to avoid that cost.[41] I

Predation, Reputation and Entry Deterrence, 27 J. ECON. THEORY 280 (1982); Garth Saloner, *Predation, Mergers, and Incomplete Information*, 18 RAND J. ECON. 165 (1987).

[34] *See* Matsushita Elec. Indus. Co. v. Zenith Radio Corp., 475 U.S. 574, 588–91 (1986). Even though courts are skeptical of predatory pricing claims there is a high level of antitrust enforcement directed against it. *See* Bolton et al., *supra* note 33, at 2266–67. Courts are also reluctant to impose liability for predatory product innovation because they fear they will unduly inhibit innovation. *See* Myers, *supra* note 29, at 580–86.

[35] *See* Bolton et al., *supra* note 33, at 2244–49 (recounting ample empirical and experimental evidence of predatory pricing and concluding "present judicial skepticism about predatory pricing assumes that predation is extremely rare, but sound empirical and experimental studies, as well as modern economic theory, do not justify this assumption").

[36] *See infra* notes 65–99 and accompanying text; *see also* Myers, *supra* note 29, at 601. Predatory litigation is more difficult to detect, especially when the lawsuit has some merit. *See generally* Michael W. Bien, *Litigation as an Antitrust Violation: Conflict Between the First Amendment and the Sherman Act*, 16 U.S.F. L. REV. 41 (1981).

[37] *See* Myers, *supra* note 29, at 599.

[38] Predatory pricing might place greater costs on the predator than the prey because the predator suffers a loss across a larger share of the market. Myers, *supra* note 29, at 597. In contrast, litigation favors the plaintiff because the plaintiff gets to choose the forum and the initial direction of the discovery. *Id.* at 598.

[39] *See* Brenda Sandburg, *Battling the Patent Trolls*, THE RECORDER, July 30, 2001, *available at* http://www.law.com/jsp/statearchive.jsp?type=Article&oldid=ZZZ4DX7MSPC (noting that in 1999, patent claims against Intel totaled over $15 billion).

[40] *See* Teresa Riordan, *Trying to Cash In on Patents*, June 10, 2002, N.Y. TIMES, at C2, *available at* http://www.nytimes.com/2002/06/10/technology/10PATE.html (reporting the average cost of patent litigation is $2 million); Sandburg, *supra* note 39.

[41] *See* SHULMAN, *supra* note 29, at 55. Many defendants acquiesce rather than face the expense of fighting an infringement suit. *See id.*

offer some examples from patent,[42] trademark,[43] and copyright law[44] with a caveat: it is difficult to know whether a particular lawsuit is opportunistic and so it is more appropriate to present the following as possible examples of opportunistic suits.

The explosion of e-commerce patents has generated many complaints about opportunistic patent litigation.[45] An alleged example relates to the company E-Data, which sent letters to 75,000 companies informing them that they were infringing an E-Data patent and asking them to pay royalties between $5,000 and $50,000.[46] The company owns a patent which arguably covers financial transactions on the Internet.[47] Several high-profile companies agreed to license the patent but most refused. E-Data sued forty-one of the companies for patent infringement.[48] This case and other notorious e-commerce cases are criticized because the inventions appear to be obvious[49] or the claims are not nearly as broad as purported by the plaintiffs.[50]

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[42] *See* Julie E. Cohen, *Reverse Engineering and the Rise of Electronic Vigilantism: Intellectual Property Implications of "Lock-Out" Programs*, 68 S. CAL. L. REV. 1091, 1178 (1995) (Compton's multimedia patent).

[43] *See* Mark A. Lemley, *The Modern Lanham Act and the Death of Common Sense*, 108 YALE L.J. 1687, 1696–97 (1999) (describing trademark claims based on the registered trademarks "Class of 2000" and the yellow smiley-face, and characterizing these claims as "frivolous" under "traditional trademark law").

[44] *See* Arnstein v. Porter, 154 F.2d 464, 468 (2d Cir. 1946); LAWRENCE LESSIG, THE FUTURE OF IDEAS: THE FATE OF THE COMMONS IN A CONNECTED WORLD 4 (2001) (citing examples of hold-up of movies by owners of copyrights protecting works incidentally appearing in movie sets).

[45] Troy Wolverton, *Patent Lawsuit Could Sting eBay*, CNET NEWS.COM, Sept. 5, 2002, *at* http://news.com.com/2100–1017–956638.html. Thomas Woolston, an inventor and patent attorney, has been awarded four patents related to online auctions and has ten others pending; he is suing eBay for infringement. Amazon.com, Priceline.com, Barnes&Noble.com, and Expedia have also all been targeted for lawsuits. *Id.*

[46] *See* SHULMAN, *supra* note 29, at 78–80.

[47] *Id.*

[48] *Id.*

[49] *See* Cohen, *supra* note 42, at 1178–80.

[50] *See supra* note 23; *see also* Lynne McKenna Frazier, *Small Candy Maker Fights E-commerce Patent "Extortion,"* SILICONVALLEY.COM, Nov. 4, 2002, *at* http://www.siliconvalley.com/mld/siliconvalley/news/4454889.htm (explaining that Patent No. 5,576,951 allegedly covers "automated sales and services system" and Patent No. 6,239,319 allegedly covers an "automatic business and financial transaction-processing system."); Lemley, *supra* note 29, at 1517–19. On November 15, 2002, the House Small Business Committee cosponsored a conference on IP issues for small business that covered the problem of opportunistic IP suits.

A string of opportunistic trademark suits was brought by a company called S Industries.[51] "[T]he company filed at least 33 trademark infringement lawsuits in the district court between 1995 and 1997."[52] The plaintiff used the mark Sentra with over-the-counter, discount computer mouse pads.[53] In one case it sued a company named Centra, which used the mark in association with expensive data management software bought by petrochemical, aerospace, and other manufacturing industries.[54] The U.S. Court of Appeals for the Seventh Circuit found that the lawsuit lacked merit and was oppressive, and that "plaintiff's conduct unreasonably increased the cost of defending against the suit."[55]

Opportunistic copyright suits typically pit a minor author against a later, successful author.[56] The plaintiff claims the defendant copied from the plaintiff's earlier work. Some enterprising plaintiffs strengthen their claims by distributing their works to potential defendants; then they can credibly argue that the defendants had access to the works.[57] Opportunistic copyright claims are also likely when both the plaintiff and the defendant base their work on something in the public domain.[58] The chutzpah award in this field goes to Ashleigh Brilliant, who coined 7500 aphorisms and mounted more than a hundred successful copyright infringement suits.[59]

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[51] *See* S Indus., Inc. v. Centra 2000, Inc., 249 F.3d 625, 629 (7th Cir. 2001) (affirming award of attorney's fees to defendant because trademark claims were meritless and because of dilatory tactics).

[52] *Id.* at 629. S Industries's "actions here look to be part of a pattern of abusive and improper litigation with which the company and Lee Stoller, its sole shareholder, have burdened the courts of this circuit." *Id.*

[53] *Id.* at 627.

[54] *Id.*

[55] *Id.* "During 4 years of litigation . . . S Industries failed to produce evidence of a single sale of 'Sentra' brand computer software or hardware." *Id.*

[56] *See, e.g.*, Litchfield v. Spielberg, 736 F.2d 1352 (9th Cir. 1984). The court held that the movie E.T. did not infringe the derivative rights of the creator of the screenplay *Lokey from Maldemar* because the screenplay was not substantially similar to the movie. *See id.* at 1358; *see also Arnstein*, 154 F.2d at 469.

[57] *See Litchfield*, 736 F.2d at 1354.

[58] *See Snyder*, 536 F.2d at 489–90.

[59] *See* SHULMAN, *supra* note 29, at 9. A plaintiff is more likely to succeed by bringing a sequence of frivolous suits like those brought by E-Data, S Industries, and Brilliant than by bringing an isolated suit. The plaintiff can develop a reputation for imposing costs on defendants even if that also means costs to the plaintiff. The reputation for being tough makes the frivolous claim more credible and more valuable. See Reinhard Selten, *The Chain Store Paradox*, 9 THEORY & DECISION 127 (1978), and subsequent work by economists on reputation.

Opportunistic IP suits impose direct and indirect costs on defendants and society. Besides settlement payments,[60] there are sizable direct legal costs[61] and indirect costs borne by potential defendants who work to minimize their exposure to opportunistic litigation.[62] Firms reduce the risk of copyright and trade secret litigation by returning unsolicited documents, making software in "clean rooms" that minimize the exposure of programmers to copyrighted code, and documenting independent creation.[63] Opportunistic (and anti-competitive) patent and trade dress cases may deter firms from entering new markets or adopting new product features or designs.[64]

There are several reasons the incidence of opportunistic IP litigation is increasing. First, intellectual property has become more valuable,[65] and the number of patents, copyrights, and trademarks has increased rapidly.[66] The rate of IP litigation has grown comparably.[67]

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[60] Transfer payments are usually not a source of social loss. Settlement payments to end frivolous lawsuits only cause a social loss to the extent that they distort the decision of a firm to enter a market protected by IP rights because of the fear of litigation.

[61] Amy Harmon, *Suddenly, "Idea Wars" Take on a New Global Urgency*, N.Y. TIMES, Nov. 11, 2001, at 4A 30, *available at* http://www.nytimes.com/2001/11/11/business/11PROP.html (reporting that patent litigation cost American companies $4 billion in the year 2000); Del Jones, *Businesses Battle Over Intellectual Property: Courts Choked with Lawsuits to Protect Ideas and Profits*, USA TODAY, Aug. 2, 2000, at 1B, *available at* 2000 WL 5785645 (describing the flood of patent litigation). Large firms that fear frequent opportunistic suits might be able to develop an effective reputation as tough defendants. Thus, small firms might be relatively more vulnerable to opportunistic suits.

[62] *See* Robert G. Bone, *A New Look at Trade Secret Law: Doctrine in Search of Justification*, 86 CAL. L. REV. 241, 273–79 (1998) (noting the high social cost of trade secret litigation).

[63] JULIE COHEN ET AL., COPYRIGHT IN A GLOBAL INFORMATION ECONOMY 328 (2002) ("In the face of decisions like *Ty* and *Bouchat*, establishing procedures to document the creative process has become a matter of pressing concern for companies that create and commission copyrighted works.").

[64] *See infra* notes 72–99 and accompanying text.

[65] *See* Kevin G. Rivette & David Kline, *Discovering New Value in Intellectual Property*, HARV. BUS. REV., Jan.-Feb. 2000, at 57–58 (noting that IBM boosted its patent royalties from $30 million in 1990 to $1 billion in 2000); Sandburg, *supra* note 39 (reporting that from 1980 to 1999, royalties on patents in the United States grew from $3 billion to nearly $110 billion).

