

Boston University School of Law

Scholarly Commons at Boston University School of Law

Faculty Scholarship

2003

Controlling Opportunistic and Anti-Competitive Intellectual Property Litigation

Michael Meurer

Follow this and additional works at: https://scholarship.law.bu.edu/faculty_scholarship

 Part of the [Intellectual Property Law Commons](#), and the [Litigation Commons](#)



BOSTON UNIVERSITY SCHOOL OF LAW

WORKING PAPER SERIES, LAW AND ECONOMICS
WORKING PAPER NO. 02-24



CONTROLLING OPPORTUNISTIC AND ANTI-COMPETITIVE INTELLECTUAL PROPERTY LITIGATION

MICHAEL J. MEURER

Forthcoming BOSTON COLLEGE LAW REVIEW 2003

This paper can be downloaded without charge at:

The Boston University School of Law Working Paper Series Index:
<http://www.bu.edu/law/faculty/papers>

The Social Science Research Network Electronic Paper Collection:

<http://ssrn.com/abstract=xxxxx>

Controlling Opportunistic and Anti-Competitive Intellectual Property Litigation

Michael J. Meurer*

INTRODUCTION	1
I. ECONOMIC ANALYSIS OF OPPORTUNISTIC AND ANTI-COMPETITIVE INTELLECTUAL PROPERTY LAWSUITS	3
A. <i>Weak Lawsuits and Credible Threats</i>	3
B. <i>Opportunistic Suits</i>	8
C. <i>Anti-Competitive Lawsuits</i>	12
II. PRE-TRIAL CONTROL OF SOCIALLY HARMFUL IP LITIGATION.....	17
A. <i>Preliminary Injunctions</i>	17
B. <i>Declaratory Judgment</i>	20
C. <i>Summary Judgment for the Defendant</i>	22
III. POST-TRIAL CONTROL OF SOCIALLY HARMFUL IP LITIGATION.....	28
A. <i>Fee Shifting and Attorney Sanctions</i>	28
B. <i>Sham Litigation and Antitrust Law</i>	30
IV. SCREENING OUT WEAK INTELLECTUAL PROPERTY LAWSUITS	33
A. <i>Better Examination at the Patent and Trademark Office</i>	33
B. <i>Stricter Standards for Certain Intellectual Property Rights</i>	34
CONCLUSION.....	36

Forthcoming Boston College Law Review 2003

* Associate Professor of Law at Boston University School of Law, meurer@bu.edu. I thank Tom Hemnes and participants at the Boston College Law Review Symposium on Intellectual Property, E-Commerce, and the Internet for their helpful comments. Special thanks to Bob Bone for valuable discussion and comments. I also thank Tariq Ashrati, Philip Ducker, and Peter Cuomo for able research assistance.

INTRODUCTION

Our system of 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. Unfortunately, the system also promotes harmful rent-seeking by owners of IP rights who undertake opportunistic and anti-competitive lawsuits. Some IP owners value their property right chiefly as a “ticket” into court that gives them a credible threat to sue vulnerable IP users.¹ 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.² 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, and (3) using a mix of procedural and substantive measures that mitigate the harm caused by lawsuits based on vague or invalid rights.

¹ “[The patent] system gives you a government grant which is little more than a right to litigate[.]” An Interview with Circuit Judge S. Jay Plager, *J. Proprietary Rts.*, Dec. 1993, at x (objecting to the weakness of patent rights).

² Sui generis laws have been proposed or enacted to cover “products as diverse as semiconductor chips, databases, industrial design, artistic performances, and genetic maps...” Rochelle Cooper Dreyfuss, Diane Leenheer Zimmerman, & Harry First, *Introduction*, *Expanding the Bounds of Intellectual Property* x (2001); Yochai Benkler, *A Political Economy of the Public Domain: Markets in Information Versus the Marketplace of Ideas*, *Expanding the Bounds of Intellectual Property*, eds. Rochelle Cooper Dreyfuss, Diane Leenheer Zimmerman, & Harry First, 270 (2001); (“[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 CALIF. L. REV. 2187, 2239 (2000) (“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.”).

Courts and commentators recognized a similar problem in the antitrust realm.³ Antitrust law is supposed to promote competition, but it can be used by a plaintiff as a device to exclude competitors or to extract a wrongful settlement payment.⁴ Some antitrust plaintiffs bring suits hoping the courts will mistakenly block activities that increase the efficiency of the plaintiffs' competitors.⁵ Antitrust law responded⁶ by: crafting standing rules that exclude plaintiffs who are not likely to be good "private attorneys general;"⁷ clarifying vague antitrust criteria so defendants can avoid the risk of anti-competitive suit;⁸ and easing summary judgment requirements for antitrust defendants in certain circumstances to discourage opportunistic lawsuits.⁹

IP law needs to follow the same path as antitrust law — take stronger substantive and procedural steps to mitigate the harm from rent-seeking through litigation. Part I of this Article defines opportunistic and anti-competitive IP lawsuits, and explains when they are credible. Parts II and III show certain pre-trial and post-trial measures help control socially harmful litigation by undercutting the credibility of such lawsuits. Better control is possible if trial judges are more vigilant and use their discretion to restrict the availability of preliminary injunctions and award attorneys 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

³ William J. Baumol & Janus A. Ordover, *Use of Antitrust to Subvert Competition*, 28 J. Law & Econ. 247, 250-51 (1985) ("the social costs of rent-seeking protectionism can be very high").

⁴ *Id.* at 252-53 (treble damages encourage rent-seeking though they also play a desirable deterrent role).

⁵ 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 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.

⁶ Whether these responses were good policy is open to debate. Measures that control rent-seeking litigation sometimes discourage too much socially desirable litigation.

⁷ Antitrust injury doctrine. Brunswick. Cargill.

limited role for antitrust judgments against anti-competitive plaintiffs. Part IV identifies certain IP rights that should be trimmed through a reduction in scope and strength. The most encouraging developments on this front are the Supreme Court's efforts to restrict trade dress protection, and the Federal Circuit's efforts to restrict the scope and increase the clarity of patent claims. Contraction of certain IP rights is a desirable complement to ex post control measures that are never completely effective.¹⁰

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.¹¹ 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-competitive¹² 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.

⁸ See cite; *cf.* Baumol & Ordover, *supra* note 4, at 254.

⁹ See *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 585-88, 597 (1986).

¹⁰ See *Merges*, *supra* note 3, at 2190-91 ("There is a fine line ... between a meritorious property right and an odious government enforced rent.")

¹¹ Compare Robert G. Bone, *Modeling Frivolous Suits*, 145 U. Pa. L. Rev. 519, 533 (1997); (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).")

¹² 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 intellectual property law that is overly protective. Regardless of the appropriate label, those issues are outside the scope of this Article.

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;¹³ a plaintiff files an opportunistic lawsuit seeking a settlement payment.¹⁴ Opportunistic and anti-competitive lawsuits are initially puzzling because it is hard to see why defendants would yield to the threat of 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.¹⁵

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

¹³ This Article does not address the problem of intellectual property 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 intellectual property 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.

¹⁴ 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 e.g.*, David Rosenberg & Steven Shavell, *A Model in Which Suits Are Brought for Their Nuisance Value*, 5 Int'l Rev. L. & Econ. 3 (1985); Barry Nalebuff, *Credible Pretrial Negotiation*, 18 Rand J. Econ. 198 (1987); Avery Katz, *The Effect of Frivolous Suits on the Settlement of Litigation*, 10 Int'l Rev. L. & Econ. 3 (1990); Steven Shavell, *Sharing of Information Prior to Settlement or Litigation*, 20 Rand J. Econ. 183 (1989); Robert H. Gertner, *Asymmetric Information, Uncertainty, and Selection Bias in Litigation*, 1993 U. Chi. L. Sch. Roundtable 75 (1993); Bone, *supra* note 12; Chris Guthrie, *Framing Frivolous Litigation: A Psychological Theory*, 67 U. Chi. L. Rev. 163 (2000). Most of the literature discusses opportunistic suits in the context of tort, civil rights, or shareholder derivative suits. *See e.g.*, Bone, *supra* note 12, at x.

¹⁵ A lawsuit may also be credible when the plaintiff fails to adequately investigate the defendant's conduct. *See* Bone, *supra* note 12, 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.*, *Ferraris Medical, Inc., v. Azimuth Corp.*, 2002 U.S. Dist. LEXIS 13589 (unpublished opinion) (D.N.H. 2002) (In a trade dress infringement case the court concluded "that neither Ferraris nor its legal counsel adequately investigated the facts."); *Judin v. United States*, 110 F.3d 780 (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*, 667 F.2d 577 (7th Cir. 1981) (expert testing required before filing a patent infringement lawsuit in a case involving a sophisticated technology). 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 given the broadest plausible scope of the plaintiff's IP right, the defendant's action fall outside that scope.

