

THE UNEASY CASE AGAINST COPYRIGHT TROLLS

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The copyright troll and the phenomenon of copyright trolling have thus far received surprisingly little attention in discussions of copyright law and policy. A copyright troll refers to an entity that acquires a tailored interest in a copyrighted work with the sole objective of enforcing claims relating to that work against copiers in a zealous and dogmatic manner. Not being a creator, distributor, performer, or indeed user of the protected work, the copyright troll operates entirely in the market for copyright claims. With specialized skills in monitoring and enforcing copyright infringement, the troll is able to lower its litigation costs, enabling it to bring claims against defendants that an ordinary copyright owner might have chosen not to.

As a matter of law, the copyright troll's model usually complies with all of copyright's formal rules. Courts have as a result struggled to find a coherent legal basis on which to curb the copyright troll. In this Article, I show that the real problem with the copyright troll originates in the connection between copyright's stated goal of incentivizing creativity and the enforcement of copyright claims, which discussions of copyright law and policy fail to adequately capture. Copyright claims, much like other private law claims, are systematically under-enforced. This under-enforcement is neither purely fortuitous nor indeed marginal to the system, but instead operates as an important safety valve that introduces an informal breathing space into copyright's functioning. Over time, this under-enforcement results in a balance between claims that are actionable and enforced, and those that are actionable but tolerated. It is precisely this balance that the advent of the troll disrupts, since it seeks to enforce claims that copyright owners would have otherwise tolerated.

This Article unpacks the connection between the incentive to create and the incentive to enforce in copyright to show why the troll's actions are indeed problematic, despite its formal compliance with copyright's legal rules. In so doing, it shows how the troll exploits the market for copyright claims, which might otherwise have important upsides, and argues that a permanent solution to the problem will entail targeting the troll's incentive structure rather than using any of copyright's existing doctrines.

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INTRODUCTION

The “troll” is becoming a familiar figure in the world of intellectual property law. As an idea, it made its first appearance in patent law, where a “patent troll” today refers to a nonperforming patent owner who merely seeks to enjoin the use of an invention without itself using the invention or servicing the market for it – the proverbial “dog in the manger”.¹ Indeed, during oral argument in a recent Supreme Court case involving the legal standard for patent injunctions, one Justice seemed suitably amused by the term, comparing it to a “scary thing” lying in wait for innocent victims under the bridge.²

For all the attention that the troll has received in patent law however, its presence in copyright law, together with the allied practice of copyright trolling, has been largely ignored. References to “copyright trolls” in the

¹ See, e.g., John M. Golden, “Patent Trolls” and Patent Remedies, 85 TEX. L. REV. 2111, 2112 (2007); Ted Sichelman, *Patent Commercialization*, 62 STAN. L. REV. 341, 369 (2010); Ronald J. Mann, *Do Patents Facilitate Financing in the Software Industry?*, 83 TEX. L. REV. 961, 1023 (2005); James F. McDonough III, Comment, *The Myth of the Patent Troll: An Alternative View of the Function of Patent Dealers in an Idea Economy*, 56 EMORY L.J. 189, 192 (2006); Marc Morgan, *Stop Looking Under the Bridge for Imaginary Creatures: A Comment Examining Who Really Deserves the Title Patent Troll*, 17 FED. CIR. B.J. 165 (2008); Michael Risch, *Patent Troll Myths*, 42 SETON HALL L. REV. (forthcoming 2012); Sannu K. Shrestha, Note, *Trolls or Market-makers? An Empirical Analysis of Nonpracticing Entites*, 110 COLUM. L. REV. 114 (2010); Gerard N. Magliocca, *Blackberries and Barnyards: Patent Trolls and the Perils of Innovation*, 82 NOTRE DAME L. REV. 1809, 1810 (2007).

² Transcript of Oral Argument, *eBay, Inc. v. Mercexchange LLC*, No. 05-130, at 25-26.

literature have in the past been few and far between.³ The idea began to get a great deal of attention just this past year, when a Nevada-based company by the name of Righthaven LLC came to develop a business model that revolved around enforcing third party copyright claims against infringers, claims in which it had no more than an artificially tailored assignment of rights.⁴ In essence, Righthaven's model was premised on buying one of the creator's several rights to exclude from the bundle of exclusive rights that copyright law grants every creator, and enforcing it efficiently, albeit in dogmatic fashion.

Interestingly enough though, copyright law has for long enabled behavior that is only today pejoratively described as "trolling". In enacting the Copyright Act of 1976, Congress abandoned the long-known idea that copyright's set of exclusive rights, whenever granted to a creator, was fundamentally indivisible. Under this old approach, copyright law was seen as granting authors a limited set of exclusive entitlements. In assigning these rights, authors could either assign them as a unified whole or not at all.⁵ Any attempt to assign anything less than the whole was treated by the law as a mere license, with the assignee/licensee then having no independent standing to commence an action for infringement.⁶ This made determining ownership of copyright a relatively simple matter and precluded parties from tailoring their contractual arrangements in excessively idiosyncratic terms. The Act of 1976 however consciously abandoned this approach by allowing the bundle to be broken up into as many rights or mini-rights as the parties deemed necessary during an assignment.⁷ Additionally and perhaps more importantly, it went one step further by creating an affirmative rule of standing, under which an exclusive licensee or assignee of any right or mini-right was deemed to be the "owner" of that right and given the ability to commence an action for copyright infringement as long as it related to any right covered by the contract.⁸ The Act thus came to recognize the idea of multiple ownership of

³ For some early usage of the term see: John Tehranian, *Infringement Nation: Copyright Reform and the Law/Norm Gap*, 2007 UTAH L. REV. 537, 550; Lionel Bently, *People v. The Author: From the Death Penalty to Community Service*, 32 COLUM. J.L. & ARTS 1, 11-12 (2008).