[66] *See* Michael H. Dessent, *Digital Handshakes In Cyberspace Under E-Sign: "There's A New Sheriff In Town!"*, 35 U. RICH. L. REV. 943, 945 (2002); Harmon, *supra* note 61 (reporting that patent applications and copyright registrations are soaring); Lemley, *supra* note 29, at 1497–99; Glen E. Weston, Book Review, 54 GEO. WASH. L. REV. 143, 143 (1985) (reviewing J. THOMAS MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION (1984)).

[67] *See* Graeme B. Dinwoodie, *The Death of Ontology: A Teleological Approach to Trademark Law*, 84 IOWA L. REV. 611, 623 n.58 (1999) (accelerating frequency of federal trade dress lawsuits); Lemley, *supra* note 43, at 1700 (noting that product configuration cases have grown explosively in the last fifteen years); Brenda Sandburg, *A New Industry Transforms the Patent System: Congress, Corporations Eye Reform as Power of Patent Enforcers Grows*, THE RE-

Opportunistic suits are likely to increase as legitimate suits increase because it is easier to hide an opportunistic lawsuit and bluff your way to a settlement payment. Second, a growing market for the sale of IP rights makes it easier to "enter the market" for opportunistic IP litigation.[68] Finally, in recent years patent plaintiffs have been effectively organized and financed by entrepreneurs specializing in patent litigation and licensing.[69] Patent lawsuit investors avoid champerty[70] laws by purchasing ownership or joint ownership of patents.[71]

CORDER, July 30, 2001, *at* http://www.law.com ("With the growth in patent licensing, the number of patent suits has doubled in the past decade, from 1,171 in 1991 to 2,484 in 2000, according to data compiled by Paul Janicke, a professor at the University of Houston Law Center.").

[68] Brenda Sandburg, *Patent Blockbuster Goes to High Court: IP attorneys looking to U.S. Supreme Court to clear up confusion over* "Festo," THE RECORDER, June 18, 2001, *at* http://www.law.com ("Matthew Powers, a partner at Weil, Gotshal & Manges [said that *Festo*] 'eliminates a lot of slop out there.' . . . [T]here are companies that buy a patent for $50,000 at a bankruptcy auction and then decide to sue the world for it. 'They are counting on the slop factor of the doctrine of equivalents to give them leverage to get a big settlement.'. . .").

[69] *See* Linda Himelstein, *Investors Wanted For Lawsuits*, BUS. WK., Nov. 15, 1993, at 78; Susan Lorde Martin, *Financing Plaintiffs' Lawsuits: An Increasingly Popular (and Legal) Business*, 33 U. MICH. J.L. REFORM 57, 58 (2000); Poonam Puri, *Financing of Litigation by Third-Party Investors: A Share of Justice*, 36 OSGOODE HALL L.J. 515, 541 (1998); Sandburg, *supra* note 39 ("'In the last three to five years, the business has been growing exponentially because everybody is getting into the act,' said David Braunstein, vice president of the intellectual property consulting firm Fairfield Resources International Inc. of Stamford, Conn."). A new corporation in Canada has been formed to take advantage of the relaxed standards in place in most states. This publicly traded corporation's sole business is to finance large patent infringement lawsuits in the U.S. Martin, *supra*, at 82. Instead of simply providing the financial backing for the infringement lawsuit, the company buys an interest in the patent and then joins the first patent holder as a plaintiff in the case, receiving compensation for whatever reward the lawsuit brings. *Id.* at 82–83. As an alternative to an ownership stake, patent litigation is done on a contingency basis with percentages as high as 45%. Sandburg, *supra* note 39.

[70] "Champerty is a practice in which one person, the champertor, agrees to support another in bringing a legal action, in exchange for part of the proceeds of the litigation. It is a form of maintenance, which is a general category that includes any agreement by which one person finances another's legal action." Martin, *supra* note 69, at 58. Champerty is prohibited throughout the U.S. based on fears that champertors will bring frivolous litigation, harass defendants, increase damages, and resist settlement. *Id.*

[71] *See* Intex Plastic Sales Co. v. Hall, 20 U.S.P.Q.2d (BNA) 1367 (N.D. Cal. 1991), *aff'd*, 960 F.2d 155 (Fed. Cir. 1992) (holding patent infringement lawsuit valid after patent holder assigned 65% interest in his patent to WBX partners); Himelstein, *supra* note 69, at 78.

C. *Anti-competitive Lawsuits*

Firms often use IP litigation to exclude their rivals from markets.[72] Occasionally, firms with broad patents exclude their rivals from the markets protected by the patents. More commonly, firms use IP rights to exclude rivals from use of a product feature, variety, or design. Exclusionary litigation can be a socially desirable way to secure a reward to innovative firms;[73] the term "anti-competitive" is reserved for lawsuits that seek socially undesirable exclusion.[74] In an ideal IP system, it would be impossible to mount an anti-competitive IP lawsuit because such suits would not be credible. In reality, anti-competitive lawsuits are possible because undeserving claimants receive presumptively valid or at least colorable rights to intellectual property.

Anti-competitive suits achieve an exclusionary outcome through two different mechanisms. First, some defendants settle because they fear the plaintiff's IP right will be construed too broadly, or because they lack information proving the plaintiff's right is invalid. Second, other defendants may be confident the plaintiff will lose the lawsuit but still settle simply to avoid the costs of litigation. In addition to gaining a favorable settlement, the owner of a weak IP right may succeed in deterring competitors from using his intellectual property because of the threat of suit.[75]

Successful anti-competitive IP litigation does not leave much of a record, but there are many cases of failed exclusion.[76] *Handgards, Inc. v. Ethicon* gives an example of a patent plaintiff that hoped to bluff its

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[72] For a thorough discussion of anti-competitive litigation, see generally Myers, *supra* note 29.

[73] Examples of firms being driven from a market by plaintiffs with strong claims are easy to find. *See, e.g.*, Rivette & Kline, *supra* note 65, at 64–65 (describing how Polaroid won a $925 million patent judgment against Kodak and forced Kodak out of the instant photography business); *Online Music Provider Now Has Second Bidder*, N.Y. TIMES, Nov. 15, 2000, at C4 (describing movie file-sharing service pushed to bankruptcy by a copyright lawsuit brought by the MPAA); Matt Richtel, *Web Company Will Sell Assets to Settle Suit on Music Files*, N.Y. TIMES, Nov. 2, 2000, at C1.

[74] In *Grip-Pak, Inc. v. Illinois Tool Works, Inc.*, Judge Posner wrote that "litigation could be used for improper purposes even when there is probable cause for the litigation; and if the improper purpose is to use litigation as a tool for suppressing competition in its antitrust sense, it becomes a matter of antitrust concern." 694 F.2d 466, 472 (7th Cir. 1982).

[75] *See id.* ("[M]any claims not wholly groundless would never be sued on for their own sake; the stakes, discounted by the probability of winning, would be too low to repay the investment in litigation."); *see also* Myers, *supra* note 29, at 602–04.

[76] *See* Bayer AG v. Biovail Corp., No. 200-CV-128-WCO, 2001 U.S. Dist. LEXIS 23907, at *12 (N.D. Ga. Mar. 27, 2001) (addressing allegedly baseless patent infringement by Bayer to block competition from generic drug).

way to an anti-competitive settlement agreement.[77] Ethicon controlled ninety percent of the market for heat-sealed plastic gloves.[78] It tried to preserve its dominant position by suing an entrant for patent infringement. Ethicon knew the patent was invalid because there was a previous inventor and because of public use more than one year before the patent application.[79] Handgards called the bluff, discovered evidence of the earlier inventor and the prior use, and invalidated the patent.

Besides patent litigation, trade dress claims related to product design and configuration pose the gravest threat of predation.[80] Trade dress is defined to include packaging, as well as product design and configuration. Product design and configuration can be protected under trademark law because it is capable of indicating a source of origin; for example, the pink color of building insulation indicates that Owens Corning is the insulation manufacturer. Trade dress protection must not reach functional features of the trade dress because those features are exclusively protectable under patent law.

Ferraris Medical, Inc. v. Azimuth Corp.[81] documents anti-competitive trade dress litigation motivated by the desire to impose litigation costs and discourage competition.[82] Ferraris made a harness used to hold a facemask and other equipment on the heads of surgical patients.[83] Azimuth and other companies bought these devices from Ferraris and resold them under their own brand names.[84] Azimuth stopped buying its supplies from Ferraris and copied Ferraris's unpatented design.[85]

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[77] 743 F.2d 1282 (9th Cir. 1984).

[78] *Id.* at 1294.

[79] *Id.* at 1288.

[80] J. Thomas McCarthy, *Lanham Act § 43(a): The Sleeping Giant is Now Wide Awake*, 59 LAW & CONTEMP. PROBS., Spring 1996, 46, 64–67 (discussing potential anti-competitive effects caused by trade dress protection). McCarthy cites cases that upheld preliminary trade dress injunctions relating to subject matter that appears to be functional or a business method, and laments, "Judicial distaste for competitive imitation appears to often turn the scales in a case." *Id.* at 65. In a recent trade dress infringement lawsuit, the trial court observed, "It seems reasonably evident that plaintiff's motivation in pursuing these unsupported claims was rooted in an effort to deter competition by Azimuth." *Ferraris*, 2002 U.S. Dist. LEXIS 13589, at *9.

[81] 2002 U.S. Dist. LEXIS 13589 (D. N.H. July 24, 2002).

[82] The trial judge stated the plaintiff's "goal seemed always to be acquisition of monopolistic control over the manufacture and sale of surgical harnesses with the features of those it sold, but it had no legal or factual basis to support a design or other patent claim." *Id.* at *9–10.

[83] *Id.* at *1–3.

[84] *Id.*

[85] *Id.*

Ferraris responded by suing Azimuth on a frivolous trade dress infringement theory[86] and other frivolous trademark[87] and copyright infringement theories.[88]

Lawsuits like *Ferraris* are troubling because they can be costly enough to create financial distress that could delay market entry or force a firm to completely abandon a product line already occupied by a dominant incumbent.[89] Financial market predation is a serious problem for new firms,[90] especially firms in high-technology indus-

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[86] When awarding attorney's fees to the defendant, the court observed "the trial evidence revealed (and this was not a close or even arguable point) that Ferraris had no legal or factual basis upon which to claim that its harness design was either non-functional or had acquired secondary meaning, essential prerequisites to claiming unregistered trade dress protection." *Ferraris*, 2002 U.S. Dist. LEXIS 13589, at *3–4.