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,¹⁶ because the complexity of the evidence can make it difficult for a deserving defendant to win a summary judgment or even prevail at trial.¹⁷ High variance in the scope of rights makes it profitable for IP plaintiffs with apparently narrow rights to gamble the 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 the patent claims extend to cover the Internet.¹⁸

¹⁶ 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 a summary judgment and defeat the lawsuit at an early stage of litigation at a relatively low cost. See Bone, *supra* note 12, at 534-37 (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.

¹⁷ Robert C. Nissen, *The Art of the Counterclaim: Festo Won't End Frivolous Infringement Cases, But It Does Make It Easier to Fight Back*, LEGAL TIMES, May 7, 2001, 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.")

¹⁸ See *Interactive Gift Express, Inc. v. CompuServe Inc.*, 231 F.3d 859 (Fed. Cir. 2000) (allows patent owner to try to show that pre-Internet claim language applies to the Internet retail transactions); Brad King, *Want Video on Demand? Press Pause*, Wired News, Sep. 11, 2002, available at: <http://www.wired.com/news/digiwood/0,1412,55026,00.html> (a company owning a 1992 patent covering video on demand is seeking a license from 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, *The Recorder, Closely Watched Hyperlink Patent Case Tossed*, Law.com (Aug. 23, 2002) available at: <http://www.law.com/servlet/ContentServer?pagename=OpenMarket/Xcelerate/View&c=LawArticle&cid=1029689057140&t=LawArticleTech> (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, *British Telecommunications Inc. v. Prodigy Communications Corp.*, 00-9451) (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.

Second, a weak lawsuit may present a credible threat to a defendant who has trouble distinguishing weak lawsuits from strong ones.¹⁹ A plaintiff with a weak lawsuit can successfully bluff a defendant because at early stages of IP litigation the plaintiff is likely to have better information about the scope and validity of the intellectual property. *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*²⁰ illustrates the role of asymmetric information in making weak lawsuits credible. 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. Food Machinery filed a patent infringement lawsuit when Walker entered the market. 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. It seems likely that many similar attempts succeed in deterring entry or forcing a restrictive license onto an entrant; but we have no way to observe successful bluffs.²¹

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.²² A defendant may settle an anti-competitive suit because the cost of

¹⁹ For a model of patent litigation in which plaintiffs with weak claims can successfully bluff their way to a settlement payment see Michael J. Meurer, *Patent Litigation and Licensing*, 20 RAND J. ECON. 77 (1989). For a discussion of this type of model outside the intellectual property context see Bone, *supra* note 12, at 542-549; Guthrie, *supra* note 15, at 174 (“frivolous litigation is most likely to occur under conditions of asymmetric information”).

²⁰ 382 US 172 (1965).

²¹ 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 fraud); Gary Myers, *Litigation as a Predatory Practice*, 80 KY. L.J. 565, 594 (1992) (litigation can be used to prevent or delay a competitor’s entry into a market); SETH SHULMAN, *OWNING THE FUTURE* 68 (1999) (quoting Richard Stallman who disparaged the current state of software patents: “An invalid patent is a dangerous weapon.”); Mark A. Lemley, *Rational Ignorance at the Patent Office*, 95 Nw. L. Rev. 1495, 1515 (2001) (describing social costs of “bad” patents).

²² See e.g., Rosenberg & Shavell, *supra* note 15, at x; Lucian Arye Bebchuk, *A New Theory Concerning the Credibility and Success of Threats to Sue*, 25 J. LEGAL STUD. 1 (1996). Bone argues this approach does not explain large nuisance settlement payments. The magnitude of the settlement payment in these models

a defense threatens the defendant's solvency.²³ 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.²⁴ A plaintiff with a predatory reputation rationally views losing a weak lawsuit as a profitable investment in his reputation.²⁵

Predatory theories of monopolization have fallen out of favor in antitrust law; the Supreme Court skeptically stated that predatory pricing is nearly always irrational.²⁶ Such skepticism is not warranted though because recent economic theory and evidence provides strong support for concerns about the danger posed by predatory pricing.²⁷ Although predatory litigation has not been studied as closely as predatory pricing, it seems more likely to succeed.²⁸ Predatory litigation has an advantage over predatory pricing because the cost to the predator declines after the first lawsuit — the plaintiff can

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 12, 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* x. Another asymmetry arises because some opportunistic plaintiffs *sue* multiple defendants and spread the cost of litigation across those cases.

²³ L. Batlin & Son, Inc. v. Snyder, 536 F.2d 486 (2d Cir. 1976) (en banc), cert. denied, 429 U.S. 857 (1976) (“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.”)

²⁴ For a non-IP example of bad faith litigation deterring entry see Otter Tail Power Co. v. United States, 410 US 366 (19xx) (power company maintained monopoly by using litigation to prevent rival's entry).

²⁵ See Joseph F. Brodley, Patrick Bolton & Michael H. Riordan, *Predatory Pricing: Strategic Theory and Legal Policy*, 88 GEO. L. J. 2241, 2300-01 (describing reputation effect predation). Reputational models of predation have been developed by: David M. Kreps & Robert Wilson, *Reputation and Imperfect Information*, 27 J. ECON. THEORY 253 (1982); Paul Milgrom & John Roberts, *Predation, Reputation and Entry Deterrence*, 27 J. ECON. THEORY 280 (1982); Garth Saloner, *Predation, Mergers, and Incomplete Information*, 18 RAND J. ECON. 165 (1987).

²⁶ See Matsushita. Even though courts are skeptical of predatory pricing claims there is a high level antitrust enforcement directed against it. See Brodley, *et al.*, *supra* note 26, at x. Courts are also reluctant to impose liability for predatory product innovation because they fear they will unduly inhibit innovation. See Myers, *supra*, note 22, at 580-86.

²⁷ See Brodley, *et al.*, *supra* note 26, at 2244-2249 (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.”)

²⁸ See *infra* text accompanying notes x. Myers, *supra*, note 22, at 601 (1992). Predatory litigation is more difficult to detect, especially when the lawsuit has some merit. 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).

use the work product from the first litigation in subsequent litigation.²⁹ 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.³⁰

B. *Opportunistic Suits*

Anecdotal evidence suggests that the problem of opportunistic IP litigation is serious and getting worse.³¹ Defendants fear the high cost of IP litigation,³² and settle opportunistic claims to avoid that cost.³³ I offer some examples from patent,³⁴ trademark,³⁵ and copyright law³⁶ 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.³⁷ An alleged example relates to the company E-Data that sent letters to 75,000 companies informing them that they infringe an E-Data patent and

²⁹ See Myers, *supra* note 22, at 598.

³⁰ 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 22, at 597. In contrast, litigation favors the plaintiff, because plaintiff gets to choose the forum and the initial direction of the discovery. *Id.* at 598.

³¹ See Brenda Sandburg, *Battling the Patent Trolls*, The Recorder, July 31, 2001 available at: <http://www.law.com/jsp/statearchive.jsp?type=Article&oldid=ZZZ4DX7MSPC>

(In 1999 patent claims against Intel totaled over \$15 billion).

³² See Teresa Riordan, *Trying to Cash In on Patents*, Jun. 10, 2002, N. Y. TIMES, 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 32 (same).

³³ See SHULMAN, *supra* note 22, at 55 (Many defendants acquiesce rather than face the expense of fighting an infringement suit.)

³⁴ Compton's multimedia patent.

³⁵ 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")

³⁶ 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); *Arnstein v. Porter*, 154 F.2d 464 (2nd Cir. 1946).

³⁷ Troy Wolverton, *Patent Lawsuit Could Sting eBay*, CNET News.com, September 5, 2002, available 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 10 others pending, he is suing eBay for

asking them to pay royalties between \$5,000 and \$50,000.³⁸ The company owns a patent which arguably covers financial transactions on the Internet.³⁹ Several high profile companies took a license but most refused. E-Data sued 41 of the companies for patent infringement.⁴⁰ This case and other notorious e-commerce cases are criticized because the inventions appear to be obvious,⁴¹ or the claims are not nearly as broad as purported by the plaintiffs.⁴²

A string of opportunistic trademark suits was brought by a company called S Industries.⁴³ “[T]he company filed at least 33 trademark infringement lawsuits in the district court between 1995 and 1997.”⁴⁴ The plaintiff used the mark Sentra with over-the-counter, discount computer mouse pads.⁴⁵ 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.⁴⁶ The Seventh Circuit found that the lawsuit lacked merit, was oppressive and “plaintiff’s conduct unreasonably increased the cost of defending against the suit.”⁴⁷

infringement. Amazon.com, Priceline.com, Barnes&Noble.com, and Expedia have all been targeted for lawsuits.)

³⁸ See [SHULMAN, supra note 22, at 78-80](#) (1999).