⁴ For Righthaven's first lawsuit under its business model see: Complaint and Demand for Jury Trial, Righthaven LLC v. Moneyreign, Inc., Case No. 2:10-CV-0350 (D.C. Nev., March 13, 2010). For early coverage of its strategy see: David Kravets, *Newspaper Chain's New Business Plan: Copyright Suits*, Wired.Com, July 22, 2010, available at <http://www.wired.com/threatlevel/2010/07/copyright-trolling-for-dollars/> (last visited June 17, 2011).

⁵ See 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT §10.01 (2010); Elliot Groffman, *Divisibility of Copyright: Its Application and Effect*, 19 SANTA CLARA L. REV. 171, 171 (1979); Molly Shaffer Van Houweling, *Author Autonomy and Atomism in Copyright Law*, 96 VA. L. REV. 549, 564 (2010).

⁶ 3 NIMMER, *supra* note __, at §10.01[A] & [C][1].

⁷ 17 U.S.C. §201(d)(2) (2005); *id.* at §10.02.

⁸ 3 NIMMER, *supra* note __, at §10.02 [B][1];

a single work, and allowed each owner to hold a narrowly defined and limited set of rights.⁹

Analytically, this change seemed rather logical at the time. Since use and exclusion are taken to be the two primary and interdependent features of ownership, characterizing any party that holds both rights together as its “owner” now made perfect sense.¹⁰ Yet, by allowing for the unrestricted fragmentation of copyright’s bundle of exclusive rights and simultaneously endowing it with independent practical significance (i.e., standing), the Act allowed for a rather significant loophole on the enforcement front. In situations where a copyright-holder might want to sell its enforcement rights (though not use rights) to another party, a practice otherwise forbidden under traditional contract and common law rules prohibiting the sale of legal claims,¹¹ the parties could now create an exclusive license (or assignment) that granted the licensee an artificially tailored use right, which would in turn indirectly enable the licensee to commence an action for infringement *qua* owner. Of course, this tailoring of the use right had to overlap with the scope of the enforcement sought. But in situations where the target of the enforcement (i.e., the putative defendant) had already been identified either individually or by class, this posed no problem. The copyright holder could create an exclusive license that covered the precise activities, time frame, and geographic area of the defendant, and the licensee could enforce the copyright on its own, with claims for statutory and willful damages. Thus emerged the potential for copyright trolls.

It was precisely this loophole that Righthaven crafted its entire enterprise around—earning it the dubious distinction of becoming copyright law’s first anointed “troll”. In under two years, Righthaven has managed to bring more than 290 cases of copyright infringement against defendants—and has settled many of these cases, or succeeded in obtaining statutory damages from courts.¹² Its success in these actions has in turn resulted in an outpouring of criticism from different corners.¹³

⁹ 3 *id.* at §12.02; 17 U.S.C. §101 (2005) (definition of “transfer of copyright ownership”).

¹⁰ For an elaborate discussion of the use-exclusion connection in property law see: J.E. PENNER, *THE IDEA OF PROPERTY IN LAW* 68 (2000).

¹¹ See generally *infra* Part II; Walter Wheeler Cook, *The Alienability of Choses in Action*, 29 HARV. L. REV. 816 (1916). The prohibition is thought to emanate from the common law rules against champerty and maintenance. For a recent overview of the prohibition see Maya Steinitz, *Whose Claim is this Anyway? Third Party Litigation Funding*, 95 MINN. L. REV. 1268, 1286 (2011).

¹² For a comprehensive listing of these cases see: *Comprehensive List of Copyright Infringement Lawsuits filed by Righthaven, LLC*, available at <http://www.righthavenlawsuits.com/lawsuits.html> (last visited on June 18, 2011).

¹³ See, e.g., Debra Cassena Weiss, ‘Attack Dog’ Group Buys Newspaper Copyrights, Sues 86 Websites, ABA J., Apr. 4, 2010, available at http://www.abajournal.com/mobile/article/attack_dog_group_buys_newspaper_copyrights_sues_86websites (last visited June 18, 2011); Jay Fitzgerald, *Legal Shark Sues Boston Bloggers*, BOSTONHERALD.COM, Aug. 8, 2010, available at http://www.bostonherald.com/business/general/view/20100808legal_shark_sues_boston_bloggers_la

On the face of things though, it isn't readily apparent why a copyright owner's delegation of the enforcement of its exclusionary rights to another entity with special expertise in that task, ought to be seen as problematic. The delegation solves what economists call the principal-agent problem by allowing for the perfect alignment of the agent's incentives with those of the principal, through the mechanism of divided ownership.¹⁴ Additionally, the law's historical reluctance to allow for the free alienability of legal claims to third parties that are better positioned to enforce them has for long been thought to lack a suitably strong explanation.¹⁵ If a right is violated, and its enforcement is therefore the subject of a perfectly valid legal claim, why should it matter exactly *who* commences the legal action, as long as the original right-holder obtains some direct or indirect benefit from the enforcement? Scholars have continued to make this argument in response to the law's prohibition on the alienation of legal claims;¹⁶ and yet, when copyright law now seems to have indirectly allowed for just such alienation, it is seen as deeply problematic. Despite the voluminous media coverage that Righthaven's activities as a "troll" has gotten, the precise legal, theoretical, or policy reasons for the purported illegitimacy of its business model have received surprisingly little attention. Indeed, much of the rhetoric surrounding Righthaven's actions as a troll seems to stem from the perceived unfairness of today's copyright laws, around which its enforcement model is built.¹⁷

In this Article, I argue that the real reasons why allowing copyright owners to outsource and delegate the enforcement of their rights to third parties (trolls) such as Righthaven is troublesome originate in its disruption of an enforcement equilibrium that is integral to the functioning of copyright as an institution. While structured along the lines of a property right, copyright law embodies a deep instrumentalism—relating to the encouragement of creativity—that is manifested both in the working of its individual doctrines and in the way in which they interact with each other in ensemble. Copyright law however consciously chooses to realize this instrumental goal through the vehicle of private enforcement, which

s_vegas_paper_sells_news_content_to_lawyer (last visited June 18, 2011); Joe Mullin, *Is this the Birth of the Copyright Troll?*, LAW.COM, Aug. 16, 2010, available at http://www.law.com/jsp/cc/PubArticleCC.jsp?id=1202466627090&Is_This_the_Birth_of_the_Copyright_Troll (last visited June 18, 2011); Susan Beck, "Copyright Troll" Righthaven Passes Early Federal Court Test, THE AMERICAN LAWYER, Sep. 9, 2010, available at http://www.law.com/jsp/cc/PubArticleCC.jsp?id=1202471807253&Copyright_Troll_Righthaven_Passes_Early_Federal_Court_Test (last visited on June 18, 2011).