[87] "Ferraris had no legitimate legal or factual basis to assert 'service mark' protection in the photographic display used by Azimuth, and no basis whatever for claiming that Azimuth somehow appropriated a service mark belonging to Ferraris." *Id.* at *3.

[88] "Ferraris had no factual or legal basis upon which to claim copyright protection in the photographic display or depiction Azimuth used in its catalogue advertisements of its own SunMed harnesses—that depiction was plainly and unarguably in the public domain, as Ferraris knew or should well have known." *Id.*

[89] *See id.*; Yankee Candle Co. v. Bridgewater Candle Co., 140 F. Supp. 2d 111, 113–114, 116 (D. Mass. 2001) (noting that the goal of the trade dress suit was "to intimidate, discourage and financially damage an upstart competitor." The plaintiff's claims were objectively unreasonable and the plaintiff was motivated by "a desire to . . . financially damage a competitor by forcing it into costly litigation." The court emphasized that the plaintiff was the industry leader and the defendant was a much smaller competitor, and that the plaintiff made no attempt to settle.). For a non-IP example, see Alexander v. Nat'l Farmers Org., where two dairy producers engaged in a pattern of abusive litigation against a small competitor, and defendants considered sponsoring third-party litigation in order to increase costs on plaintiff. 687 F.2d 1173 (8th Cir. 1982).

[90] Established firms frequently sue departing employees, alleging that the start-up benefited from misappropriated trade secrets.

> Indeed, the circumstances of trade secret cases and the uncertainty of trade secret law create incentives for frivolous litigation designed to harass competitors rather than to obtain relief for trade secret misappropriation. For example, a company might sue ex-employees who leave to start a competing firm in order to hinder their ability to raise capital during the start-up phase. Frivolous suits of this sort not only add to litigation costs, they also chill competition.

Bone, *supra* note 62, at 279. Start-ups are also vulnerable to predatory trademark claims based on the similarity of marketing practices of the established firm and the start-up. *See* PS Promotions, Inc. v. Stern, No. 97 C 3742, 2001 U.S. Dist. LEXIS 3096, at *2–3 (N.D. Ill. Mar. 22, 2001). In *PS Promotions* the plaintiff was required to pay attorney's fees to defendant who was a former employee. *See id.* The plaintiff brought false advertising and false designation of origin claims based on the defendant's use of promotional materials the defendant had created while working for the plaintiff. *See id.*

tries.[91] Investors with limited information often design financial arrangements that are contingent on easily observed performance measures—especially cash flow. A predator can sabotage its prey's relationship with investors by causing cash-flow problems.[92] Investors are not well enough informed about the prey's actions and economic conditions to know whether financial problems result from predation, bad management, or some other cause.

Predatory litigation reduces cash flow because of the high cost of IP litigation and a variety of other indirect costs.[93] Litigation can sour a defendant's credit rating.[94] A predatory plaintiff can divert customers from a defendant by threatening the defendant's customers with a lawsuit.[95] Furthermore, the plaintiff can use a preliminary injunction to block the defendant's production and sales before trial.[96]

Costly predatory tactics are irrational unless the predator can recoup its litigation cost.[97] A preliminary injunction and the deterrent

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[91] *See* Bolton et al., *supra* note 33, at 2248 ("[P]redatory pricing may pose a special threat in rapidly growing, high-technology industries, which often involve intellectual property and continuing innovation."); Dawn Kawamoto, *Lawsuits Dampen VCs' File Sharing Enthusiasm*, CNET NEWS.COM, Sept. 4, 2000, at http://news.com.com/2100-1023-24527.html?legacy=cnet ("The threat of vicarious liability has scared off many venture firms from the file-sharing arena.").

[92] *See* Bolton et al., *supra* note 33, at 2286; Troy Wolverton, *PayPal, CertCo End Patent Spat*, ZDNET NEWS, Apr. 29, 2002, *at* http://zdnet.com.com/2110–1106–894679.html (explaining that the defendant complained that patent lawsuit was designed to delay defendant's IPO; the defendant made a settlement payment but did not take a patent license).

[93] *See* Handguards, Inc. v. Ethicon, Inc., 601 F.2d 986, 991 (9th Cir. 1979) (claiming that Ethicon, the defendant, "had generated adverse publicity regarding its infringement actions, . . . threatening potential customers of the plaintiff, with the result that vital corporate resources were committed to defense of the infringement actions, Handgards' relations with potential customers were impaired, a proposed joint venture was aborted, and the company found itself unable to obtain outside financing necessary for it to remain competitive in the industry."); Jean O. Lanjouw & Josh Lerner, *Tilting the Table? The Use of Preliminary Injunctions*, 44 J.L. & ECON. 573, 591 (2001) (stating that smaller firms have higher litigation costs and suffer greater indirect costs caused by the dilution of management's equity ownership); Myers, *supra* note 29, at 590–91 ("A target firm may be forced to divulge proprietary information, such as trade secrets, new product developments, and marketing strategies in the course of discovery. While a suit is pending, the target firm may also be forced to disclose its contingent liability to creditors, accountants, and others. This revelation would hamper its ability to obtain the funds necessary to compete.").

[94] *See* Myers, *supra* note 29, at 590–91. Creditors are generally unwilling to extend credit while litigation is in process or without a legal opinion as to the merits of the claim. *Id.*

[95] *See id.* at 600.

[96] *See* Lanjouw & Lerner, *supra* note 93, at 574 (explaining that preliminary injunctions induce patent infringement defendants to settle); *see also infra* Section II.A.

[97] *See generally* Brooke Group Ltd. v. Brown Williamson Tobacco Corp., 509 U.S. 209 (1993).

effect of even a weak IP right give a valuable lead-time advantage.[98] Ultimately, the predator hopes to more than recoup its cost of litigation by reducing competition and raising prices. This is most likely to occur when the plaintiff has greater financial resources than the defendant.[99]

There are countermeasures that help some small firms ward off IP litigation by large rivals. A small chip design company averted a patent infringement lawsuit from Intel by purchasing a patent from a bankrupt firm that potentially covered Intel chips.[100] Another microelectronics firm was rescued from financial distress (caused by a patent infringement suit) through a friendly takeover by a white knight.[101] Generally, such countermeasures are not available because transaction costs, private information, and free-rider problems discourage the formation of a coalition that might battle the predator.[102]

II. Pre-Trial Control of Socially Harmful IP Litigation

A. *Preliminary Injunctions*

Despite the restrictive standard for granting preliminary injunctions,[103] they are common in patent and copyright cases.[104] To get a

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98 *See* Arti Rai, *Addressing the Patent Gold Rush: The Role of Deference to PTO Patent Denials*, 2 Wash. U. J.L. & Pol'y 199, 212 (2000).

99 The belief that deep pockets give a predator an advantage was emphasized by Telser. *See* L. G. Telser, *Cutthroat Competition and the Long Purse*, 9 J.L. & Econ. 259 (1966). Critics argued that a viable competitor would never succumb to predation because financial markets are so efficient. More recent theory offers a variety of reasons why prey cannot obtain access to capital markets on the same terms as predators and why financial distress may be an effective weapon. *See* Bolton et al., *supra* note 33, at 2285–90.

100 *See* Rivette & Kline, *supra* note 65, at 62.

101 *Id.* at 63.

102 *See* Bolton et al., *supra* note 33, at 2322–23. Reorganization in bankruptcy or transfer of the prey's assets to another firm are not likely to be successful countermeasures to predation. *Id.* at 2289–90. The possibility that a successor firm will acquire the prey's assets does not deter predatory pricing because (1) in some cases the prey's assets are too small to achieve efficient operating scale, (2) the successor will lag far behind in gaining market share in a network industry, (3) fungible assets will sell at the market price not a discount, (4) customers may be shy to leave the predator, (5) the predator may obtain the prey's assets, and (6) successor firms are apt to fear the predator. *Id.* at 2326–27.

103 *See* Charles Alan Wright et al., Federal Practice & Procedure § 2948, at 129 (1995) ("It is frequently observed that a preliminary injunction is an extraordinary and drastic remedy . . . .").

104 *See* Robert P. Merges et al., Intellectual Property in the New Technological Age 554 (2000) (noting that preliminary injunctions are routine in copyright cases if the plaintiff can show likelihood of infringement); Lanjouw & Lerner, *supra* note 93, at 594 (preliminary injunctions reqested in 19% of patent cases).

preliminary injunction a plaintiff must show (1) a reasonable likelihood of success on the merits, (2) that irreparable harm will result if preliminary relief is not granted, (3) that the balance of hardships favors the plaintiff, and (4) that granting the injunction will not disserve the public interest.[105] Preliminary injunctions are common in patent and copyright cases because the courts find irreparable injury quite easily and are reluctant to invoke the public interest in avoiding opportunistic and anti-competitive suits.[106]

Preliminary injunctions promote opportunistic and anti-competitive suits by disrupting the defendant's business, raising the total cost of litigation, and causing financial distress.[107] Empirical evidence shows that preliminary injunctions tend to be used in patent cases mostly by large firms that seek to impose a financial burden on smaller rivals.[108] The financial burden caused by a preliminary injunction is exacerbated by the "particular difficulty of raising external funds to finance litigation."[109] Therefore, preliminary injunctions may be especially harmful in innovative industries "driven by smaller, more vulnerable, venture-capital-based firms."[110]

The harm from opportunistic and anti-competitive IP litigation can be alleviated by reducing the availability of preliminary injunctions.[111] Ideally, judges would deny preliminary injunctions to plain-

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[105] *See* Am. Red Cross v. Palm Beach Blood Bank, Inc., 143 F.3d 1407, 1410 (11th Cir. 1998); New England Braiding Co., Inc. v. A.W. Chesterton Co., 970 F.2d 878, 882 (Fed. Cir. 1992). "The chief function of a preliminary injunction is to preserve the status quo until the merits of the controversy can be fully and fairly adjudicated." Ass'n of Gen. Contractors of Am. v. City of Jacksonville, 896 F.2d 1283, 1284 (11th Cir. 1990).

[106] *See* H.H. Robertson Co. v. United Steel Deck, Inc., 820 F.2d 384, 390 (Fed. Cir. 1987) (presumption of irreparable harm in patent cases); *cf.* Polaroid v. Eastman Kodak Co., No. 76-1634-Z, 1985 U.S. Dist. LEXIS 15003, at **5–9 (D. Mass. Oct. 11, 1985) (refusing to stay injunction pending appeal despite harm to employees and public); MERGES ET AL., *supra* note 104, at 554 (stating that irreparable harm is easily found in copyright cases).