³⁹ *Id.*

⁴⁰ *Id.*

⁴¹

⁴² See [supra note 19; Lemley, supra, note 22, at 1517-19](#); Lynne McKenna Frazier, *Small Candy Maker Fights E-commerce Patent ‘Extortion,’* (Nov. 04, 2002) available at: <http://www.siliconvalley.com/mld/siliconvalley/news/4454889.htm> (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.”) On Nov. 15, 2002 the House Small Business Committee cosponsored a conference on IP issues for small business that covered the problem of opportunistic IP suits.) *Id.*

⁴³ See *S Industries, Inc. v. Centra 2000, Inc.*, 249 F.3d 625 (7th Cir. 2001) (affirming award of attorneys fees to defendant because trademark claims were meritless and because of dilatory tactics).

⁴⁴ *Id.* at 628-29. S Industries “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.*

⁴⁵ *Id.* at 627.

⁴⁶ *Id.* at 627.

⁴⁷ *Id.*, at 627. “During 4 years of litigation... S Industries failed to produce evidence of a single sale of ‘Sentra’ brand computer software or hardware.” *Id.*

Opportunistic copyright suits typically pit a minor author against a later successful author.⁴⁸ The plaintiff claims the defendant copied from his earlier work. Some enterprising plaintiffs strengthen the claim of copying by distributing their works to potential defendants; then they can claim the defendant had access.⁴⁹ Opportunistic copyright claims are also likely when both the plaintiff and the defendant base their work on something in the public domain.⁵⁰ The chutzpah award in this field goes to Ashleigh Brilliant who coined 7500 aphorisms, and mounted more than a hundred successful copyright infringement suits.⁵¹

Opportunistic IP suits impose direct and indirect costs on defendants and society. Besides settlement payments⁵² there are sizable direct legal costs,⁵³ and indirect costs borne by potential defendants who work to minimize their exposure to opportunistic litigation.⁵⁴ Firms reduce the risk of copyright and trade secret litigation by returning unsolicited documents, by making software in “clean rooms” that minimizes the exposure

⁴⁸ 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 Maldomar,” because the screenplay was not substantially similar to the movie. See also *Arnstein v. Porter*, [154 F.2d 464 \(2nd Cir. 1946\)](#).

⁴⁹ *L. Batlin & Son, Inc. v. Snyder*, 536 F.2d 486, 489-90 (2d Cir.)

⁵¹ See *SHULMAN, supra note 22, 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.

⁵² 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 firm to enter a market protected by intellectual property rights because of the fear of litigation.

⁵³ Amy Harmon, *Suddenly, “Idea Wars” Take on a New Global Urgency*, Nov. 11, 2001, N. Y. Times, 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, 2000 WL 5785645 (describing the flood of patent litigation).

⁵⁴ Robert G. Bone, *A New Look at Trade Secret Law: Doctrine in Search of Justification*, 86 CALIF. L. REV. 241, 273-79 (1998) (noting the high social cost of trade secret litigation).

of programmers to copyrighted code, and by documenting independent creation.⁵⁵ Opportunistic (and anticompetitive) patent and trade dress cases may deter firms from entering new markets or adopting new product features or designs.⁵⁶

There are several reasons the incidence of opportunistic IP litigation is increasing. First, intellectual property has become more valuable,⁵⁷ and the number of patents, copyrights and trademarks has increased rapidly.⁵⁸ The rate of IP litigation has grown comparably fast.⁵⁹ 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.⁶⁰ Finally, in recent years patent plaintiffs have

⁵⁵ JULIE COHEN, LYDIA LOREN, RUTH OKEDIJI, & MAUREEN O'ROURKE, *COPYRIGHT LAW AND POLICY 2002* chap. 6 p.10 (“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.”)

⁵⁶ See

⁵⁷ Kevin G. Rivette & David Kline, *Discovering New Value in Intellectual Property*, Harv. Bus. Rev. 54, 56 (Jan.-Feb. 2000) (IBM boosted its patent royalties from \$30 million in 1990 to \$1 billion in 2000) Sandburg, *supra* note 32 (from 1980 to 1999 royalties on patents in the United States grew from \$3 billion to nearly \$110 billion.)

⁵⁸ See Harmon, *supra* note 54 (reporting that patent applications and copyright registrations are soaring); Lemley, *supra*, note 22, at 1497-1499 (2001); Michael H. Dessent, *Digital Handshakes In Cyberspace Under E-Sign: "There's A New Sheriff In Town!"*, 35 U. Rich. L. Rev. 943 (Jan. 2002); J. Thomas McCarthy, *Trademarks and Unfair Competition*, 54 Geo. Wash. L. Rev. 143 (Nov. 1985).

⁵⁹ Brenda Sandburg, *A New Industry Transforms the Patent System: Congress, Corporations Eye Reform as Power of Patent Enforcers Grows*, The Recorder July 31, 2001 available at <http://www.law.com/cgi-bin/gx.cgi/AppLogic+FTContentServer?pagename=law/View&c=Article&cid=ZZZP3ISKSPC&live=true&cst=1&pc=0&pa=0&s=News&ExpIgnore=true&showsummary=0> (“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.”); 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 36, at 1700 (product configuration cases have grown explosively in the last fifteen years).

⁶⁰ 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 19, 2001 found at www.law.com/cgi-bin/gx.cgi/AppLogic+FTContentServer?pagename=law/View&c=Article&cid=ZZZ9RZXY4OC&live=true&cst=1&pc=3&pa=0&s=News&ExpIgnore=true&showsummary=0 (“Matthew Powers, a partner at Weil, Gotshal & Manges' Menlo Park, Calif., office, [said that Festo] eliminates a lot of slop out there. Powers said there 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,' Powers said.”)

been effectively organized and financed by entrepreneurs specializing in patent litigation and licensing.⁶¹ Patent lawsuit investors avoid champerty⁶² laws by purchasing ownership or joint ownership of patents.⁶³

C. Anti-Competitive Lawsuits

Firms often use IP litigation to exclude their rivals.⁶⁴ 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;⁶⁵ the term anti-competitive is reserved for lawsuits that seek socially undesirable exclusion.⁶⁶ In an ideal intellectual property system it would be impossible to

⁶¹ See Sandburg, *supra* note 32 (“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.”); *Investors Wanted For Lawsuits*, Bus. Wk. 78 (Nov. 15, 1993); Poonam Puri, *Financing of Litigation by Third-Party Investors: A Share of Justice*, 36 Osgoode Hall L.J. 515, 541 (1998); Susan Lorde Martin, *Financing Plaintiffs’ Lawsuits: An Increasingly Popular (and Legal) Business*, 53 U. Mich. J.L. Ref. 57 (2000). 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. *Id.* 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.* As an alternative to an ownership stake, patent litigation is done on a contingency basis with percentages as high as 45%. Sandburg, *supra* note 32.

⁶² “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 62, at x. Champerty is prohibited throughout the U.S. based on fears that champertor’s will bring frivolous litigation, harass defendants, increase damages, and resist settlement. *Id.* at 58

⁶³ See *Investors Wanted For Lawsuits*, BUS. WK. 78 (Nov. 15, 1993); *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 sixty five percent interest in his patent to WBX partners).

⁶⁴ For a thorough discussion of anti-competitive litigation see generally Myers, *supra*, note 22.

⁶⁵ Examples of firms being driven from a market by plaintiffs with strong claims are easy to find. See e.g., Rivette & Kline, *supra*, note 58, at 64-65 (describing how Polaroid won a \$925 million patent judgment against Kodak and forced Kodak out of the instant photography business); Associated Press, Online Music Provider Now Has Second Bidder, N. Y. Times, Nov. 15, 2000; (movie file-sharing service pushed to bankruptcy by a copyright lawsuit brought by the MPAA); Matt Richtel, Web Company Will Sell Assets to Settle Lawsuit on Music Files, Nov. 2, 2000, N. Y. Times.

⁶⁶ Judge Posner in *Grip-Pak, Inc. v. Illinois Tool Works, Inc.* 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

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 scope of the plaintiff's IP right will be construed too broadly, or because the defendant lacks information proving the IP right is invalid. Second, other defendants may be confident the plaintiff would 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.⁶⁸

Successful anti-competitive IP litigation does not leave much of a record, but there are many cases of failed exclusion.⁶⁹ *Handgards, Inc. v. Ethicon*⁷⁰ gives an example of a patent plaintiff that hoped to bluff its way to an anti-competitive settlement agreement. Ethicon controlled 90% of the market for heat-sealed plastic gloves.⁷¹ 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 litigation as a tool for suppressing competition in its antitrust sense, it becomes a matter of antitrust concern.”

⁶⁸ *Grip-Pak*, x F.3d at x (“many 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 22, at 602-04.