¹⁴ For a general overview of the agency cost problem see: JEAN-JACQUES LAFFONT & DAVID MARTIMORT, *THE THEORY OF INCENTIVES: THE PRINCIPAL-AGENT MODEL 3* (2002).

¹⁵ See Anthony J. Sebok, *The Inauthentic Claim*, 64 VAND. L. REV. 61, 120-22 (2011); Michael Abramowicz, *On the Alienability of Legal Claims*, 114 YALE L.J. 697, 703-57 (2005).

¹⁶ *Id.*

¹⁷ See *supra* note __ at sources therein.

explains why it is structured as a regime of private law.¹⁸ And as with most regimes of private enforcement, realization of the institution's social goals depends on their alignment with the enforcement incentives of private actors. Nonetheless, as has been shown to be true in innumerable contexts, the enforcement incentives of private actors invariably come to be influenced by various costs and considerations external to the formal rules of the legal regime.¹⁹ The result is often a systematic under-enforcement of otherwise actionable claims. So it is with copyright too, where this manifests itself in the creation of a balance between actionable claims of infringement that are actually enforced and actionable claims that are instead tolerated and treated as de facto non-infringing claims.²⁰

Copyright claims, much like other private law claims in the areas of tort, property and contract, are thus systematically under-enforced.²¹ It is this equilibrium of under-enforcement that the advent of the copyright troll threatens to disrupt. Being a complete outsider to the market for creative works—in that it is not a producer, distributor, consumer, or indeed user of such works—the troll operates on a fundamentally different calculus of when to enforce the copyright claim, from that of the original copyright owners. In essence then, the troll's actions convert copyright law's previously *actionable but tolerated* claims into *actionable and enforced* ones, disrupting the implicit equilibrium.

The problem with the troll however is more than just that it is *over-enforcing* copyright. If this were the case, there would indeed be little reason to distinguish the troll from any other overzealous copyright owner. The unique problem presented by the troll originates in its incentive structure. The traditional copyright owner's decision whether to enforce an actionable claim or not is thought to derive primarily (though not exclusively) from copyright's fundamental purpose as an inducement for

¹⁸ See generally Shyamkrishna Balganesh, *The Obligatory Structure of Copyright Law: Unbundling the Wrong of Copying*, 125 HARV. L. REV. (forthcoming May 2012) (describing the private law origins and structure of copyright law).

¹⁹ See, e.g., Steven Shavell, *The Social Versus Private Incentive to Bring Suit in a Costly Legal System*, 11 J. LEGAL STUD. 333 (1982); Louis Kaplow, *Private Versus Social Costs in Bringing Suit*, 15 J. LEGAL STUD. 371 (1986); Steven Shavell, *The Fundamental Divergence Between the Private and Social Motive to Use the Legal System*, 26 J. LEGAL STUD. 575 (1997).

²⁰ Tim Wu has used the phrase "tolerated use" to describe a set of uses (of copyrighted works) that are "technically infringing" but "nonetheless tolerated". With a few modifications, see *infra* Part III.A, 'actionable but non-enforced' uses correspond roughly to Wu's idea of uses that are tolerated by "policies of selective enforcement". See Tim Wu, *Tolerated Uses*, 31 COLUM. J.L. & ARTS 617, 617, 622 (2008). Wu however somewhat hastily concludes that copyright law is unique in allowing for property "rights that require action" on the part of the owner, or "dual-chooser rights" as he calls them. See *id.* at 621. As I show, nuisance law has been precisely just such a regime. The flaw has for long been copyright's misplaced focus on trespass law for property analogies.

²¹ For literature identifying this feature in tort law, see: Michael J. Saks, *Do We Really Know Anything about the Behavior of the Tort Litigation System—And Why Not?*, 140 U. PA. L. REV. 1147, 1287 (1992); Marc Galanter, *Real World Torts: An Antidote to Anecdotes*, 55 MD. L. REV. 1093, 1158(1996).

creativity. Commencing an action for infringement is presumed to be a viable option principally when the harm from such infringement interferes in some way with (or is likely to interfere with) the market for creative works.²² A copyright owner's decision to sue a copier thus represents the belief that the copying in question is harming the owner's ability to exploit the market for the copyrighted work. The incentive to enforce a copyright claim is ordinarily thought to track—either directly or indirectly—the very purpose for which the copyright system exists, namely, its creation of a market-based inducement for creativity. What makes the troll's disruption of the under-enforcement equilibrium problematic then is the fact that its reasons for doing so bear no relationship whatsoever to the market for creative works, and derive instead from other unique efficiencies that it is positioned to capitalize on. Its incentives to sue for copyright infringement emanate from motivations that diverge rather fundamentally from the social reasons for the very existence of the copyright system.