[107] Lanjouw & Lerner, *supra* note 93, at 573–74 (reporting anecdotal evidence that firms seek preliminary injunctions in patent cases "to impose financial stress on their rivals").

[108] *See id.* at 575–76, 595 (reporting empirical evidence that the financial strength of the plaintiff is significantly correlated with the use of preliminary injunctions in patent cases).

[109] *Id.* at 574.

[110] *Id.* at 575.

[111] *See* Random House, Inc. v. Rosetta Books LLC, 283 F.3d 490, 491 (2d Cir. 2002) (finding that the district court judge did not abuse discretion by refusing to grant a preliminary injunction, considering low probability of success by plaintiff and hardship to defendant); Amazon.com v. Barnesandnoble.com, 239 F.3d 1343, 1347 (Fed. Cir. 2001) (refusing preliminary injunction request because of low probability of patent validity).

tiffs with weak lawsuits because, by definition, such suits are not likely to succeed; but the facts that make weak lawsuits credible also create problems for judges. At an early stage of litigation, the judge, like the defendant, may have difficulty assessing the scope and validity of the IP right.[112] A desirable reform would eliminate the presumption of patent validity in the context of a preliminary injunction, thereby increasing the burden on a plaintiff to show a likelihood of success.[113] Some judges have shown sensitivity to the problems created by preliminary injunctions, and the law gives trial judges enough flexibility to accommodate a significant shift in practice.[114] Judges should attend more closely to the financial distress imposed on defendants and show

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Judges can also exert some control over preliminary injunctions by requiring bonds from plaintiffs and choosing appropriately narrow terms for the injunction. Rule 65(c) gives a federal district court judge discretion to determine what bond a plaintiff should post in support of a preliminary injunction. FED. R. CIV. P. 65(c). Bonds are not always effective as a measure for controlling socially harmful litigation because the bonds are usually small or nominal if the plaintiff is small or capital-constrained. *See* Erin Connors Morton, *Security for Interlocutory Injunctions Under Rule 65(c): Exceptions to the Rule Gone Awry*, 46 HASTINGS L.J. 1863, 1895 (1995). Furthermore, the bonds only compensate defendants, not consumers who suffer from output restrictions made possible by the preliminary injunction. For a model showing that preliminary injunctions essentially implement a collusive market outcome, see John R. Boyce & Aidan Hollis, Preliminary Injunctions and Damage Rules in Patent Law (July 10, 2002) (unpublished manuscript, *at* http://econ.ucalgary.ca/fac-files/boyce/injunctions%20and%20damages.pdf).

Defendants have some measure of control through suits based on malicious prosecution against plaintiffs who obtain preliminary injunctions in bad faith. *See* WRIGHT ET AL., *supra* note 103, § 2973, at 463–64.

[112] *See* Laura W. Stein, *The Court and the Community: Why Non-Party Interests Should Count in Preliminary Injunction Actions*, 16 REV. LITIG. 27, 47 (1997) ("Preliminary injunction proceedings are fraught with the risk of error.").

[113] *See* Canon Computer Sys., Inc. v. Nu-Kote Int'l, Inc., 134 F.3d 1085, 1088 (Fed. Cir. 1998) (holding that patents are entitled to a presumption of validity at the preliminary injunction stage). The Federal Circuit made preliminary injunctions easier to obtain by weakening the irreparable harm standard. Regional Circuits used to require a showing of validity and infringement "beyond question." The Federal Circuit now requires a "likelihood" of validity and infringement for a preliminary injunction. *See* John G. Mills & Louis S. Zarfas, *The Developing Standard for Irreparable Harm in Preliminary Injunctions to Prevent Patent Infringement*, 81 J. PAT. & TRADEMARK OFF. SOC'Y 51, 55–56 (1999). The Federal Circuit possibly counterbalances the weakened irreparable harm standard by insisting on a strong showing of success on the merits. *See e.g.*, *Amazon.com*, 239 F.3d at 1347.

[114] Rule 65(a) gives judges discretion to grant a preliminary injunction. *See* Suntrust Bank v. Houghton Mifflin Co., 252 F.3d 1165, 1166 (11th Cir. 2001) (noting courts are free to deny both preliminary and permanent injunctive relief in copyright cases to serve the public interest); Vault Corp. v. Quaid Software Ltd., 655 F. Supp. 750, 757 (E.D. La. 1987), *aff'd*, 847 F.2d 255 (5th Cir. 1988). If the balance of harm to the plaintiff and defendant is about equal, then a trademark plaintiff must make a strong showing of likelihood of success to get a preliminary injunction. Microstrategy, Inc. v. Motorola, Inc., 245 F.3d 335, 340 (4th Cir. 2001).

a greater inclination to refuse preliminary injunctions in cases in which the balance of hardships favors the defendants.[115] Furthermore, judges should discourage opportunistic suits by denying preliminary injunctions to plaintiffs who are not likely to enter the defendant's market.[116] Denial is appropriate because irreparable harm is unlikely.[117]

B. *Declaratory Judgment*

Declaratory judgments are relatively difficult to get because courts will not issue advisory opinions. To establish an actual controversy that warrants a declaratory judgment, a party must show that it has taken actions in preparation for possible infringing conduct and that the IP owner has threatened the party with an infringement suit.[118] The threat must create a reasonable apprehension of an infringement suit.[119] Judges exercise substantial discretion regarding whether they will accept a declaratory judgment suit;[120] that discretion

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[115] *See* Jaeger v. Am. Int'l Pictures, Inc., 330 F. Supp. 274, 275 (S.D.N.Y. 1971) (copyright suit); *cf.* Va. Carolina Tools, Inc. v. Int'l Tool Supply, Inc., 984 F.2d 113, 115 (4th Cir. 1993) (denial of preliminary injunction that might drive defendant to bankruptcy in lawsuit involving sale of business).

[116] "[Intel] is pushing for federal legislation that would prohibit companies from winning an injunction unless they are actively pursuing the patented technology or could fill a void if the defendant's product were pulled off the market." Sandburg, *supra* note 67.

[117] *See* High Tech Med. Instrumentation, Inc. v. New Image Indus., Inc., 49 F.3d 1551, 1557 (Fed. Cir. 1995); *cf.* E.I. DuPont de Nemours & Co. v. Philips Petroleum Co., 835 F.2d 277, 278 (Fed. Cir. 1987) (staying a permanent injunction pending appeal because the patent owner was planning to exit the market and licensed all comers). The risk that a financially weak defendant is unable to pay damages can be reduced by requiring the defendant to post a bond. *See* Flo-Con Sys., Inc. v. Leco Corp., 845 F. Supp. 1576, 1583 (S.D. Ga. 1993). A similar practice is used when permanent injunctions are stayed on appeal. *See Palm Ordered to Pay Bond in Patent Suit*, CNET NEWS.COM, Feb. 25, 2002, *at* http://news.com.com/2100-1040-844863.html (explaining that district court judge declined to enjoin Palm from selling infringing PDAs because plaintiff Xerox would not suffer irreparable harm, but required Palm to post a bond to cover damages in case their appeal failed). Of course, the bond itself could impose a burden on the defendant.

[118] *See* Diagnostic Unit Inmate Council v. Films Inc., 88 F.3d 651, 653 (8th Cir. 1996); Sherwood Med. Indus., Inc. v. Deknatel, Inc., 512 F.2d 724, 727 (8th Cir. 1975); Bryan Ashley Int'l, Inc. v. Shelby Williams Indus., 932 F. Supp. 290, 291–92 (S.D. Fla. 1996); WRIGHT ET AL., *supra* note 103, §2761, at 597 (noting that the same principles apply to patent, trademark, and copyright declaratory judgment suits).

[119] *See* Shell Oil Co. v. Amoco Corp., 970 F.2d 885, 887 (Fed. Cir. 1992).

[120] *See* Wilton v. Seven Falls Co., 515 U.S. 277, 287 (1995) (stating district courts have a "unique breadth of . . . discretion to decline to enter a declaratory judgment"); EMC Corp. v. Norand Corp., 89 F.3d 807, 810 (Fed. Cir. 1996).

is reflected in the variable and fact-intensive treatment of the reasonable apprehension requirement.[121]

Declaratory judgments of noninfringement or invalidity help mitigate the harm from opportunistic and anti-competitive IP litigation.[122] If an IP owner threatens a supplier or its customers, then the supplier can respond quickly by filing a declaratory judgment suit instead of waiting to respond to an infringement suit that could be strategically delayed.[123] Appropriately, the IP owner's litigiousness is a factor favoring the apprehension of lawsuit and standing to file a declaratory judgment.[124] Declaratory judgment also helps potential defendants to organize and share the cost of challenging the validity of a patent.[125] Opportunistic patent plaintiffs may threaten weaker

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[121] *See* KIMBERLY PACE MOORE ET AL., PATENT LITIGATION AND STRATEGY 29 (1999).

[122] The patent owner win rates at jury trials are 68% when the patent owner initiates the suit but only 38% when the alleged infringer initiates the suit. *See* Kimberly A. Moore, *Judges, Juries and Patent Cases: An Empirical Peek Inside the Black Box*, 99 MICH. L. REV. 365, 368 (2000). Declaratory judgment suits are a useful tactic for blunting the threat of anti-competitive litigation by an exclusive patent licensee. The Wisconsin Alumni Research Foundation (WARF) holds patents on different types of human stem cells. WARF gave an exclusive license to Geron covering a subset of the patented stem cells. WARF sued Geron seeking a declaratory judgment that Geron failed to exercise its option under its exclusive license to include additional cell types within the license. WARF fears that Geron will interfere with future licenses between WARF and third parties. *See* Tim Adams, *Stem Cell Lawsuit Heats Up*, BIOTECHNOLOGY NEWSWATCH 5, Oct. 1, 2001, *available at* 2001 WL 8787971; *University Affiliate Sues Biotech Firm Over Licensing of New Stem Cell Types*, PHARMACEUTICAL L. & POL'Y REP. (BNA) No. 7 (Aug. 23, 2001); *US Patent 6,200,806 Could be Gatekeeper to Further Stem Cell Research*, UVENTURES.COM, Nov. 2, 2001, *at* http://www.uventures.com/servlets/UVTechNews/3071. For an example of a declaratory judgment suit used against an allegedly opportunistic patent suit, see Brenda Sandburg, *Yahoo-NCR Patent Dispute Heats Up*, THE RECORDER, Dec. 30, 2002, *at* http://www.law.com.