⁶⁹ *Bayer AG v. Biovail Corp.*, (N.D. Ga., March 29, 2001) (allegedly baseless patent infringement by Bayer to block competition from generic drug).

⁷⁰ 743 F.2d 1282 (9th Cir. 1984).

⁷¹ *Id.* at x.

use more than one before the patent application.⁷² Handgards called the bluff and 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.⁷³ Trade dress is defined to include packaging, and product design or 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.,⁷⁴ documents anti-competitive trade dress litigation motivated by the desire to impose litigation costs and discourage competition.⁷⁵ Ferraris made a harness used to hold a facemask and other equipment on the heads of surgical patients. Azimuth and other companies bought these devices from Ferraris and resold them under their own brand names. Azimuth stopped buying its supplies from Ferraris and copied Ferraris's unpatented design. Ferraris responded by

⁷² Id. at x.

⁷³ J. Thomas McCarthy, *Lanham Act §43(a): The Sleeping Giant is Now Wide Awake*, 59 LAW & CONTEMP. PROB. 45, 46, 64-67 (1996) (potential anticompetitive 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, *id.* at 65, and laments "Judicial distaste for competitive imitation appears to often turn the scales in a case." *Id.* 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 Medical, Inc., v. Azimuth Corp.*, 2002 U.S. Dist. LEXIS 13589 (unpublished opinion) (D.N.H. 2002) *9.

⁷⁴ 2002 U.S. Dist. LEXIS 13589 (unpublished opinion) (D.N.H. 2002)

⁷⁵ 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.

suing Azimuth on a frivolous trade dress infringement theory⁷⁶ and other frivolous trademark⁷⁷ and copyright infringement theories.⁷⁸

Lawsuits like *Ferraris* are troubling because they can be costly enough to create financial distress that could delay entry or force a firm to completely abandon a product line already occupied by a dominant incumbent.⁷⁹ Financial market predation is a serious problem for new firms,⁸⁰ especially firms in high-technology industries.⁸¹ Investors with limited information often design financial arrangements that are contingent on easily observed performance measures — especially cash flow. A predator can sabotage a

⁷⁶ 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.” *Id.* at *3-4.

⁷⁷ “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.

⁷⁸ “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.*

⁷⁹ *See id.*; *Yankee Candle Co. v. Bridgewater Candle Co.*, 140 F. Supp. 2d 111, 113-114 (D. Mass. 2001) (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. National Farmers Organization*, 687 F.2d 1173 (xth Cir. 19xx) (two dairy producers engaged in a pattern of abusive litigation against a small competitor, defendants considered sponsoring third party litigation in order to increase costs on plaintiff).

⁸⁰ 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 5](#), 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*, 2001 U.S. Dist. LEXIS 3096 (N.D. Ill. 2001) *2-3 (Plaintiff was required to pay attorney’s fees to defendant who was a former employee. The plaintiff brought false advertising and false designation of origin claims based on the defendants use of promotional materials he created while working for the plaintiff).

⁸¹ [See Dawn Kawamoto, CNET News.com, Lawsuits Dampen VCs’ File Sharing Enthusiasm, Sep. 4, 2000, N. Y. Times.](#) (“The threat of vicarious liability has scared off many venture firms from the file-sharing arena.”); [Brodley, et al., supra note 26](#), at 2287 (“[P]redatory pricing may pose a special threat in rapidly growing, high-technology industries, which often involve intellectual property and continuing innovation.”).

prey's relationship with its investors by causing cash flow problems.⁸² 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.⁸³ Litigation can sour a defendant's credit rating.⁸⁴ A predatory plaintiff can divert customers from a defendant, by threatening the defendant's customers with a lawsuit.⁸⁵ Furthermore, the plaintiff can use a preliminary injunction to block the defendant's production and sales before trial.⁸⁶

Costly predatory tactics are irrational unless the predator can recoup its litigation cost.⁸⁷ A preliminary injunction and the deterrent effect of even a weak IP right gives a valuable lead-time advantage.⁸⁸ Ultimately, the predator hopes to more than recoup its

⁸² See *id.* at 2286; *PayPal, CertCo End Patent Spat*, ZDNet News, Apr. 29, 2002, available at: <http://zdnet.com.com/2110-1106-894679.html> (last visited Apr. 30, 2002) (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).

⁸³ See Myers, *supra*, note 22, 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 lawsuit 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."); Jean O. Lanjouw & Josh Lerner, *Tilting the Table? The Use of Preliminary Injunctions*, 44 J. L. Econ. 573, 591 (2001) (smaller firms have higher litigation costs and suffer greater indirect costs caused by the dilution of management's equity ownership); Handgards, (The antitrust plaintiff claimed that "Ethicon 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.")

⁸⁴ See Myers, *supra*, note 22, 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.*

⁸⁵ See *id.* at 600.

⁸⁶ See Lanjouw & Lerner, *supra* note 84, at 574 (preliminary injunctions induce patent infringement defendants to settle). See *infra* Part III.A.

⁸⁷ See *Brooke Group Ltd. v. Brown Williamson Tobacco Corp.*, 509 U.S. 209 (1993).

⁸⁸ See Arti K. Rai, *Addressing the Patent Gold Rush: The Role of Deference to PTO Patent Denials*, 2 WASH. U. J.L. & POL'Y 199, 212 (2000).

⁹¹ The belief that deep pockets give a predator an advantage was emphasized by Telser. See Lester 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. Cites. More recent theory offers a variety of reasons why prey cannot obtain access to capital markets on the same terms as the

cost of litigation by reducing competition and raising prices. This is most likely when the plaintiff has greater financial resources than the defendant.⁹¹

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.⁹³ Another microelectronics firm was rescued from financial distress (caused by a patent infringement suit) through a friendly takeover by a white knight.⁹⁴ Generally, such countermeasures are not available because transaction costs, private information and free-rider problems discourage the formation of coalitions that might battle the predator.⁹⁵

II. PRE-TRIAL CONTROL OF SOCIALLY HARMFUL IP LITIGATION

A. Preliminary Injunctions

Despite the restrictive standard for granting preliminary injunctions⁹⁶ they are common in patent and copyright cases.⁹⁷ To get a preliminary injunction a plaintiff must

predator, and why financial distress may be an effective weapon. Brodley, et al., supra note 26, at 2285-2290.

⁹³ See Kevin G. Rivette & David Kline, supra note 58, at 62.

⁹⁴ Id. at 63.

⁹⁵ Brodley, et al., supra note 26, 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.

⁹⁶ See CHARLES ALAN WRIGHT, ARTHUR R. MILLER, & MARY KAY KANE, 9 FEDERAL PRACTICE & PROCEDURE 129 §2948 (1995) ("It is frequently observed that a preliminary injunction is an extraordinary remedy....").

⁹⁷ See ROBERT P. MERGES, PETER S. MENELL, & MARK A. LEMLEY, INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE 554 (2000) (preliminary injunctions are routine in copyright cases if the plaintiff can show likelihood of infringement); Lanjouw & Lerner, supra note 84, at x (preliminary injunctions are common in patent cases).

show: (1) reasonable likelihood of success on the merits; (2) the irreparable harm if preliminary relief is not granted; (3) the balance of hardships favors the plaintiff; and (4) granting the injunction would not disserve the public interest.⁹⁸ 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.⁹⁹

Preliminary injunctions promote opportunistic and anti-competitive suits by disrupting the defendant's business, by raising the total cost of litigation, and causing financial distress.¹⁰⁰ 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.¹⁰¹ The financial burden caused by a preliminary injunction is exacerbated by the "particular difficulty of raising external funds to finance litigation."¹⁰² Therefore, preliminary injunctions may be especially harmful in innovative industries "driven by smaller, more vulnerable, venture-capital-based firms"¹⁰³

⁹⁸ *New England Braiding Co., Inc. v. A.W. Chesterton Co.*, 970 F.2d 878, 882 (Fed.Cir.1992); *Am. Red Cross v. Palm Beach Blood Bank, Inc.*, 143 F.3d 1407, 1410 (11th Cir.1998). "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." *Northeastern Fl. Chapter of Ass'n of Gen. Contractors of Am. v. City of Jacksonville, Fl.*, 896 F.2d 1283, 1284 (11th Cir.1990).

⁹⁹ *See H.H. Robertson Co. v. U.S. Deck, Inc.*, 820 F.2d 384 (Fed. Cir. 1987) (presumption of irreparable harm in patent cases); *Polaroid v. Eastman Kodak Co.*, 16 U.S.P.Q.2d 1481 (D.Mass. 1990) (unwilling to consider plant closings and job loss as a public interest consideration in the context of a preliminary injunction); *MERGES, ET AL.*, *supra* note 98, at 554 (irreparable harm found easily in copyright cases).

¹⁰⁰ *Lanjouw & Lerner, supra* note 84, at 573-74 (reporting anecdotal evidence that firms seek preliminary injunctions in patent cases "to impose financial stress on their rivals.")