This is where things cease being straightforward. Copyright law's under-enforcement equilibrium is maintained entirely through the conscious inaction of copyright owners, with absolutely no support from copyright's formal rules and processes. In other words, it is almost never directly enforced by courts, but is instead dependent entirely on potential plaintiffs' behavior for its realization. "Actionable but tolerated" claims also fall well outside the purview of the fair use doctrine, which by its very nature extends to claims that copyright law recognizes as intrinsically *non-actionable* to begin with.²³ As a result, courts struggle to rein in copyright trolls, and invariably resort to rules and principles that are at best indirect ways of addressing the problem. Given that copyright trolls have in theory violated none of the law's formal rules and principles, copyright law has thus far failed to articulate a coherent basis on which to curb their activities. In the process, the argument against copyright trolls starts becoming somewhat murky, since it remains unsupported by legal doctrine and instead originates in the overall functioning of the copyright system. It is this sense of unease that the rhetoric about copyright trolls continues to mask.

This Article sets out the analytical and normative contours of behavior that is pejoratively described as "copyright trolling," examines the strategies that courts have used to curb it, and unbundles the real problems underlying such behavior. In so doing, it shows why discussions of copyright trolling reveal a sense of unease in their identification of the root of the problem and solutions to it.

²² See Shavell, *Social Versus Private Incentive*, *supra* note ___, at 337.

²³ 17 U.S.C. §107 (2005) (describing an act of fair use as copying that "is not an infringement of copyright").

Part I starts with an overview of copyright trolling, using the Righthaven episode as its paradigm. It sets out the idea of the “copyright troll,” shows how copyright law’s principle of “infinite divisibility” facilitated the creation of copyright trolls such as Righthaven, and describes Righthaven’s precise business model and enforcement strategy.

Part II analyzes the mechanism that courts have thus far used, to indirectly curb copyright trolling, namely, restricting the market for actionable copyright claims. This Part situates this strategy with the context of the common law’s traditional rules on actionable claims and suggests that while restricting the development of this market may be a temporary solution to the problem of copyright trolls, it misses the real problem with trolling and is hard to reconcile with the law’s willingness to allow such markets in numerous other substantive areas.

Part III then shows how the practice of copyright trolling nonetheless remains problematic as a matter of copyright theory and policy. This Part argues that copyright law embodies an equilibrium of under-enforcement, which emanates from its reliance on private enforcement to realize its instrumental goals. It is this equilibrium, which the troll’s behavior disrupts both quantitatively and qualitatively. Since this equilibrium is maintained entirely through private (in)action, the troll’s behavior remains perfectly compatible with existing copyright law, thereby making the case against it especially hard for both courts and litigants.

Part IV moves to the prescriptive and suggests that the only way to completely disallow copyright trolling will require the formalization of a rule that examines the incentives and motives of a claimant seeking statutory damages in a copyright infringement action. It concludes by suggesting an approach that courts might consider to this end.

I. THE COPYRIGHT TROLL

A copyright troll refers to an entity whose business revolves around the systematic legal enforcement of copyrights in which it has acquired a limited ownership interest. Much like a patent troll, a copyright troll is generally a nonperforming entity, in the sense that it is not a creator, distributor, or indeed user of creative expression.²⁴ It operates by obtaining an assignment—for valuable consideration—of one or more legal rights in another’s creative work, which it then uses to threaten and bring actions for infringement against others. Focused almost entirely on the legal enforcement of these rights, it relies either on the threat of litigation to force

²⁴ See Jeremiah Chan & Matthew Fawcett, *Footsteps of the Patent Troll*, 10 INTELL. PROP. BULL. 1, 1 (2006) (“[Patent trolls] obtain patents, not to make, use, or sell new products and technologies, but solely to force third parties to purchase licenses.”).

a large monetary settlement, or instead proceeds to litigate its rights with the sole objective of obtaining damages from a defendant. Having no interest in the use or exploitation of the work and dependent entirely on settlements/damages for its revenue, a copyright troll is almost never satisfied with an order merely enjoining the defendant's infringing activities.

Englishman Harry Wall is often described as the world's first copyright troll.²⁵ The U.K. Dramatic Copyright Act of 1833 had created a system of statutory penalties for the infringement of protected works.²⁶ Wall developed a business where he would obtain a power of attorney from composers with the sole objective of enforcing their rights, and would thereafter go around cities extracting hefty licensing fees and settlements from individuals who performed these compositions, threatening them with litigation and statutory penalties if they refused to pay up.²⁷ A critic of Wall described him as "not caring for the work, or anything else" but the "money" involved.²⁸ This description of the copyright troll is as true today as it was of Wall in the 1800s. The only difference is of course that modern copyright trolls' strategies are far more nuanced and sophisticated.

This Part unpacks the working of copyright trolls as they operate today under the Copyright Act of 1976. Using the example of Righthaven LLC, it illustrates how trolls capitalize on the relaxed rules of assignment, standing, and damages under copyright law, and then describes how courts have been hard-pressed to deal with them under existing law.

A. *Motivating the Copyright Troll*

Each element of the copyright troll's strategy inevitably involves exploiting a loophole or feature of the law to its advantage. While each of these loopholes may seem minor independently, when taken as a whole, they collectively make for a robust business model. This Section examines the three main features of the Copyright Act of 1976, which when put together, actively facilitate the emergence of copyright trolls. Indeed, in some ways it is surprising that it took trolls a good three decades to fully exploit these features and develop their business models.

1. Independent Standing to Sue

²⁵ Isabella Alexander, "Neither Bolt nor Chain, Iron Safe nor Private Watchman, Can Prevent the Theft of Words": *The Birth of the Performing Right in Britain*, in *PRIVILEGE AND PROPERTY: ESSAYS ON THE HISTORY OF COPYRIGHT* 321, 339 (Ronan Deazley et al. eds., 2010).

²⁶ U.K. Dramatic Literary Property Act 1833 (3 & 4 Will. IV, c. 15).

²⁷ Alexander, *supra* note ___, at 339-40.

²⁸ *Id.*; Statement of T. Chappell, Esq. before the Royal Commission on Copyright of 1878, in *ROYAL COMMISSION ON COPYRIGHT COMMISSION: MINUTES OF EVIDENCE* 106-9 (1878).