[123] *See* Windmoller v. Laguerre, 284 F. Supp. 563, 565 (D.D.C. 1968) (stating that declaratory judgment serves "the public's interest in certainty and prompt decision, particularly where potential competition may well be suppressed unnecessarily through the use of questionable patents"); WRIGHT ET AL., *supra* note 103, § 2761, at 575. Delay by the IP owner is limited by the laches doctrine.

[124] *See* W. Interactive Corp. v. First Data Res., Inc., 972 F.2d 1295, 1298 (Fed. Cir. 1992).

[125] It is difficult to overcome collective action problems and organize private parties to share the cost of invalidating a patent, but it does happen. *See* Nat'l Hairdressers' & Cosmetologists' Ass'n v. Philad Co., 4 F.R.D. 106, 107 (D. Del. 1944) (addressing case where association sued for declaratory judgment of patent invalidity after patent owner sued or threatened to sue many of the association's members); SHULMAN, *supra* note 29, at 55–57 (noting that a consortium of medical groups has offered to share the costs of the litigation with Kaiser-Permanente as Kaiser attempts to invalidate a gene patent); Frazier, *supra* note 50 (explaining that a small web-based merchant has organized similar merchants to fight a patent lawsuit he sees as an "extortion scam;" he set up a web site for defendants—www.youmaybenext.com—to organize the fight against the patent owner); John Markoff, *Patent Claim Strikes an Electronics Nerve*, N.Y. TIMES, July 29, 2002, at C4, *available at* http://www.nytimes.com/2002/07/29/technology/29JPEG.html (revealing that Members

defendants first to get quick licenses that create the impression that they have a strong case.[126] Finally, declaratory judgment gives an alleged infringer some leeway to choose the forum for a suit.[127] Forum choice may reduce the credibility of a weak lawsuit; empirical evidence shows that the choice of forum has a significant impact on trial outcome.[128]

C. *Summary Judgment for the Defendant*

Summary judgment law and substantive IP law interact in ways that can promote or discourage socially harmful IP litigation.[129] Summary judgment for the defendant is difficult to achieve when the substantive law sets standards for IP protection that are easy for a plaintiff to meet or that call for careful balancing of context-sensitive criteria. For example, the standard for trademark infringement asks whether the defendant's behavior creates a likelihood of confusion in the minds of consumers. Courts have identified as many as nine factors that must be evaluated to determine confusion.[130] With so many factors that must be balanced, it is easy for a plaintiff to present a case that gets past summary judgment.[131] Furthermore, summary judgment on a fact-intensive question may be delayed until time-consuming and expensive discovery is completed. Avoidance of so-

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of the Joint Photographic Experts Group, creators of the JPEG standard for video compression, said they would were assembling information that would invalidate a patent that covers aspects of JPEG.); Brenda Sandburg, *Netscape, Microsoft Team Up in Internet Suit*, THE RECORDER, Apr. 2, 2002, *at* http://www.law.com (explaining that Microsoft and Netscape are working together to get a declaratory judgment of patent invalidity against a patent owner who contends his patents cover accessing information over the Internet).

[126] Acceptance of licenses is a secondary consideration pointing toward nonobviousness and validity of a patent. *See* Stratoflex, Inc. v. Aeroquip Corp., 713 F.2d 1530, 1539 (Fed. Cir. 1983).

[127] Even though the choice of forum is fairly restricted by venue considerations, declaratory judgment gives a substantial forum selection advantage to an accused infringer. *See* Kimberly A. Moore, *Forum Shopping in Patent Cases: Does Geographic Choice Affect Innovation?*, 79 N.C. L. REV. 889, 907–20 (2001).

[128] *See* Kimberly A. Moore, *Jury Demands: Who's Asking?*, 17 BERKELEY TECH. L.J. 847, 860–62 (2002) (attributing a portion of the improved win rates of plaintiffs in declaratory judgment actions to forum selection).

[129] *See generally* Bone, *supra* note 16, at 520–22 (describing summary judgment and other procedural reforms motivated by worries about frivolous suits); Samuel Issacharoff & George Loewenstein, *Second Thoughts About Summary Judgment*, 100 YALE L.J. 73 (1990).

[130] *See* 3 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 23:19 (1996).

[131] *See* Bone, *supra* note 16, at 567 ("[P]laintiffs are often able to put off summary judgment by filing affidavits attesting to the need for discovery.").

cially harmful litigation requires quick and cheap summary judgment. Therefore, a fact-intensive standard for IP protection or infringement is a poor candidate for summary judgment.[132]

Recently, courts have shown greater sensitivity to the desirability of giving defendants a chance to extricate themselves from opportunistic or anti-competitive litigation through summary judgment.[133] The Supreme Court took an important step to mitigate harm caused by trade dress infringement suits in *Wal-Mart Stores, Inc. v. Samara Brothers, Inc.*[134] The plaintiff, Samara, claimed trademark protection based on its design of a line of children's clothing.[135] Trade dress (or any other mark) must be distinctive to qualify for trademark protection.[136] A plaintiff can show that a word or product packaging is either inherently distinctive or has acquired distinctiveness through usage ("secondary meaning" in trademark jargon).[137] The Supreme Court rejected Samara's argument that its clothing was inherently distinctive.[138] The Court insisted that a putative owner of a trademark in the design or configuration of a product show that the trade dress has acquired secondary meaning.[139] The Court explained the requirement of secondary meaning with the observation: "Competition is deterred . . . not merely by successful suit but by the plausible threat

[132] *See* Rockwell Graphic Sys., Inc. v. DEV Indus., Inc., 925 F.2d 174, 179 (7th Cir. 1991) (holding that "only in an extreme case can what is a 'reasonable' precaution be determined on a motion for summary judgment, because the answer depends on a balancing of costs and benefits that will vary from case to case"); MCCARTHY, *supra* note 130, § 32:120 (explaining that summary judgment for defendant on likelihood of confusion is difficult in trademark cases unless the defendant's product is totally unrelated or the mark was totally dissimilar); WRIGHT ET AL., *supra* note 103, § 2732.1, at 143.

[133] *See* Celotex Corp. v. Catrett, 477 U.S. 317, 323–24 (1986) ("One of the principal purposes of the summary judgment rule is to isolate and dispose of factually unsupported claims or defenses, and we think it should be interpreted in a way that allows it to accomplish this purpose."); Matsushita Elec. Indus. Co. v. Zenith Radio Corp., 475 U.S. 574, 586 (1986); Bone, *supra* note 16, at 593–96 (stating that judicial screening based on early summary judgment combined with targeted discovery is the best method of controlling frivolous litigation).

[134] 529 U.S. 205 (2000).

[135] *Id.* at 207–08.

[136] *See id.* at 209–11.

[137] A trademark owner must show that a product design has been used in such a way that the public comes to recognize the design as an indicator of origin. *See id.* at 210–11. Secondary meaning can be proven with consumer surveys or by showing significant advertising and sales. *See id.*

[138] *See id.* at 212. The Supreme Court considered a more fact-intensive standard of distinctiveness and rejected it, stating, "Such a test would rarely provide the basis for summary disposition of an anti-competitive strike suit." *See id.* at 214. The Court also placed the burden on the plaintiff of showing that the trade dress is not functional. *See id.*

[139] *See Wal-Mart*, 529 U.S. at 214.

of successful suit, and given the unlikelihood of inherently source-identifying design, the game of allowing suit based upon alleged inherent distinctiveness seems to us not worth the candle."[140]

Recent cases demonstrate the impact of *Wal-Mart* on summary judgment for defendants in trade dress infringement cases. In *Yankee Candle Co. v. Bridgewater Candle Co.*,[141] the defendant won on summary judgment despite copying[142] elements of the plaintiff's design because the plaintiff made no showing of secondary meaning.[143] The plaintiff, Yankee, claimed trade dress protection in a combination of candle shapes and sizes, labels, display method, catalog layout, and the quantities of candles sold as a unit.[144] The Court of Appeals for the First Circuit placed this trade dress in the product design/configuration category and not the packaging category; thus, *Wal-Mart* applied and secondary meaning was required.[145]

Yankee also claimed infringement of its copyright on the labels of nine scented candles.[146] The court granted summary judgment for the defendant after applying the merger doctrine because no reasonable juror could find substantial similarity.[147] The *Yankee Candle* decision is representative of the greater receptiveness courts now show to summary judgment in favor of defendants in copyright cases.[148] Stricter application of the requirement of originality and more careful filtration of unprotectable subject matter have modestly increased the burden on copyright plaintiffs and made summary judgment for defendants more likely. Nevertheless, defendants still have a hard time getting a summary judgment victory because plaintiffs can easily make a prima facie case of copying.

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[140] *Id.*

[141] 259 F.3d 25 (1st Cir. 2001).

[142] After *Wal-Mart*, intentional copying plays a minor role in establishing secondary meaning in design/configuration cases. *Id.* at 44–45.

[143] *Id.* at 43–45. Similarly, the Kohler Co. was sued for trade dress infringement because it copied the unpatented design of a faucet. I.P. Lund Trading ApS v. Kohler Co., 118 F. Supp. 2d 92, 94 (D. Mass. 2000). Kohler won summary judgment because the plaintiff made no showing of secondary meaning in the faucet design. *Id.* at 100, 103.

[144] *Yankee Candle*, 259 F.3d at 39–40.

[145] *Id.* at 40. Following *Wal-Mart*, the First Circuit resolves uncertainty by placing trade dress in the design/configuration category. *Id.*

[146] *Id.* at 32.

[147] *Id.* at 32–33.

[148] *See* COHEN ET AL., *supra* note 63, at 173 ("[S]ummary judgment in copyright cases has traditionally been discouraged. Nevertheless, courts are more frequently employing it as a means to weed out claims that lack merit.").

Infringement of the reproduction right requires proof of copying, as opposed to independent creation. Copying can be proved directly but is usually proved using circumstantial evidence. Circumstantial proof of copying requires a showing of access and similarity. The Second Circuit in *Arnstein v. Porter*[149] set up a sliding scale for evaluating these factors: if there is no similarity, then access is irrelevant; if there is no access shown, then the similarity must be so striking to preclude the possibility of independent creation;[150] if there is evidence of access and similarity, then the trier of fact decides whether copying occurred.[151] When the court must balance factors like access and similarity, it is hard for a defendant to win summary judgment even though she knows she created the work independently.[152] In *Arnstein*, the plaintiff claimed that various musical compositions were copied by the defendant, Cole Porter.[153] Although one song sold over a million copies, the second sold only about 2000 copies and the third was not published but had been performed over the radio.[154] The plaintiff also claimed that someone stole a copy of the compositions from his room.[155] The trial court decided for the defendant on summary judgment.[156] The Second Circuit reversed.[157] The court found enough similarity and access to raise a factual question.[158] The court emphasized that issues of credibility created by the plaintiff's allegations must be evaluated by the jury.[159]

Defendants cannot be certain to escape trial and ultimate liability even when they have documented their independent creation. Proof of widespread dissemination coupled with a theory of subconscious

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[149] 154 F.2d 464, 475 (2d Cir. 1946) (refusing to grant summary judgment for a defendant even though the evidence of access and similarity were both weak).