¹⁰¹ *See id.* at 575-76, 595 (2001) (reporting empirical evidence that the financial strength of the plaintiff is significantly correlated with the use of preliminary injunctions in patent cases)

¹⁰² *Id.* at 574.

¹⁰³ *Id.* at 575.

The harm from opportunistic and anti-competitive IP litigation can be alleviated by reducing the availability of preliminary injunctions.¹⁰⁴ Ideally, judges would deny preliminary injunctions to plaintiffs 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. 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.¹⁰⁵ 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.¹⁰⁶ Judges should attend more closely to the financial distress imposed on defendants and show a greater inclination to refuse preliminary injunctions in cases in which the balance

¹⁰⁴ See *Random House, Inc. v. Rosetta Books LLC*, 283 F.3d 490 (2d Cir. 2002) (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 v. Barnes & Noble*, x F.3d x (Fed. Cir. 200x) (no preliminary injunction because of low probability of patent validity).

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 district court judge discretion to determine what bond a plaintiff should post in support of a preliminary injunction. F.R.C.P. 65(c). Bonds have not always been 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 (1995).

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 97, at 463-64 §2973.

¹⁰⁵ See *Canon Computer Sys., Inc. v. Nu-Kote Int'l, Inc.*, 134 F.3d 1085, 1088 (Fed.Cir.1998) (Patents are entitled to a presumption of validity at the preliminary injunction stage.) The Federal Circuit made preliminary injunctions easier to obtain. Regional circuit courts 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. Zarfes, *The Developing Standard for Irreparable Harm in Preliminary Injunctions to Prevent Patent Infringement*, 81 *J. PAT. & TRADEMARK OFF. SOC'Y* 51, 55-56 (1999).

¹⁰⁶ Rule 65(a) gives judges discretion over whether to grant a preliminary injunction. See *Vault v. Quaid Software Ltd.*, 655 F.Supp. 750, 757 *aff'd* 847 F.2d 255 (5th Cir. 1988); *Suntrust Bank v. Houghton Mifflin Co.* (noting courts are free to deny both preliminary and permanent injunctive relief in copyright cases to serve the public interest). If the balance of harm to the plaintiff and defendant is about equal then a

of hardships favors the defendants.¹⁰⁷ Furthermore, judges should discourage opportunistic suits by denying preliminary injunctions to plaintiffs who are not likely to enter the defendant's market.¹⁰⁸ Denial is appropriate because irreparable harm is unlikely.¹⁰⁹

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 the IP owner has threatened the party with an infringement suit.¹¹⁰ The threat must create a reasonable apprehension of an infringement suit.¹¹¹ Judges exercise substantial discretion regarding whether they will accept a declaratory judgment suit;¹¹²

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).

¹⁰⁷ See *Jaeger v. Amer. Int'l Pictures, Inc.*, 330 F.Supp. 274 (x.D. N.Y. 1971) (copyright suit); cf. *Virginia Carolina Tools, Inc. v. Int'l Tool Supply, Inc.*, 984 F.2d 113 (4th Cir. 1993) (denial of preliminary injunction that might drive defendant to bankruptcy in lawsuit involving sale of business).

¹⁰⁸ “[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 60.

¹⁰⁹ See *High Tech Medical Instrumentation, Inc. v. New Image Industr., Inc.*, 49 F.3d 1551, 1557 (Fed. Cir. 1995); cf. *E.I. du Pont de Nemours & Co. v. Philips Petroleum Co.*, 835 F.2d 277, 278 (Fed. Cir. 1987) (stayed 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. A similar practice is used when permanent injunctions are stayed on appeal. See Reuters, *Palm Ordered to Pay Bond in Patent Suit*, CNET News.com, Feb. 25, 2002, available at: <http://news.com.com/2100-1040-844863.html> (district court judge declined to enjoin Palm from selling infringing PDAs because the 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.

¹¹⁰ See *Sherwood Med. Indus., Inc. v. Deknatel, Inc.*, 512 F.2d 724, 727 (8th Cir. 1975); *Diagnostic Unit Inmate Council v. Films Inc.*, 88 F.3d 651, 653 (8th Cir. 1996); *Bryan Ashley Int'l, Inc. v. Shelby Williams Indus.*, 932 F.Supp. 290 (S.D. Fla. 1996). See WRIGHT, ET AL., *supra* note 97, at 597 §2761 (1998) (same principles apply to patent, trademark, and copyright declaratory judgment suits).

¹¹¹ See *Shell Oil Co. v. Amoco Corp.*, 970 F.2d 885, 887 (Fed. Cir. 1992).

¹¹² See *Wilton v. Seven Falls Co.*, 115 S.Ct. 2137, 2143 (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 (Fed. Cir. 1996).

that discretion is reflected in the variable and fact intensive treatment of the reasonable apprehension requirement.¹¹³

Declaratory judgments of noninfringement or invalidity help mitigate the harm from opportunistic and anti-competitive IP litigation.¹¹⁴ 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.¹¹⁵ Appropriately, the IP owner's litigiousness is a factor favoring the apprehension of lawsuit and standing to file a declaratory judgment.¹¹⁶ Declaratory judgment also helps potential defendants to organize and share the cost of challenging the validity of a patent.¹¹⁷ Opportunistic patent plaintiffs may threaten weaker defendants

¹¹³ See KIMBERLY PACE MOORE, PAUL R. MICHEL, & RAPHAEL V. LUPO, PATENT LITIGATION AND STRATEGY 29 (1999).

¹¹⁴ Declaratory judgment suits are a useful tactic for blunting the threat of anticompetitive 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 *Pharmaceutical Law & Policy, University Affiliate Sues Biotech Firm Over Licensing of New Stem Cell Types*, Vol. 1 Num. 7 (Aug. 23, 2001); UVentures.com, *US Patent 6.200.806 Could be Gatekeeper to Further Stem Cell Research*, (Nov. 2, 2001) available at <http://www.uventures.com/servlets/UVTechNews/3071> (last visited Aug. x, 2002); Tim Adams, *Stem Cell lawsuit Heats Up*, *Biotechnology Newswatch* 5 (Oct. 1, 2001), available at: 2001 WL 8787971.

¹¹⁵ See WRIGHT, ET AL., *supra* note 97, at 575 §2761 (1998); *Windmoller v. Laguerre*, 284 F.Supp. 563, 565 (D.D.C. 1968) (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..."). Delay by the IP owner is limited by the laches doctrine.

¹¹⁶ *West Interactive Corp. v. First Data Resources, Inc.*, 972 F.2d 1295, 1298 (Fed. Cir. 1992).

¹¹⁷ 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 *National Hairdressers' & Cosmetologists' Ass'n v. Philad Co.*, 3 F.R.D. 199 (D. Del. 1943) (association sued for declaratory judgment of patent invalidity after patent owner sued or threatened to sue many of the association's members); Brenda Sandburg, *Netscape, Microsoft Team Up in Internet Suit*, Apr. 2, 2002, LAW.COM available at: [http://www.law.com/cgi-bin/gx.cgi/AppLogic+FTContentServer ...](http://www.law.com/cgi-bin/gx.cgi/AppLogic+FTContentServer...) (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); John Markoff, *Patent Claim Strikes an Electronics Nerve*, *N.Y. Times*, July 29, 2002, available at: <http://www.nytimes.com/2002/07/29/technology/29JPEG.html?ex=1028942133&ei=1&en=e048194dd7452ee2> (last visited July 29, 2002) (Members 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.); SHULMAN, *supra* note 22, at 55-57 (consortium of medical groups has

first in order to get quick licenses that create the impression that they have a strong case.¹¹⁸ Finally, declaratory judgment gives an alleged infringer some leeway to choose the forum.¹¹⁹ Forum choice may reduce the credibility of weak lawsuit, because empirical evidence shows that the choice of forum has a significant impact on trial outcome.¹²⁰

C. Summary Judgment for the Defendant

The law of summary judgment and substantive IP law interact in ways that can promote or discourage socially harmful IP litigation.¹²¹ 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 standards 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.¹²² With so many factors that must be balanced, it is easy for a plaintiff to present a case that gets past summary judgment.¹²³ A further difficulty is that summary judgment on a fact intensive question may be delayed until time-consuming and expensive discovery is completed. Avoidance of socially harmful litigation requires quick and cheap summary

offered to share the costs of the litigation with Kaiser-Permanente as Kaiser attempts to invalidate a gene patent); Frazier, *supra* note 43 (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.)

¹¹⁸ Acceptance of licenses is a secondary consideration pointing toward nonobviousness and validity of a patent.

¹¹⁹ The choice of forum is fairly restricted by venue considerations, and so there might not be a venue offering the option of a relatively speedy trial.

¹²⁰ Choice of forum might also allow the alleged infringer to get an early trial date.