Under the Copyright Act of 1909, only the “proprietor” of a copyright could bring an action for infringement, and only an author or his/her assignee was deemed a proprietor.²⁹ A licensee, even if exclusive, could bring an action only by joining the proprietor as a party to the action—either voluntarily or involuntarily.³⁰ This created an obvious problem for potential trolls, since it necessitated either the copyright proprietor co-operating with the troll (in a voluntary joinder) or the troll running the risk of antagonizing the proprietor (in an involuntary joinder), which could jeopardize its entire business. This limitation on standing thus created an obvious obstacle to the emergence of trolls, and courts for their part, enforced this limit in legitimately rigid fashion.³¹

The Act of 1976 however altered this drastically—primarily in order to give effect to its principle of unlimited divisibility, discussed below. Under the new rules too, only the “owner” of right granted by copyright was permitted to bring an action for infringement.³² However, the definition of an owner was altered to recognize “exclusive” licensees as copyright owners as well.³³ Non-exclusive licensees were still prohibited from bringing actions.³⁴ For trolls, this now meant that they would have to do no more than obtain an exclusive license from a creator/owner, to be entitled to commence an action. They no longer had to make the licensor a party to the action; indeed, under the new rules, the licensor (of an exclusive license) was actively precluded from bringing an action.

On the face of things, the inclusion of exclusive licensees into the category of owners made perfect sense. By itself, it continued to emphasize the idea that ‘exclusivity’ by its very nature implied the existence of no more than one owner. It thus merely moved the ability to commence an action from licensor to licensee in an exclusive transaction. The most pernicious effects of this rule were however felt only when exercised in conjunction with the Act’s allowance for the disaggregation of copyright’s bundle of rights.

2. Copyright’s “Disaggregative” Bundle of Rights

²⁹ 3 NIMMER, *supra* note __, §12.02[A]; *Manning v. Miller Music Corp.*, 174 F. Supp. 192, 194 (S.D.N.Y. 1959); *Borden v. General Motors Corp.*, 28 F. Supp. 330, 334 (S.D.N.Y. 1939); *Followay Prods., Inc. v. Maurer*, 603 F.2d 72 (9th Cir. 1979).

³⁰ *Id.* at §12.02[A].

³¹ *See, e.g.*, *Field v. True Comics, Inc.*, 89 F. Supp. 611 (S.D.N.Y. 1950); *Local Trademarks, Inc. v. Powers*, 56 F. Supp. 751 (E.D. Pa. 1944); *Douglas v. Cunningham*, 33 U.S.P.Q. 470 (D. Mass. 1933); *Eliot v. Geare-Marston, Inc.*, 30 F. Supp. 301 (E.D. Pa. 1939); *Goldwyn Pictures Corp. v. Howells*, 282 F. 9 (2d Cir. 1922); *New Fiction Pub. Co. v. Star Co.*, 220 F. 994 (S.D.N.Y. 1915); *Jondora Music Publishing Co. v. Melody Recordings, Inc.*, 351 F. Supp. 572 (D.N.J. 1972); *Ed Brawley, Inc. v. Gaffney*, 399 F. Supp. 115 (N.D. Cal. 1975); *Buck v. Elm Lodge, Inc.*, 83 F.2d 201 (2d Cir. 1936).

³² 3 NIMMER, *supra* note __, §12.02[B].

³³ 17 U.S.C. §101 (2005) (definition of “transfer of copyright ownership”).

³⁴ *See Eden Toys, Inc. v. Florelee Undergarment Co.*, 697 F.2d 27 (2d Cir. 1982).

The troll's strongest impetus for its business model came from the Act's new rules on the divisibility of copyright's exclusive rights. Whereas the Act of 1909 had allowed a copyright owner to either assign his/her rights in the work in their entirety, or run the risk of the assignment being treated as a mere license³⁵—the 1976 Act now allowed for “[a]ny of the exclusive rights comprised in a copyright, including any subdivision of any of the rights” to be “transferred” and “owned separately”.³⁶ The owner of a “particular” right was entitled to all the protections and remedies of the law as it related to that right.³⁷

Together with the new rules on standing, this changed things quite significantly. First, it permitted the owner of an individual right to commence an action for infringement of that particular right. And by treating an exclusive licensee of a right as its owner, in effect it now allowed the exclusive licensee of a specific right to bring an action for infringement of that right.³⁸ Second, and perhaps most importantly, the Act expressly permitted both natural and artificial divisions of the bundle. Not only could copyright's set of six enumerated rights be partitioned during a transfer, but parties were now free to create artificial subdivisions of them as well. These subdivisions could be temporal, geographic, or relate to particular markets for the work (e.g., hardback editions rather than paperback).³⁹ In each instance, the ownership interest extended only to the narrow subdivision specified in the grant, but that subdivision itself could be tailored in as many idiosyncratic ways as possible.⁴⁰

In essence then, copyright's model of rights came to resemble what property scholars have for long described as the “bundle of rights” picture of property, under which property is thought to consist in an infinite set of rights and privileges that relate to a particular resource.⁴¹ The exact content of this bundle is impossible to ascertain in advance, but its depletion and

³⁵ 3 NIMMER, *supra* note __, at §10.01[A] (noting how the rule rendered it “impossible to ‘assign’ anything less than the totality of rights commanded by copyright”). For cases treating a partial assignment as a license see: *Gardner v. Nike, Inc.*, 279 F.3d 774, 778 (9th Cir. 2002); *P.C. Films Corp. v. MGM/UA Home Video Inc.*, 138 F.3d 453, 456 (2d Cir. 1998); *Hirshon v. United Artists Corp.*, 243 F.2d 640 (D.C. Cir. 1957); *Goldwyn Pictures Corp. v. Howells Sales Co.*, 282 F. 9 (2d Cir. 1922).

³⁶ 17 U.S.C. §201(d)(2) (2005).