[150] *Id.* at 468. *But see* Selle v. Gibb, 741 F.2d 896, 905 (7th Cir. 1984) (affirming j.n.o.v. for the defendant, despite striking similarities, because the plaintiff did not make a threshold showing of access).

[151] *Arnstein*, 154 F.2d at 468.

[152] *See supra* note 123.

[153] *Arnstein*, 154 F.2d at 469.

[154] *See id.*

[155] *See id.*

[156] *Id.* at 468.

[157] *Id.* at 475.

[158] *Arnstein*, 154 F.2d at 475.

[159] *See id.* at 471. The court also noted that a jury could possibly also find an unlawful appropriation because the similarities between the compositions were not merely trifling. *See id.* The dissent approved of summary judgment because the works lacked appreciable similarity. *See id.* at 476 (Clark, J., dissenting). The only similarity was small detached and insignificant portions. *See id.* (Clark, J., dissenting).

copying is enough to win a music copyright infringement claim.[160] Defendants are vulnerable to copyright infringement suits even though their connection to the plaintiff is tenuous and their access to the plaintiff's work is entirely conjectural.[161]

Defendants have had some success winning summary judgment in cases involving art reproductions. In these cases, the plaintiff makes a derivative work and the defendant makes a similar work based either on the plaintiff's work or on the original that inspired the plaintiff. Rather than pressing the argument for independent creation, defendants have succeeded at summary judgment by arguing the plaintiff's work is not copyrightable because it lacks originality. For example, in *L. Batlin & Son v. Snyder*, the plaintiff made a plastic Uncle Sam bank based on a cast iron bank in the public domain.[162] The plaintiff used the metal bank for a sketch and a clay model.[163] The plastic version had small differences from the original.[164] Because the differences were dictated by functional considerations or did not amount to significant alterations, the originality requirement was not satisfied.[165]

In patent law, the Federal Circuit has pushed two doctrinal positions that make summary judgment easier for defendants. First, the court has characterized patent claim construction as a question of law and encouraged pre-trial "*Markman* hearings" to construe the scope

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[160] *See* Three Boys Music Corp. v. Bolton, 212 F.3d 477, 482 (9th Cir. 2000); Bright Tunes Music Corp. v. Harrisongs Music, Ltd., 420 F. Supp. 177, 180 (D.C.N.Y. 1976) (George Harrison found to have subconsciously copied "He's So Fine" in "My Sweet Lord").

[161] *See* Bouchat v. Baltimore Ravens, Inc., 241 F.3d 350, 355–56 (4th Cir. 2000) (finding that submission of a logo to the Ravens organization was enough to establish access and support an infringement verdict); Ty, Inc. v. GMA Accessories, Inc., 132 F.3d 1167, 1171 (7th Cir. 1997) (finding that access and copying may be inferred when two works resemble each other and nothing in the public domain).

[162] 536 F.2d 486, 488 (2d Cir. 1976) (en banc).

[163] *Id.*

[164] Many of the differences were not perceptible to the casual observer, and the work took less than two days to make. A smaller base was two inches shorter, the umbrella was pressed against his leg (to allow a one-piece mold for easier manufacturing), the eagle clutched leaves instead of arrows, and the shape and texture of the hat and the shape of the carpet bag was changed. *See id.*

[165] *See id.* at 492. A similar outcome is found in *Pickett v. Prince*, 207 F.3d 402, 406 (7th Cir. 2000) ("Concentrating the right to make derivative works in the owner of the original work prevents what might otherwise be an endless series of infringement suits posing insoluble difficulties of proof."), and *Entertainment Research Group, Inc. v. Genesis Creative Group, Inc.*, 122 F.3d 1211, 1221 (9th Cir. 1997) (affirming summary judgment for the defendant on the grounds that an inflatable Toucan Sam costume derived from a copyrighted image was not copyrightable because it did not have sufficient originality).

of patent claims.[166] Defendants have an opportunity to win summary judgment on infringement if they succeed in persuading the court to adopt a narrow claim construction.[167] Second, the court has reduced the role of the doctrine of equivalents.[168] Even though it has an equitable origin, this doctrine allows a fact-finder to expand the literal scope of a patent claim to encompass accused processes and devices that depart from the claimed invention by making small changes from the claimed invention. In *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, the Federal Circuit fashioned an absolute bar against use of the doctrine of equivalents to expand claim limitations that were the subject of narrowing amendments during prosecution history.[169] That decision pleased big patent owners like IBM, which filed an amicus brief asking the Supreme Court to uphold the Federal Circuit decision.[170] The industry amici believed that restricting the scope of the doctrine of equivalents would help control opportunistic patent suits.[171] The Supreme Court rejected the absolute bar but certainly expressed sympathy for the Federal Circuit's goal of increasing the clarity of the property rights defined by patent claims.[172]

III. Post-Trial Control of Socially Harmful IP Litigation

A. *Fee Shifting and Attorney Sanctions*

The copyright, trademark, and patent statutes all have provisions that authorize fee shifting, which allows judges to punish plaintiffs for conducting opportunistic or anti-competitive litigation.[173] The Lanham Act provides that "in exceptional cases" a district "court may

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[166] *See* Moore et al., *supra* note 121, at 192 (describing how some courts resolve patent claim construction on a summary judgment motion near the end of discovery).

[167] *See id.*

[168] The all-element rule allows a defendant to obtain summary judgment on patent infringement under the doctrine of equivalents if one of the claimed elements is missing from the alleged infringing device. *See* Warner-Jenkinson Co. v. Hilton Davis Chem. Co., 520 U.S. 17, 29–30 (1997).

[169] *See* 234 F.3d 558, 564–66 (Fed. Cir. 2000), *rev'd* 535 U.S. 722 (2002).

[170] *See* Sandburg, *supra* note 67.

[171] *See id.*

[172] *See* Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., 535 U.S. 722 (2002).

[173] *See* Lawrence C. Marshall et al., *The Use and Impact of Rule 11*, 86 Nw. U. L. Rev. 943, 953 (1992) (reporting survey showing Rule 11 sanctions most often arise because of allegedly frivolous suits). For applications to patent cases, see generally *Antonious v. Spalding & Evenflo Cos., Inc.*, 275 F.3d 1066 (Fed. Cir. 2002), and *Special Devices, Inc. v. OEA, Inc.*, 269 F.3d 1340 (Fed. Cir. 2001).

award reasonable attorney's fees to the prevailing party."[174] Similarly, the Patent Act allows fee shifting in exceptional cases. Exceptional cases include those involving frivolous suits, inequitable conduct before the Patent and Trademark Office, and misconduct during litigation.[175] The copyright standard is more flexible: a district "court in its discretion may allow the recovery of full costs by or against any party . . . . [T]he court may also award a reasonable attorney's fee to the prevailing party as part of the costs."[176] Fee shifting usually benefits plaintiffs in IP cases, especially when defendants are willful infringers, but defendants may also win fees from plaintiffs.[177] A defendant can win fees in a copyright case when a plaintiff brings "a weak, if non-frivolous, case and . . . argue[s] for an unreasonable extension of copyright protection."[178] The goal of fee shifting is both compensation to the prevailing party and deterrence of opportunistic and anti-competitive suits.[179]

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[174] 15 U.S.C. § 1117(a) (2000) (Lanham Act §35(a)). Awarding attorney's fees in trademark cases is governed by the Lanham Act. "Section 35(a) of the Lanham Act, which lists the remedies available for trademark violations, provides in pertinent part that '[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party.'" Securacomm Consulting, Inc. v. Securacom, Inc., 224 F.3d 273, 279 (3d Cir. 2000) (citing 15 U.S.C. § 1117(a)).

[175] *See* S Indus., Inc. v. Centra 2000, Inc., 249 F.3d 625, 629 (7th Cir. 2001) (affirming award of attorney's fees to defendant because trademark claims were meritless and because of dilatory tactics); Beckman Instruments, Inc. v. LKB Produkter AB, 892 F.2d 1547, 1551 (Fed. Cir. 1989) (citing 35 U.S.C.A. § 285).

[176] 17 U.S.C. § 505 (2000). Prevailing plaintiffs and prevailing defendants must be treated alike for purposes of awarding attorney's fees under the Copyright Act, with attorney's fees awarded to prevailing parties only as a matter of the court's discretion. The Copyright Act attorney fee provision gives no hint that successful plaintiffs are to be treated differently than successful defendants. *See* Fogerty v. Fantasy Inc., 510 U.S. 517, 534 (1994) (citing 17 U.S.C. § 505).

[177] *See* PS Promotions, Inc. v. Stern, No. 97 C 3742, 2001 U.S. Dist. LEXIS 3096, at *1–2 (N.D. Ill. Mar. 22, 2001) (denying attorney's fees to defendant under the Lanham Act but allowing an award under 28 U.S.C. § 1927, which authorizes such an award against an attorney who "multiplies the proceedings in any case unreasonably and vexatiously"); Lemley, *supra* note 29, at 1530 (difficult for a patent defendant to win attorney's fees).

[178] Matthews v. Freedman, 157 F.3d 25, 29 (1st Cir. 1998) (citing *Fogerty*, 510 U.S. at 526–27, and Edwards v. Red Farm Studio Co., 109 F.3d 80, 82–83 (1st Cir. 1997)); *see also Fogerty*, 510 U.S. at 534–35 (reversing practice that limited the award of attorney's fees to cases in which the plaintiff's lawsuit was frivolous or brought in bad faith); Fantasy, Inc. v. Fogerty, 94 F.3d 553, 555 (9th Cir. 1996) (finding that an award of attorney's fees to a copyright defendant is permissible even if the plaintiff brought the lawsuit in good faith; the award is justified if the defendant furthers the purpose of the Copyright Act).