¹²¹ See generally, Bone, *supra* note 12, 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).

¹²² *AMF v. Sleekcraft Boats*, 599 F.2d 341 (1x); *Pignons S. A. de Mecanique de Precision v. Polaroid Corp.*, 498 F. Supp. 805, 810 (1980).

¹²³ See Bone, *supra* note 12, at 567 ("[P]laintiffs are often able to put off summary judgment by filing affidavits attesting to the need for discovery.")

judgment. Therefore, a fact-intensive standard for IP protection or infringement is a poor candidate for summary judgment.¹²⁴

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.¹²⁵ 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.*¹²⁶ The plaintiff Samara claimed trademark protection based on their design of a line of children's clothing. Trade dress (or any other mark) must be distinctive to qualify for trademark protection. A plaintiff can show that a word or product packaging is either inherently distinctive or has acquired distinctiveness through usage — or secondary meaning in trademark jargon.¹²⁷ The Supreme Court rejected Samara's argument that its clothing was inherently distinctive.¹²⁸ 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. The Court explained the requirement of secondary meaning with the observation: "Competition is deterred, however, not merely by successful lawsuit but by the plausible threat of successful suit, and given the

¹²⁴ See WRIGHT, ET AL., *supra* note 97, at 143 §2732.1 (1998); *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....").

¹²⁵ See *Celotex Corp. v. Catrett*, 477 US 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 Electric Industrial Co v Zenith Radio Corp*, 475 US 574, 586 (1986); *Bone*, *supra* note 12, at 593-96 (judicial screening based on early summary judgment combined with targeted discovery is the best method of controlling frivolous litigation).

¹²⁶ 529 U.S. 205 (2000).

¹²⁷ 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. *Walmart*. Secondary meaning can be proven with consumer surveys or by showing significant advertising and sales. Cite.

unlikelihood of inherently source-identifying design, the game of allowing lawsuit based upon alleged inherent distinctiveness seems to us not worth the candle.”¹²⁹

Recent cases demonstrate the impact of *Walmart* on summary judgment for defendants in trade dress infringement cases. In *Yankee Candle Co. v. Bridgewater Candle Co.*,¹³⁰ the defendant won on summary judgment despite copying¹³¹ elements of the plaintiff’s design because the plaintiff made no showing of secondary meaning.¹³² The plaintiff Yankee claimed trade dress protection in a combination of candle shapes and sizes, labels, display method, catalog layout, and quantities of candles sold as a unit.¹³³ The First Circuit placed this trade dress in the product design/configuration category and not the packaging category, thus *Walmart* applied and secondary meaning was required.¹³⁴

Yankee also claimed infringement of copyright on the labels of nine scented candles.¹³⁵ The court granted summary judgment for the defendant after applying the merger doctrine because no reasonable juror could find substantial similarity.¹³⁶ The Yankee Candle decision is representative of the greater receptiveness courts now show to

¹²⁸ The Supreme Court considered a more fact-intensive standard of distinctiveness and rejected it because: “Such a test would rarely provide the basis for summary disposition of an anti-competitive strike suit.” The Court also placed the burden on the plaintiff of showing that the trade dress is not functional.

¹²⁹ *Walmart*.

¹³⁰ 259 F.3d 25, (1st Cir. 2001).

¹³¹ After *Walmart*, intentional copying plays a minor role in establishing secondary meaning in design/configuration cases. *Id.* at 44-45

¹³² *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 (D.Mass. 2000). Kohler won a motion for summary judgment because the plaintiff made no showing of secondary meaning in the faucet design. *Id.* at x.

¹³³ *Id.* at 39-40.

¹³⁴ *Id.* at 40 (following *Walmart*, the First Circuit resolves uncertainty by placing trade dress in the design/configuration category)

¹³⁵ *Id.* at 32.

¹³⁶ *Id.* at 32-33.

summary judgment in favor of defendants in copyright cases.¹³⁷ 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 victory because plaintiffs can easily make a prima facie case of copying.

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*¹³⁸ set up a sliding scale. 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.¹³⁹ If there is evidence of access and similarity, then the trier of fact decides whether copying occurred. 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.¹⁴⁰

In *Arnstein v. Porter* the plaintiff Arnstein claimed that various musical compositions were copied by the defendant Cole Porter. One song sold over a million copies, but the second sold only about 2000 copies, and the third was not published but had been performed over the radio. The plaintiff also claimed that someone stole a copy of the compositions from his room. The trial court decided for the defendant on summary judgment. The Second Circuit reversed. The court found enough similarity and access to

¹³⁷ See COHEN, ET AL., *supra* note 56, at 51-52 (“... summary 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.”)

¹³⁸ 154 F.2d 464 (2d Cir. 1946), cert. denied 330 U.S. 851 (1947) (refusing to grant summary judgment for a defendant even though the evidence of access and similarity were both weak).

¹³⁹ In contrast *Selle v. Gibb*, 741 F.2d 896 (7th Cir. 1984) (despite striking similarities the appeals court affirmed the j.n.o.v. for the defendant because the plaintiff did not make a threshold showing of access).

raise a factual question. The court emphasized that issues of credibility created by the plaintiff's allegations must be evaluated by the jury.¹⁴¹

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 copying is enough to win a music copyright infringement claim.¹⁴² 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.¹⁴³

Defendants have had some success winning summary judgment in cases involving art reproductions. These are cases in which the plaintiff makes a derivative work, and the defendant makes a similar work based either on the plaintiff's work, or based 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*,¹⁴⁴ the plaintiff made a plastic Uncle Sam bank based on a cast iron bank in the public domain. The plaintiff used the metal bank as a model and made a sketch and a clay model. The plastic version had small differences from the original.¹⁴⁵ Since the

¹⁴⁰ See supra note 119.

¹⁴¹ The court also noted that a jury could possibly also find an unlawful appropriation because the similarities between the compositions were not merely trifling. The dissent approved of summary judgment because the works lacked appreciable similarity. The only similarity was small detached and insignificant portions.

¹⁴² *Three Boys Music Corp. v. Michael Bolton*, 212 F.3d 477 (9th Cir. 2000), cert. denied, x U.S. x (2001) (); x (George Harrison was found to have subconsciously copied "He's so Fine" in "My Sweet Lord").

¹⁴³ *Ty, Inc. v. GMA Accessories, Inc.*, 132 F.3d 1167 (7th Cir. 1997) (access and copying may be inferred when two works resemble each other and nothing in the public domain); *Bouchat v. Baltimore Ravens, Inc.*, 241 F.3d 350 (4th Cir. 2000) (submission of a logo to the Ravens organization was enough to establish access and support an infringement verdict).

¹⁴⁴ 536 F.2d 486 (2nd Cir. *en banc* 1976).

¹⁴⁵ Many of the differences were not perceptible to the casual observer, and the work took less than two days. A smaller base and was 2 inches shorter, the umbrella was pressed against his leg (to allow a one-

differences were dictated by functional considerations or did not amount to significant alterations the originality requirement was not satisfied.¹⁴⁶

In the field of patent law, the Federal Circuit has pushed two doctrinal positions that make summary judgment easier for defendants. First, the court characterized patent claim construction as a question of law, and encouraged pre-trial hearings called Markman hearings to construe the scope of patent claims.¹⁴⁷ Defendants have an opportunity to win a summary judgment of noninfringement if they succeed in persuading the court to adopt a narrow claim construction.¹⁴⁸ Second, the court has reduced the role of the doctrine of equivalents.¹⁴⁹ Even though it has an equitable origin, the doctrine of equivalents 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*, 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. That decision pleased big patent owners like IBM who filed an amicus brief asking the Supreme Court to uphold the Federal Circuit decision. The industry amici believed that restricting the scope of the doctrine of equivalents would help control opportunistic

piece mold for easier manufacturing), the eagle clutches leaves instead of arrows, the shape and texture of the hat, and the shape of the carpet bag was changed.

¹⁴⁶ A similar outcome is found in *Entertainment Research Group, Inc. v. Genesis Creative Group, Inc.*, 122 F.3d 1211 (9th Cir. 1997), cert. denied, 523 U.S. 1021 (1998) (affirming the grant of 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); *Pickett v. Prince*, 207 F.3d 402 (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...”).

¹⁴⁷ See MOORE, ET AL., *supra* note 114, at 192 (some courts resolve patent claim construction on a summary judgment motion near the end of discovery).

¹⁴⁸
¹⁴⁹ The all-element rule allows a defendant to obtain summary judgment on patent infringement under the doctrine of equivalence if one of the claimed elements is missing from the alleged infringing device. See *Warner-Jenkinson v. Hilton Davis Chem.*, 117 S.Ct. 1040 (1997).

patent suits. 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.