³⁷ *Id.*

³⁸ See 3 NIMMER, *supra* note __, at §10.01[B][1][B].

³⁹ 3 *id.* §10.02[A] (discussing various temporal, geographic, and subject-matter divisions).

⁴⁰ 17 U.S.C. §501(b) (2005) (noting how the interest extends only to the “particular right” owned); H.R. REP. 94-1476, at 61, *reprinted in* 1976 U.S.S.C.A.N. 5659, ____ (1976) (“Each of the five enumerated rights may be subdivided indefinitely and...each subdivision of an exclusive right may be owned and enforced separately.”).

⁴¹ For an authoritative study of the bundle of rights conception and its strangle-hold on property thinking see: James E. Penner, *The “Bundle of Rights” Picture of Property*, 43 U.C.L.A. L. REV. 711 (1996).

disaggregation can be determined analytically *ex post*. The content of the bundle is thus only ever ascertained when it is broken down into its constituent elements, and hence the term “disaggregative” to describe it.⁴²

Notwithstanding the Act’s allowance for the infinite divisibility of the bundle, it continued to emphasize an important restriction on this. The divisibility could extend only to the rights specifically enumerated in the Act’s grant.⁴³ Thus, the mere “right to sue” or the “right to enforce” the copyright could not on its own, be the subject of a transfer or assignment. *Silvers v. Sony Pictures Entertainment, Inc.* is the leading case on this point.⁴⁴ There, the plaintiff was the screenwriter for a television show, copyright in which was owned (through the work-for-hire doctrine) by the producers.⁴⁵ On discovering that the defendant’s work was substantially similar to hers, she obtained an assignment from the producers to commence an action against them. The transfer assigned to her “all right, title and interest in and to any claims and causes of action against” the defendants, as it related to the works in question.⁴⁶ Hearing the appeal *en banc*, the Ninth Circuit concluded that the list of copyright’s exclusive rights contained in the Act was “exhaustive,” as a result of which the “bare assignment” of the right to commence an action for enforcement of copyright could not be validly assigned.⁴⁷ The mere right to sue, in other words, could not be validly assigned or licensed.

In light of the Act’s allowance for the infinite divisibility of its enumerated rights however, this restriction on the alienability of the right to sue is largely without teeth. Parties need merely create an artificially constructed assignment that relates to a narrow part of the right being infringed by the defendant, thereby effectively conferring on the assignee the right to bring an action against the defendant. In *Silvers*, the plaintiff would have thus needed to do no more than obtain a temporally circumscribed assignment of the right to make a cinematographic adaptation of the screenplay along the lines of the defendant’s movie. Given the court’s insistence on complying with the formal language and structure of the statute, this is likely to have passed muster with no problems.⁴⁸ Infinite divisibility—along multiple dimensions—thus enabled parties to create an artificial assignment that had the purpose and effect of doing no more than

⁴² *Id.* at 734 (noting how under the disaggregative version, each “possible ‘use’” is itself treaty as a property right).

⁴³ See 3 NIMMER, *supra* note __, at §12.02[B].

⁴⁴ 402 F.3d 881 (9th Cir. 2005).

⁴⁵ *Id.* at 883.

⁴⁶ *Id.*

⁴⁷ *Id.* at 886-87, 890.

⁴⁸ The court placed extensive emphasis on the structure and language of the statute, and the legislative history accompanying its enactment. See *id.* at 883-87.

transferring the mere right to commence an action for infringement, a feature just waiting to be exploited by copyright trolls.

3. Statutory Damages

While the law's relaxed rules on standing and divisibility certainly facilitate the troll's existence, the real inducement for its actions come from the Act's rules on statutory damages, which render its business model not just viable, but also potentially lucrative. The Copyright Act allows the copyright owner, in an infringement action, to elect to receive "statutory damages" instead of actual damages.⁴⁹ While actual damages are usually calculated on the basis of lost profits, statutory damages enable the court to award the owner a fixed amount, per work infringed, as it "considers just".⁵⁰ The statute further stipulates that this amount is to be between \$750 and \$30,000 per work—circumscribing courts' discretion by fixing both upper and lower limits for these damages.⁵¹ In addition, the Act also empowers courts to raise the award to as much as \$150,000 per work, when a plaintiff succeeds in establishing that the infringement was committed willfully.⁵² Courts have in turn interpreted the requirement of willfulness in characteristically loose fashion, effectively converting the range of awards from \$750 to \$150,000 per work infringed.⁵³

Actual damages—compensatory in nature—make little sense for a copyright troll. Having no presence in the actual market for expression, whether as creator or distributor, it suffers no actual harm and loses no profits as such from the infringement. Yet, by allowing a copyright owner to elect to receive statutory damages that are in turn determined independent of any harm, while simultaneously curbing courts' ability to lower the award below \$750 per work, the Act effectively assures the troll of a meaningful recovery, once an infringement is established. In addition to incentivizing the troll, the existence of such minimum mandatory statutory damages also induces potential defendants to settle their claims with the troll in advance of a court's actual decision. Indeed, relying on statutorily prescribed damages was integral even to Harry Wall, the world's first copyright troll.⁵⁴

⁴⁹ 17 U.S.C. §504(c)(1) (2005); 4 NIMMER, *supra* note ___, §14.04[A].

⁵⁰ *Id.* at §504(c)(1).

⁵¹ *Id.*

⁵² *Id.* §504(c)(2).

⁵³ See Pamela Samuelson & Tara Wheatland, *Statutory Damages in Copyright Law: A Remedy in Need of Reform*, 51 WM. & MARY L. REV. 439, 441 (2009); 4 NIMMER, *supra* note ___, at §14.04[B][3][a].

⁵⁴ Alexander, *supra* note ___, at 339.