[179] Nonexclusive factors the court is to consider in determining whether to award prevailing party attorney fees under Copyright Act "include frivolousness, motivation, objective unreasonableness (both in factual and in legal components of case) and the need in

Fee shifting deters opportunistic suits by raising the expected cost of weak lawsuits and undermining the credibility of the plaintiff's threat to go to trial.[180] One type of opportunistic lawsuit is credible because the plaintiff fails to investigate. Sensibly, failure to investigate triggers fee shifting and attorney sanctions; thus, deterrence of such behavior is likely to be effective.[181] A second type of opportunistic lawsuit is credible because of the risk of judicial error.[182] Assuming even the most error-prone court gets the decision right most of the time, fee shifting raises expected legal costs to an opportunistic plaintiff and makes an opportunistic lawsuit less credible.[183]

Fee shifting is probably less effective in controlling anti-competitive litigation. The most aggressive predatory litigation strives to choke off financial resources from the defendant.[184] The prospect of recovering attorney's fees after trial has no value to a defendant who goes bankrupt before trial, and perhaps little value to a defen-

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particular circumstances to advance considerations of compensation and deterrence." Lieb v. Topstone Indus., 788 F.2d 151, 156 (3d Cir. 1986).

[180] *See* Lucian Arey Bebchuk & Howard F. Chang, *An Analysis of Fee Shifting Based on the Margin of Victory: On Frivolous Suits, Meritorious Suits, and the Role of Rule 11*, 25 J. LEGAL STUD. 371, 372 (1996) (explaining that Rule 11 could be used to implement a scheme in which attorney's fees would be rewarded when the margin of victory is sufficiently large); A. Mitchell Polinsky & Daniel L. Rubinfeld, *Sanctioning Frivolous Suits: An Economic Analysis*, 82 GEO. L.J. 397, 404–06 (1993). *But see* Meurer, *supra* note 24, at 87–89 (showing the British rule is not guaranteed to achieve a lower probability of patent litigation than the American rule). Two drawbacks to fee shifting are the risk of error and the cost of satellite litigation over fees. *See* Bone, *supra* note 16, at 589–90.

[181] *See* Brasseler, U.S.A. I, L.P. v. Stryker Sales Corp., 267 F.3d 1370, 1386 (Fed. Cir. 2001) (finding that the plaintiff was required to pay attorney's fees to defendant in a patent infringement action because plaintiff's attorneys failed to investigate after receiving notice of on-sale bar); Ferraris Med., Inc., v. Azimuth Corp., No. 99-66-M, 2002 U.S. Dist. LEXIS 13589, at *7 (D.N.H. July 24, 2002) (holding that trade dress infringement plaintiff was forced to pay the defendant's attorney's fees because of failure to investigate).

[182] *See supra* notes 21–23 and accompanying text.

[183] In the third type of opportunistic suit, plaintiffs with weak claims pretend to have strong claims but the strength of the claims is unknown to defendants without extensive discovery or perhaps trial. The credibility of these types of suits is sometimes weakened by fee shifting and sometimes unaffected, depending on the circumstances. *See* Meurer, *supra* note 24, at 84; Eric Talley, *Liability Based Fee-Shifting Rules and Settlement Mechanisms Under Incomplete Information*, 71 CHI.-KENT L. REV. 461, 495 (1995) (stating British rule would not reduce litigation).

[184] Nevertheless, a defendant that withstands predatory litigation should certainly be entitled to fee shifting. *See Securacomm Consulting*, 224 F.3d at 282. In *Securacomm Consulting*, the defendant's vexatious litigation tactics, consisting of deliberate effort to "bury" the plaintiff financially and "take everything he had," rendered the case sufficiently exceptional to support an award of attorney's fees to the prevailing plaintiff in a trademark infringement suit, even though the infringement was not willful and the court could have chosen other avenues to sanction improper litigation behavior. *Id.*

dant who suffers financial distress because of trial cost and delay. It could be a more effective deterrent to anti-competitive litigation that attempts to discourage a defendant from making a certain product variety. The possibility of recovering attorney's fees would encourage some marginal defendants to fight the predator and reduce the credibility of predatory litigation.[185]

B. *Sham Litigation and Antitrust Law*

Antitrust law provides a potentially powerful means of controlling socially harmful IP litigation.[186] Certain anti-competitive litigation violates Section 2 of the Sherman Act[187] under two related theories.[188] One theory originated in *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*[189] and applies only to patent infringement suits. The antitrust claimant must show that the patentee got its patent by committing common law fraud on the PTO, and that the patent would not have issued but for the fraud.[190] The other theory applies to sham litigation, including sham IP litigation,[191] and is based on a

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[185] *See Ferraris*, 2002 U.S. Dist. LEXIS 13589, at *11–12 (addressing frivolous copyright and trade dress infringement claims); Yankee Candle Co. v. Bridgewater Candle Co., 140 F. Supp. 2d 111, 119 (D. Mass. 2001) (stating, in a copyright and trade dress infringement case, that the $1 million fee "award should also serve to deter Yankee Candle and other market leaders from bringing overly aggressive and meritless suits against their smaller competitors.").

[186] For a helpful overview, see generally Myers, *supra* note 29.

[187] The Section 2 requirements for monopolization are "(1) possession of monopoly in the relevant market and (2) the willful acquisition or maintenance of that power as distinguished from growth or development as a consequence of a superior product, business acumen, or historic accident." Myers, *supra* note 29, at 578.

[188] "If the litigation involves concerted exclusionary behavior by two or more competitors, it may violate [S]ection 1 of the Sherman Act as well." *See* Myers *supra* note 29, at 578. Predatory litigation can also violate Section 5 of the Federal Trade Commission Act for being unfair trade practice. *Id.*

[189] 382 U.S. 172 (1965).

[190] *Id.* at 173. The nature of this fraud is not clear. *Compare* Nobelpharma AB v. Implant Innovations, 141 F.3d 1059, 1071 (Fed. Cir. 1998) (noting that conduct that gives rise to *Walker Process* fraud is more serious than conduct that give rise to inequitable conduct liability), *with* Mark D. Janis, *Transitions in IP and Antitrust*, 47 ANTITRUST BULL. 253, 274 (2002) (questioning whether the distinction between fraud on the PTO and inequitable conduct in *Nobelpharma* will have a significant impact).

[191] *See* Handgards, Inc. v. Ethicon, Inc., 743 F.2d 1282, 1284 (9th Cir. 1984). Sham litigation antitrust suits have been filed against the party claiming infringement in many types of cases. *See, e.g.*, CVD v. Raytheon Co., 769 F.2d 842 (1st Cir. 1985) (trade secret); Brunswick v. Riegel Textile Corp., 752 F.2d 261 (7th Cir. 1984) (patent); PrimeTime 24 Joint Venture v. NBC, Inc., 21 F. Supp. 2d 350, 359 (S.D.N.Y. 1998) (copyright); Letica Corp. v. Sweetheart Cup Co., 790 F. Supp. 702 (E.D. Mich. 1992) (trademark); Christianson v. Colt

showing that the antitrust defendant (IP plaintiff) knew that objectively there was no basis for the infringement claim.[192] Under either theory, the antitrust plaintiff must prove it suffered an antitrust injury, and must also show that the IP litigation created or sustained a monopoly in the relevant market.[193]

Trebled antitrust damages are a potent deterrent of anti-competitive activity, but in practice antitrust does little to control socially harmful IP litigation because its reach is very limited; it does not apply to opportunistic litigation and applies only to a subset of anti-competitive litigation. Antitrust law does not reach opportunistic litigation because the purpose of such litigation is to extract a settlement payment, not to exclude a rival. In antitrust parlance, there is no antitrust injury and no attempt to monopolize a market. The sham litigation theory applies to lawsuits that have an anti-competitive effect because of the cost and delay created by the litigation; it does not apply to lawsuits that have an anti-competitive effect because a plaintiff succeeds in enforcing a weak IP right.[194] The *Walker Process* theory has limited utility because it is difficult to prove fraudulent patent pro-

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Indus. Operating Corp., 766 F. Supp. 670 (C.D. Ill. 1991) (trade secret); G. Heilman Brewing Co., Inc. v. Anheuser-Busch Inc., 676 F. Supp. 1436 (E.D. Wisc. 1987) (trademark).

[192] *See* Prof. Real Estate Investors, Inc. v. Columbia Pictures, 508 U.S. 49, 51–52 (1993) (claiming that renting movies to hotel guests to watch in their rooms infringes the public performance right); *id.* at 64 (explaining that the lawsuit was not objectively baseless even though the copyright owner lost a summary judgment motion).

[193] *See supra* notes 174–177. Attempts to monopolize are also actionable.

[194] The *Noerr-Pennington* doctrine holds that petitioning the government to receive benefits at the expense of a competitor is protected speech and therefore immune from antitrust scrutiny. *See* United Mine Workers v. Pennington, 381 U.S. 657, 671–72 (1965); E. R.R. v. Noerr Motor Freight, 365 U.S. 127, 135–37, 145 (1961). In this context, petitioning includes litigation as well as lobbying. *See* Ca. Motor Transp. Co. v. Trucking Unlimited, 404 U.S. 508, 510 (1972). *Noerr-Pennington* antitrust immunity does not extend to sham litigation. Sham litigation is defined in terms of the objective of the litigation.

> The "sham" exception to *Noerr* encompasses situations in which persons use the governmental *process*—as opposed to the *outcome* of that process—as an anticompetitive weapon. A classic example is the filing of frivolous objections to the license application of a competitor, with no expectation of achieving denial of the license but simply in order to impose expense and delay.

City of Columbia v. Omni Outdoor Adver., 499 U.S. 365, 380 (1991); *see* Grip-Pak, Inc. v. Ill. Tool Works, 694 F.2d 466, 472 (7th Cir. 1982) (asking whether a lawsuit can be justified based on likely remedies rather than being profitable because of the cost of the lawsuit to a competitor); *see also* HERBERT HOVENKAMP ET AL., IP AND ANTITRUST: AN ANALYSIS OF ANTITRUST PRINCIPLES APPLIED TO INTELLECTUAL PROPERTY LAW § 11.3, at 11–26 (2003) ("Some courts have held that *Noerr* immunity either does not apply or is easier to overcome where the intellectual property owner is accused of filing a *pattern* of suits, rather than just one.").

curement.[195] Where Section 2 applies, it probably deters the most egregious lawsuits in which a monopolist gets a flimsy patent and litigates an entrant out of existence, but it does not have much effect otherwise. Section 2 claims based on sham litigation are very common[196] but almost never successful.[197]

IV. Screening out Weak Intellectual Property Lawsuits

A. *Better Examination at the Patent and Trademark Office*

Better screening of putative IP rights at an early stage would certainly help mitigate the problems of opportunistic and anti-competitive lawsuits, but there is little hope for this method of control. Copyright and trade secret rights are not subjected to any examination; copyright has a minimal registration procedure. Thus, there is no opportunity to use agency resources to screen out weak copyright and trade secret claims. The PTO examines patents and trademarks, and could do a better job of screening out weak claims, but various factors limit the performance of the agency.[198] A fundamental limitation on trademark examination is that plaintiffs can protect even unregistered marks under federal law.[199]

The ex parte nature of examination restricts the information available to examiners and poses the chief obstacle to high quality ex-

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[195] *See generally Walker Process*, 382 U.S. 172.