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 shifting¹⁵¹ which allows judges to punish plaintiffs for conducting opportunistic or anti-competitive litigation.¹⁵² The Lanham Act provides “in exceptional cases” a district “court may award reasonable attorneys fees to the prevailing party.”¹⁵³ Similarly, the Patent Act allows fee shifting in exceptional cases. “Among types of conduct which can form a basis for finding a patent infringement case exceptional for attorney fee purposes are willful infringement, inequitable conduct before Patent and Trademark Office, misconduct during litigation, vexatious or unjustified litigation, and frivolous suit.”¹⁵⁴ The copyright standard is more flexible, a district “court in its discretion may allow the recovery of full costs by or against any party.... The court may also award a reasonable attorney's fee to the prevailing party as part of the costs.”¹⁵⁵ Fee shifting usually benefits

¹⁵¹

¹⁵² 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 *Antonious v. Spalding & Evenflo Companies, Inc.*, 275 F.3d 1066 (Fed. Cir. 2002); *Special Devices, Inc. v. OEA, Inc.*, 269 F.3d 1340 (Fed. Cir. 2001).

¹⁵³ 15 U.S.C. § 1117(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. Securacomm, Inc.*, 224 F.3d 273 (3rd Cir. 2000) citing 15 U.S.C. § 1117(a).

¹⁵⁴ *Beckman Instruments, Inc. v. LKB Produkter AB*, 892 F.2d 1547 (Fed. Cir. 1989) citing 35 U.S.C.A. § 285. See *S Industries, Inc. v. Centra 2000, Inc.*, 249 F.3d 625 (7th Cir. 2001) (affirming award of attorneys fees to defendant because trademark claims were meritless and because of dilatory tactics).

¹⁵⁵ 17 U.S.C. § 505. “Prevailing plaintiffs and prevailing defendants must be treated alike for purposes of awarding attorney fees under Copyright Act, with attorney fees awarded to prevailing parties only as a matter of the court's discretion; Copyright Act attorney fee provision gives no hint that successful plaintiffs

plaintiffs in IP cases, especially when defendants are willful infringers, but defendants also win fees from a plaintiff.¹⁵⁶ A defendant can win a fee shifting award in a copyright case when a plaintiff brings “a weak, if nonfrivolous, case and ... argue[s] for an unreasonable extension of copyright protection...”¹⁵⁷ The goal of fee shifting is both compensation and deterrence of opportunistic and anti-competitive suits.¹⁵⁸

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.¹⁵⁹ 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 is likely to be effective.¹⁶⁰ A second type of opportunistic lawsuit is credible because of the risk of

are to be treated differently than successful defendants.” *Fogerty v. Fantasy Inc.*, 510 U.S. 517 (1994) citing 17 U.S.C.A. § 505.

¹⁵⁶ See Lemley, *supra*, note 22, at 1530 (difficult for a patent defendant to win attorney’s fees); *PS Promotions, Inc. v. Stern*, 2001 U.S. Dist. LEXIS 3096 (N.D. Ill. 2001) *1-2 (denying attorneys’ 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.”)

¹⁵⁷ *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)). *Fantasy, Inc. v. Fogerty*, 94 F.3d 553 (9th Cir. 1996) (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); *Fantasy, Inc. v. Fogerty*, 510 U.S. 517 (1994) (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).

¹⁵⁸ “Nonexclusive factors 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 need in particular circumstances to advance considerations of compensation and deterrence.” *Matthews*?

¹⁵⁹ See A. Mitchell Polinsky & Daniel Rubinfeld, *Sanctioning Frivolous Suits: An Economic Analysis*, 82 *Geo. L.J.* 397, 404-06 (1993); Lucian Arey Bebchuk & Howard F. Chang, *An analysis of Fee Shifting Based on Margin of Victory: On Frivolous Suits, Meritorious Suits, and the Role of Rule 11*, 25 *J. Legal Stud.* 371 (1996) (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). *But see Meurer, supra* note 20, at 87-89 (showing neither 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 12, at 589-90.

¹⁶⁰ See *Brasseler, U.S.A. I, L.P. v. Stryker Sales Corp.*, x F.3d x (Fed. Cir. 2001) (plaintiff required to pay the attorneys fees to defendant in a patent infringement action because plaintiff’s attorneys failed to investigate after receiving notice of on sale bar); *Ferraris Medical, Inc., v. Azimuth Corp.*, 2002 U.S. Dist. LEXIS 13589 **7 (unpublished opinion) (D.N.H. 2002)(trade dress infringement plaintiff was forced to pay the defendant’s attorney’s fees because of failure to investigate).

judicial error.¹⁶¹ Assuming even the most error prone courts get the decision right most of the time, then fee shifting raises expected legal costs to an opportunistic plaintiff, and makes an opportunistic lawsuit less credible.¹⁶²

Fee shifting is probably less effective controlling anti-competitive litigation. The most aggressive predatory litigation strives to choke off financial resources from the defendant.¹⁶³ 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 defendant 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.¹⁶⁴

B. Sham Litigation and Antitrust Law

Antitrust law provides a potentially potent means of controlling socially harmful IP litigation.¹⁶⁵ Certain anti-competitive litigation violates Section Two of the Sherman

¹⁶¹

¹⁶² In the third type of opportunistic suit, plaintiffs with weak claims pretend to have strong claims, and defendants cannot distinguish strong from weak claims 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 20; Eric Tally, *Liability Based Fee-Shifting Rules and Settlement Mechanisms Under Incomplete Information*, (British rule would not reduce litigation).

¹⁶³ Nevertheless, a defendant that withstands predatory litigation should certainly be entitled to fee-shifting. See *Securacomm Consulting, Inc. v. Securacomm, Inc.*, 224 F.3d 273 (3rd Cir. 2000). ("Defendant's vexatious litigation tactics, consisting of deliberate effort to "bury" plaintiff financially and "take everything he had," rendered case sufficiently exceptional to support award of attorney fees to prevailing plaintiff in trademark infringement suit, even if infringement was not willful and court could have chosen other avenues to sanction improper litigation behavior.")

¹⁶⁴ See *Ferraris Medical, Inc., v. Azimuth Corp.*, 2002 U.S. Dist. LEXIS 13589 (unpublished opinion) (D.N.H. 2002) (frivolous copyright and trade dress infringement claims); *Yankee Candle Co. v. Bridgewater Candle Co.*, 140 F. Supp. 2d 111, 119 (D. Mass. 2001) (In a copyright and trade dress infringement case 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.")

¹⁶⁵ For a helpful overview see Myers, *supra*, note 22.

Act¹⁶⁶ under two related theories.¹⁶⁷ One theory originated in *Walker Process Equip. Inc. v. Food Machinery & Chem. Corp.*¹⁶⁸ and applies only to patent infringement suits. The antitrust claimant must show the patentee got its patent by committing common law fraud on the Patent Office, and the patent would not have issued but for the fraud.¹⁶⁹ The other theory applies to sham litigation, including sham IP litigation,¹⁷⁰ and is based on a showing that the antitrust defendant (IP plaintiff) knew that objectively there was no basis for the infringement claim.¹⁷¹ 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.¹⁷²

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 to only a subset of anti-competitive litigation. Antitrust law does not reach opportunistic litigation because

¹⁶⁶ The Section 2 requirements for monopolization are “possession of monopoly in the relevant market and 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.” Source?

¹⁶⁷ If “the litigation involves concerted exclusionary behavior by two or more competitors, it may violate Section 1 of the Sherman act as well.” See Myers *supra* note 22, at x. Predatory litigation can also violate Section 5 of the Federal Trade Commission Act for being unfair trade practice. Id. at 578.

¹⁶⁸ 382 U.S. 172 (1965).

¹⁶⁹ Id. at x. The nature of this fraud is not clear. Compare *Nobelpharma AB v. Implant Innovations*, 141 F.3d 1059, 1071 (Fed. Cir.), cert. denied, 525 U.S. 876 (1998) (conduct that gives rise to Walker Process fraud is more serious than conduct that give rise to inequitable conduct liability); to Mark D. Janis, *Transitions in IP and Antitrust*, 47 ANTITRUST BULL. 253, 274 (2002) (questioning whether the distinction between fraud on the Patent Office and inequitable conduct in *Nobelpharma* will have a significant impact).

¹⁷⁰ *Handgards, Inc. v. Ethicon, Inc.*, 743 F.2d 1282 (9th Cir. 1984). Sham litigation antitrust suits have been filed against the party claiming infringement in patent cases, *Brunswick v. Riegel Textile Corp.*, 752 F.2d 261 (7th Cir. 1984), a copyright case, *Prime Time 24 Joint Venture v. NBC, Inc.*, 21 F.Supp.2d 350, 359 (S.D.N.Y. 1998), trademark cases, *Letica Corp. v. Sweethear Cup Co.*, 790 F.Supp. 702 (E.D.Mich. 1992); *G. Heilman Brewing Co., Inc. v. Anheuser-Busch Inc.*, 676 F.Supp. 1436 (E.D.Wisc. 1987), and trade secret cases, *Christianson v. Colt Indus. Operating Corp.*, 766 F.Supp. 670 (C.D.Ill. 1991); *CVD v. Raytheon Co.*, 769 F.2d 842 (1st Cir. 1985), cert. denied, 475 U.S. 1016 (1986).