When originally introduced (in 1909), the idea behind statutory damages was to enable courts to award damages in situations where it was exceedingly difficult or impossible to determine actual damages or lost profits.⁵⁵ In situations where actual damages could be proven, courts often refused to award statutory damages.⁵⁶ In contrast, under the 1976 Act, courts almost never question a plaintiff's preference for statutory damages over actual damages and indeed often disregard the complete absence of any actual harm during the computation—which obviously favors trolls.⁵⁷

* * *

In summary then, these three features of the Copyright Act of 1976, when combined together, create the ideal legal environment for the emergence of copyright trolls. Having existed since 1976, it is indeed somewhat surprising that it took nearly three decades for the first troll to emerge. And unsurprisingly, when it did, courts and defendants had few mechanisms with which to curb its activities.

B. The Claim Aggregator Model of Trolling: Righthaven LLC

It wasn't until a few years back that entities began to recognize the existence of a potentially lucrative business model hidden within the contours of the Copyright Act. While the label of "copyright troll" has come to be commonly attached to just about any entity that enforces copyrights, it is crucial to bear in mind that a troll—as understood here—is one whose entire business revolves around the *acquisition* and *enforcement* of copyright in works created by others.⁵⁸ A plaintiff-focused group of lawyers, for instance, might actively solicit copyright owners and assist them with the enforcement of their rights without actually acquiring any rights themselves in those works.⁵⁹ While it may be rhetorically powerful to characterize these entities as "trolls," the description is analytically faulty since these entities never enter the copyright system except in their capacities as lawyers. Never directly acquiring any claims, their participation in the copyright system is entirely indirect, i.e., through the

⁵⁵ See Samuelson & Wheatland, *supra* note __, at 449.

⁵⁶ 4 NIMMER, *supra* note __, at §14.04[F][1][a]; *Washingtonian Pub. Co. v. Pearson*, 140 F.2d 465 (D.C. Cir. 1944); *Rudolf Lesch Fine Arts, Inc. v. Metal*, 51 F. Supp. 69 (S.D.N.Y. 1943); *F.A. Mills, Inc. v. Standard Music Roll Co.*, 223 F. 849 (D.N.J. 1915).

⁵⁷ 4 *id.* §14.04[A].

⁵⁸ See Electronic Frontier Foundation, *Copyright Trolls*, at <http://www EFF.org/issues/copyright-trolls> (last visited June 30, 2011) (describing various copyright enforcement initiatives as "trolls").

⁵⁹ The United States Copyright Group (USCG) is a prime example of this. The USCG operates as a group of lawyers who approach various content owners offering to enforce their copyrights against online distributors for them. Unlike "trolls", USCG does nothing to acquire any ownership interest in the copyrights they actually enforce.

copyright owners whose claims they help enforce. The troll, by contrast, in acquiring claims from others is endowed with a level of autonomy in its decision-making, which is crucial. In other words, as owner of the acquired claim, the troll decides *on its own*—based on its own set of incentives—which particular claims to enforce, and against whom to so enforce them. Its enforcement calculus is thus effectively its own, which isn't the case with entities merely assisting copyright owners with enforcement. Nonetheless, some of the concerns with copyright trolls do carry over to these entities as well.

Commencing its operations in early 2010, Righthaven LLC was perhaps the first entity to capitalize on copyright law's lax rules on standing, assignment and damages. This Section begins by describing Righthaven's business model and revenue-earning strategy, looks at how courts and defendants addressed the question of fair use when dealing with Righthaven, and finally examines the strategy that courts and defendants eventually used to curb Righthaven's activities.

1. Copyright Revenues in Four Simple Steps

Describing itself as committed to “advancing the interests of copyright law,” Righthaven's business model was premised on finding copyright owners who in principle wanted their rights enforced, but lacked the time, expertise or willingness to either do so themselves, or the resources to hire outside lawyers for this task each time.⁶⁰ Righthaven presented these owners with a third, more economically viable option: the transfer of a limited ownership interest in the content to Righthaven in order to enable it to enforce these rights against third parties using its own resources and expertise.

Locating a Creator: Step one of its strategy involved locating a copyright owner willing to enter into a strategic partnership with it, so as to put this into action. Stephens Media LLC, the owner of numerous large newspapers in Nevada, Arizona, and Colorado soon became their first partner.⁶¹ Both parties entered into a “Strategic Alliance Agreement”, under which Stephens Media agreed to assign the rights in works that were copied by potential defendants to Righthaven for enforcement in court, and both parties also agreed to share the proceeds of any enforcement on a

⁶⁰ Dan Frosch, *Enforcing Copyrights, For a Profit*, N.Y. TIMES, May 2, 2011, available at <http://www.nytimes.com/20>

11/05/03/business/media/03righthaven.html?pagewanted=1&_r=1 (last visited July 1, 2011) (quoting Steve Gibson, CEO of Righthaven LLC).

⁶¹ David Kravets, *Newspaper Chain's New Business Plan: Copyright Suits*, WIRED, July 22, 2010, available at <http://www.wired.com/threatlevel/2010/07/copyright-trolling-for-dollars/> (last visited July 1, 2011); David Kravets, *Righthaven Expands Troll Operation With Newspaper Giant*, WIRED, Dec. 7, 2010, available at <http://www.wired.com/threatlevel/2010/12/righthaven-expands-trolling/> (last visited July 1, 2011).

proportional basis.⁶² This agreement also made explicit, the artificial nature of the future assignments, providing in no uncertain terms that Righthaven had no right or entitlement to exploit works or participate in their exploitation other than the right to recover any proceeds in an infringement action.⁶³

Finding a Copier: Having found a willing copyright owner, step two began with Righthaven policing the Internet and other publication media for unauthorized uses of Stephen Media's works. Once it located a use of the work—usually in the nature of a blog reproduction of text or photographs from a newspaper owned by Stephens Media—Righthaven would then go back to Stephens Media and obtain an assignment of the specific work (or part of it) being reproduced.⁶⁴ In addition to covering only the work being copied, the assignment was also invariably retrospective in operation, allowing Righthaven to seek redress for “past, present, and future” infringements of the work.⁶⁵