[196] *See* Hovenkamp et al., *supra* note 194, § 11.1, at 11-2 (anti-competitive litigation was the subject of more than 100 reported decisions from 1993 to 2000); Myers, *supra* note 29, at 565 (increased volume of sham litigation).

[197] Section 2 liability requires clear and convincing evidence of a bad faith patent suit, specific intent to monopolize the relevant market, and a dangerous probability of success. *See Handgards*, 601 F.2d at 994–96. Ethicon was held liable for an antitrust violation for bringing the infringement claim in bad faith. *Id.* at 991; *see also* Hovenkamp et al., *supra* note 194, § 5.4, at 5–41 (explaining that courts carefully scrutinize antitrust claims based on sham IP litigation); *id.* § 11.2, at 11–14 (stating that both *Walker Process* and *Handgards* suits usually fail); Nissen, *supra* note 22, at 66 ("[T]he odds of prevailing on an antitrust claim [based on a frivolous patent infringement suit] are not good."). Instead of a federal antitrust claim, victims of anti-competitive suits might prevail using a state law cause of action. *See* Nissen, *supra* note 22, at 66–67 (explaining the availability of a state unfair competition law cause of action against a party who brings a bad faith patent infringement claim).

[198] *See* Lemley, *supra* note 29, at 1495 (noting criticism of PTO for failing to effectively examine business method patents); Michael J. Meurer, *Business Method Patents and Patent Floods*, 8 Wash. U. J.L. & Pol'y 309, 310 (2002); Rai, *supra* note 98, at 203 (claiming that there is a flood of low quality gene patents).

[199] *See* Two Pesos, Inc. v. Taco Cabana, Inc., 505 U.S. 763, 776 (1992) (finding infringement in case involving unregistered trade dress).

amination at the PTO.[200] Patent applicants and their attorneys have a duty to disclose information relevant to patentability. A patent owner risks facing a defense of inequitable conduct, which leaves a patent unenforceable if the owner was not candid with the PTO. Despite these incentives, critics charge that many patents are granted that would not have been granted if the PTO had better information.[201]

Examination also suffers from three other problems. First, examiners have a financial incentive to process applications quickly.[202] The patent prosecution process moves so quickly that the average patent gets only eighteen hours of review.[203] Second, opening new fields to patentable subject matter has resulted in low patent quality because the prior art needed to examine an application is not available, and third, finding trained examiners in a new field is difficult. These problems are acute in the fields of software and business methods.[204] Some of these problems could be cured by increasing the resources available to the PTO,[205] but there is a strong argument to limit the resources spent on examination: most patents and many registered trademarks have little or no value, and therefore a thorough examination of every application would be wasteful.[206]

B. *Stricter Standards for Certain Intellectual Property Rights*

Examination and pre- and post-trial control measures are not always sufficient to control opportunistic and anti-competitive litigation

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[200] *See* Lemley, *supra* note 29, at 1500 (noting that applicants are not obliged to search for prior art).

[201] *See* SHULMAN, *supra* note 29, at 59–60, 69 (noting that Compton won a controversial patent on search technology that is a basic feature of multimedia databases; the PTO reexamined the Compton patent on its own initiative and invalidated all of the claims); John R. Thomas, *Collusion and Collective Action in the Patent System: A Proposal for Patent Bounties*, 2001 U. ILL. L. REV. 305, 313–15 (potential inequitable conduct liability is not sufficient to induce candid disclosure to the PTO).

[202] *See* Rai, *supra* note 98, at 218.

[203] *See* Lemley, *supra* note 29, at 1500.

[204] *See* Julie E. Cohen & Mark A. Lemley, *Patent Scope & Innovation in the Software Industry*, 89 CAL. L. REV. 1, 3 (2001); Robert P. Merges, *As Many as Six Impossible Patents Before Breakfast: Property Rights for Business Concepts and Patent System Reform*, 14 BERKELEY TECH. L.J. 577, 589–90 (1999); Meurer, *supra* note 198, at 311–14; John R. Thomas, *The Patenting of the Liberal Professions*, 40 B.C. L. REV. 1139, 1139–40 (1999).

[205] Merges, *supra* note 204, at 606–09 (suggesting improved incentives and training for examiners would increase patent quality).

[206] *See* Lemley, *supra* note 29, at 1510–11 (asserting that limited patent examination is the best policy because improved "examination procedures will largely be wasted on examining the ninety-five percent of patents that will either never be used, or will be used in circumstances that don't crucially rely on the determination of validity.").

effectively. It may be appropriate to complement these control measures by restricting certain IP rights.[207] Many of the cases reporting instances of possible opportunistic or anti-competitive litigation come from specific kinds of subject matter that could be targeted for special treatment: business method patents, trade dress protection of product design, and copyrights on art reproductions.

The existence of business method patents generates a substantial hazard of opportunistic lawsuits because of the rapid pace of invention and the heterogeneous character of the inventors in this field. Business method users inadvertently expose themselves to opportunistic suits because independent invention is likely and surveillance of research activity by other potential inventors is difficult. Consequently, many business method users make a commitment to a business method before they learn that the method might be covered by a patent or patent application. Congress responded to this problem by creating a first inventor defense, but the scope of this defense is too narrow to be very helpful.[208] Several commentators have called for the reversal of *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*,[209] the recent case that allowed business method patents,[210] as well as less drastic reforms including a patent opposition procedure[211] and a stricter nonobviousness standard for business method inventions.[212]

Anti-competitive trade dress litigation based on product design is especially worrisome. Manufacturers expose themselves to trade dress liability because it is hard to identify unregistered trade dress and it is hard to decide whether trade dress is distinctive and non-functional.[213] Mindful of the danger of anti-competitive lawsuits, the courts have recently reversed the long-running expansion of trade dress protection under Section 43(a) of the Lanham Act.[214] Critics of trade

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[207] Of course, such restrictions sacrifice the social benefits associated with the IP rights discussed below.

[208] The defense excuses from infringement those inventors who choose to practice their new business method as a trade secret instead of patenting it.

[209] 149 F.3d 1368 (Fed. Cir. 1998).

[210] *See* Rochelle Cooper Dreyfuss, *Are Business Method Patents Bad for Business?*, 16 SANTA CLARA COMPUTER & HIGH TECH. L.J. 263, 277 (2000); Meurer, *supra* note 198, at 311–14; Thomas, *supra* note 204, at 1185.

[211] *See* Merges, *supra* note 204, at 610–15.

[212] *See* Meurer, *supra* note 198, at 311–14.

[213] For trade dress to be protected under § 43(a) of the Lanham Act, a plaintiff must prove it is used in commerce, is non-functional, and is distinctive. 15 U.S.C. § 1125 (2000).

[214] *See* TrafFix Devices, Inc. v. Mktg. Displays, Inc., 532 U.S. 23, 34–35 (2001); Wal-Mart v. Samara Bros., 529 U.S. 205, 216 (2000); McCarthy, *supra* note 80, at 46.

dress protection of product design have called for its abolition.[215] A more moderate proposal limits relief for infringement to an informational labeling requirement.[216]

Copyright infringement suits based on art reproductions also pose a significant anti-competitive risk. The first party to make an art reproduction like the plastic bank featured in *L. Batlin & Son v. Snyder* might deter imitators because of the uncertainty inherent in a weak originality requirement[217] and the cost of copyright litigation.[218] To reduce this risk, courts and commentators insist on a rigorous application of originality that would leave some art reproductions unprotected by copyright.[219]

Conclusion

It is useful to think of IP law both as a system of property rights that promotes the production of valuable information and as a system of government regulation that unintentionally promotes socially harmful rent-seeking. This Article analyzes methods of controlling rent-seeking costs associated with opportunistic and anti-competitive IP lawsuits. My thinking is guided to some extent by the analysis of procedural measures for controlling frivolous litigation and the analysis of antitrust reforms designed to control strategic abuse of antitrust law. These analogies lead me to focus on pre- and post-trial control measures that reduce the credibility of weak IP lawsuits. I conclude that IP courts show some awareness of the value of fee shifting and summary judgment as tools for controlling opportunistic and anti-competitive lawsuits. Yet, courts display less awareness of the need to restrict preliminary injunctions or encourage declaratory judgments

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[215] *See* Dinwoodie, *supra* note 67, at 663 n.205 (collecting citations to scholars and judges who would exclude trademark protection of product design).

[216] *See id.* at 739 (favoring protection of functional and distinctive product design as long as informational labeling relieves the defendant of liability for copying the design); J.H. Reichman, *Past and Current Trends in the Evoloution of Design Protection Law—A Comment*, 4 Ford. Intell. Prop. Media & Ent. L.J. 387, 395 (1993) (explaining the value of labeling to avoid confusing trade dress).

[217] Douglas Lichtman, Copyright as a Rule of Evidence 18 (Univ. of Chi., John M. Olin Law & Economics Working Paper Series No. 151, May 2002), *at* http://www.law.uchicago.edu/Lawecon/index.html (emphasizing evidentiary problems created by a weak originality standard).

[218] *Id.* at 20.

[219] *See supra* note 31; Lichtman, *supra* note 217, at 1 (stating that the originality requirement, as well as the fixation requirement and the merger doctrine, are "best understood as tools that exclude from the copyright regime cases for which the costs of litigation would be intolerably high.").

as control measures. Antitrust suits have only a limited role in deterring the most egregious anti-competitive conduct. Besides attacking the credibility of weak lawsuits, it is probably desirable to eliminate the threat of some kinds of IP lawsuits entirely. This could be accomplished by eliminating or restricting IP rights such as business method patents, trade dress protection of product configuration and design, and copyright protection of art reproductions. In other words, it may be desirable to curtail the "standing" of parties who own IP rights that generate a substantial threat of opportunistic or anti-competitive litigation with little corresponding benefit in terms of productive incentives.[220]

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[220] *See* Dreyfuss, *supra* note 210, at 274 ("[B]usiness methods are not the only example of newly created or expanded intellectual property rights. There is also database protection, dilution, blurring, cybersquatting, and misappropriation. A strange aspect to many of these expansions is that they occur without any specific thought given to the need for protection.").