¹⁷¹ *Professional Real Estate Investors, Inc. v. Columbia Pictures*, 508 U.S. 49, 51-52 (1993) (the copyright owner claimed that renting movies to hotel guests to watch in there rooms infringes the public performance right). Id. at 64 (the lawsuit was not objectively baseless even though the copyright owner lost a summary judgment motion)

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.¹⁷³ The *Walker Process* theory has limited utility because it is difficult to prove fraudulent patent procurement.¹⁷⁴ Where Section Two 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 Two claims based on sham litigation are very common,¹⁷⁵ but almost never successful.¹⁷⁶

¹⁷² Cite. Attempts to monopolize are also actionable.

¹⁷³ 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 Eastern Railroad v. Noerr Motor Freight*, 365 U.S. 508 (1961); *United Mine Workers v. Pennington*, 381 U.S. 657 (19xx). In this context, petitioning includes litigation as well as lobbying. *See California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508 (1972). Noerr-Pennington antitrust immunity does not extend to sham litigation. Sham litigation is defined in terms of the objective of the litigation. “[T]he 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 applications of a competitor, with no expectation of achieving denial of the license but simply in order to impose expense and delay.” *See City of Columbia v. Omni Outdoor Advertising*, 111 S. Ct. 1344 (1991); *Grip-Pak, Inc. v. Illinois 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* HERBERT HOVENKAMP, MARK D. JANIS, & MARK A. LEMLEY, *IP AND ANTITRUST: AN ANALYSIS OF ANTITRUST PRINCIPLES APPLIED TO INTELLECTUAL PROPERTY LAW* §11.3, 11-26 (2002) (“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.”)

¹⁷⁴ Cite.

¹⁷⁵ *See* HOVENKAMP, ET AL., *supra* note 174, at §11.1, 11-2 (anticompetitive litigation was the subject of more 100 reported decisions from 1993 to 2000) Myers, *supra* note 22, at 565 (increased volume of sham litigation).

¹⁷⁶ Section Two 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 I*, 601 F.2d at 994-96. Ethicon was held liable for an antitrust violation for bringing the infringement claim in bad faith. The jury awarded \$3.6 million in damages, \$1.1 million in attorney fees, and \$3 million in post-judgment interest. *Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986, 991 (9th Cir. 1979) HOVENKAMP, ET AL., *supra* note 174, at §5.4, 5-41(2002) (court carefully scrutinize antitrust claims based on sham IP litigation) *id.* at §11.2, 11-14 (both *Walker Process* and *Handgards* suits usually fail); Nissen, *supra* note 18, 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

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 Patent and Trademark Office (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.¹⁷⁷ A fundamental limitation on trademark examination is that plaintiffs can protect unregistered marks under federal law.¹⁷⁸

The *ex parte* nature of examination restricts the information available to examiners and poses the chief obstacle to high quality examination at the PTO.¹⁷⁹ 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 he or she 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.¹⁸⁰

action. *See id.*, 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).

¹⁷⁷ *See Rai, supra* note 89, at 203 (flood of low quality gene patents); Mark A. Lemley, *supra*, note 22, 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. & POLICY 309 (2002).

¹⁷⁸ *See Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763 (1992) (finding infringement in case involving unregistered trade dress).

¹⁷⁹ *See Lemley, supra*, note 22, at 1500 (applicants are not obliged to search for prior art).

¹⁸⁰ John R. Thomas, *Collusion and Collective Action in the Patent System: A Proposal for Patent Bounties*, 2001 ILL.L.REV. 305 (potential inequitable conduct liability is not sufficient to induce candid disclosure to the Patent Office); SHULMAN, *supra* note 22, at 59- 60, 69 (Compton won a controversial patent on search

Examination suffers from three other problems. First, examiners have a financial incentive to process applications quickly.¹⁸¹ The patent prosecution process moves so quickly that the average patent gets only 18 hours of review.¹⁸² 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.¹⁸³ Some of these problems could be cured by increasing the resources available to the PTO,¹⁸⁴ but there is a strong argument to limit the resources spent on examination: most patents and many registered trademarks have little or no value, therefore, a thorough examination of every application would be wasteful.¹⁸⁵

B. *Stricter Standards for Certain Intellectual Property Rights*

Examination, pre-trial, and post-trial control measures are not always sufficient to effectively control opportunistic and anti-competitive litigation. It may be appropriate to complement these control measures by restricting certain IP rights. 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.

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.)

¹⁸¹ See Rai, *supra* note 89, at 218.

¹⁸² See Lemley, *supra*, note 22, at 1500 (2001).

¹⁸³ Cohen and Lemley. John R. Thomas, *The Patenting of the Liberal Professions*, 40 B. C. L. Rev. 1139 (1999); Merges, *supra* note 3, at x; Meurer, *supra* note 178.

¹⁸⁴ Merges, *supra* note 3, at 606-09 (suggesting improved incentives and training for examiners would increase patent quality).

¹⁸⁵ See Lemley, *supra*, note 22, at 1510-11 (2001) (limited patent examination is the best policy because improved "examination procedures will largely be wasted on examining the ninety-five percent of patents

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.¹⁸⁶ Several commentators have called for the reversal of *State Street*¹⁸⁷ the recent case that allowed business method patents,¹⁸⁸ less drastic reforms have been suggested including a patent opposition procedure¹⁸⁹ and a stricter nonobviousness standard for business method inventions.¹⁹⁰

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.¹⁹¹ Mindful of the danger of anti-competitive lawsuits, the courts have recently reversed the long-running expansion of trade dress protection under Section

that will either never be used, or will be used in circumstances that don't crucially rely on the determination of validity.”)

¹⁸⁶ The defense excuses from infringement inventors who choose to practice their new business method as a trade secret instead of patenting it.

¹⁸⁷ Cite.

¹⁸⁸ Rochelle Dreyfuss, Santa Clara L. Rev.; Thomas, *supra* note 184; Meurer, *supra* note 178.

¹⁸⁹ Merges, *supra* note 3, at x.

¹⁹⁰ Meurer, *supra* note 178.

¹⁹¹ In order for trade dress to be protected under § 43(a), a plaintiff must prove it is used in commerce, non-functional, and distinctive.

43(a) of the Lanham Act.¹⁹² Critics of trade dress protection of product design have called for its abolition.¹⁹³ A more moderate proposal limits relief for infringement to an informational labeling requirement.¹⁹⁴

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 *Batlin* might deter imitators because of uncertainty inherent in a weak originality requirement¹⁹⁵ and the cost of copyright litigation.¹⁹⁶ To reduce this risk courts and commentators insist on a rigorous application of originality that would leave some art reproductions unprotected by copyright.¹⁹⁷

CONCLUSION

It is useful to think of the intellectual property system 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

¹⁹² See McCarthy, *supra* note 64, at 46; *WalMart v. Samara Bros.*, x U.S. x (x); *Traffix Devices v. Marketing Displays*, x U.S. x (2001).

¹⁹³ See Dinwoodie, *supra* note 60, at 663 n. 205 (collecting citations to scholars and judges who would exclude trademark protection of product design).

¹⁹⁴ *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 Evolution of a 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).

¹⁹⁵ Douglas Lichtman, *Copyright as a Rule of Evidence*, University of Chicago, John M. Olin Law & Economics Working Paper Series No. 151, 18 available at: <http://www.law.uchicago.edu/Lawecon/index.html> (emphasizing evidentiary problems created by a weak originality standard).

¹⁹⁶ *Id.* at 20.

¹⁹⁷ *L. Batlin & Son, Inc. v. Snyder*, 394 F.Supp. 1389 (S.D.N.Y. 1975) (“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.”); Lichtman, *supra* note 196 at 1 (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.”)

procedural measures for controlling frivolous litigation, and analysis of antitrust reforms designed to control strategic abuse of antitrust law. These analogies lead me to focus on pre-trial and post-trial control measures that reduce the credibility of weak IP lawsuits. I conclude that intellectual property courts show some awareness of the value of fee-shifting and summary judgment as tools for controlling opportunistic and anti-competitive lawsuits. Courts display less awareness of the need to restrict preliminary injunctions or encourage declaratory judgments 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.¹⁹⁸

¹⁹⁸ Rochelle Cooper Dreyfuss, *Are Business Method Patents Bad for Business?* 16 SANTA CLARA COMPUTER AND HIGH TECHNOLOGY LAW JOURNAL 263, 274 (2000) “...business 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.”