Commencing the Action: In step three, Righthaven would bring an action for copyright infringement against the identified user of the work in federal court. Since most of its actions involved online reproductions that could be accessed anywhere, it chose the federal district courts of Nevada and Colorado for its action.⁶⁶ Typically, a copyright owner places some (even if not a large) value on getting the defendant to stop its infringing activities and to this end ordinarily sends the defendant a “cease and desist” letter that first threatens legal action before actually bringing it. To Righthaven, a troll, curbing the defendant's actions through such threats mattered very little. It therefore, in all but a very few of its cases, proceeded to directly commence an action against a defendant, with absolutely no forewarning.⁶⁷ And unlike the typical copyright owner, its primary focus in these actions was on obtaining an award of statutory damages, going as high as \$150,000 per work when the infringement was alleged to be willful.

Settling the Claim: In a large number cases brought by Righthaven, the defendant simply chose not to litigate the claim, but to instead settle with Righthaven for a figure significantly lower than the maximum statutory damages it might have had to pay if the matter had actually

⁶² Strategic Alliance Agreement Between Righthaven, LLC and Stephens Media, LLC, January 18, 2010, available at <http://www.scribd.com/doc/53175589/Strategic-Alliance-Agreement-Between-Righthaven-and-Stephens-Media> (last visited July 1, 2011) (§§4-7).

⁶³ *Id.* at §7.2.

⁶⁴ See, e.g., Copyright Assignment, Document 11-1 filed in Case 2:10-cv-00636-RLH-RJJ, June 21, 2010, available at <http://www.scribd.com/doc/36862835/Righthaven-Copyright-Assignment> (last visited July 1, 2011).

⁶⁵ *Id.*

⁶⁶ For a complete listing of its lawsuits see: Comprehensive List of Copyright Infringement Lawsuits Filed by Righthaven, LLC, available at <http://www.righthavenlawsuits.com/lawsuits.html> (last visited July 2, 2011).

⁶⁷ See Kravets, *New Business Plan*, *supra* note __ (describing Righthaven's surprise attack strategy).

proceeded to trial. These settlements have averaged around \$3500 per defendant.⁶⁸ Righthaven's collection strategy thus involved playing into potential defendants' risk aversion—wherein it offered them the chance to settle for a lower (but non-negligible) amount instead of having to risk a higher award, and incur additional transaction costs, should the matter proceed to trial. While each settlement may not have been independently lucrative, cumulatively they amounted to a lot—given that Righthaven commenced over 275 cases of infringement against defendants.⁶⁹

2. The Irrelevance of Fair Use in Theory

Righthaven's principal targets were individuals and groups that had posted the copyrighted content on their websites or blogs without authorization. Very often, this involved more than just excerpts from the original articles, and frequently the verbatim reproduction of articles in their entirety. At first blush, it might seem like the fair use doctrine—copyright law's primary safety valve—might have rendered these actions non-infringing. In reality however, fair use was of little help to these defendants.

Only ever rarely do courts find a defendant's verbatim reproduction of a copyrighted work in its entirety to be a fair use. Merely because the use is for an informational as opposed to commercial purpose ordinarily doesn't render it a fair use under existing copyright law. Righthaven's strategy relied entirely on this position, and was well-supported by prior cases where bloggers had been found liable for posting content to their websites despite the non-commercial and informational nature of their activities.⁷⁰ Even on occasions that courts have observed that there may be instances where the reproduction of a work in its entirety can amount to a fair use, they have generally been reluctant to declare instances of simple verbatim reproduction as fair use.⁷¹ In hardly any case where a defendant has reproduced a creative work in its entirety, and without any significant transformation to it (e.g., by way of commentary or criticism being added, or by giving the work a new purpose), has a court found the copying to be fair use. Thus, existing fair use jurisprudence seemed to favor Righthaven.

Nonetheless, when they realized their inability to curb Righthaven under other principles, a few courts—desperate for a solution and finding none (see below)—began to interpret fair use in extremely liberal terms, effectively exempting conduct that would in relation to any other plaintiff

⁶⁸ See Steve Green, *Righthaven Settles \$150,000 Copyright Suit for \$1,000*, VegasInc.Com, July 1, 2011, available at <http://www.vegasinc.com/news/2011/jul/01/righthaven-settles-150000-copyright-suit-1000/> (last visited July 3, 2011) (detailing Righthaven's settlement figures and strategy).

⁶⁹ See *Comprehensive Listing*, *supra* note __.

⁷⁰ See, e.g., *L.A. Times v. Free Republic*, 2000 WL 565200 (C.D. Cal., 2000).

⁷¹ 4 WILLIAM F. PATRY, PATRY ON COPYRIGHT §10:143 (2011).

have been considered infringement.⁷² Relying on dicta that verbatim copying too, could under circumstances be fair use, these courts placed significant weight on the non-commercial nature of the defendants' activities and the lack of potential market harm to the owner, both fair use factors, during the analysis.⁷³ While this approach was limited to a few courts, it did nonetheless make other copyright owners (i.e., true creators and distributors) concerned about the expansive precedent being set.⁷⁴ This approach to fair use ultimately failed to gain significant popularity, given that courts and defendants in due course found another way to restrict Righthaven.

Lastly, something must be said for the fair use doctrine's inherent ambiguity, and Righthaven's reliance on this uncertainty to take advantage of potential defendants' risk aversion. Structured as a common law-type four-factor inquiry, fair use has for long been criticized as offering potential defendants very little guidance in terms of their liability for copyright infringement.⁷⁵ This uncertainty is in turn thought to result in a heightened amount of risk aversion among copiers, who prefer to either license, settle, or worse still, refrain from using altogether, the protected work in order to avoid time and cost-intensive litigation.⁷⁶ While neither the uncertainty nor the risk aversion is in any sense Righthaven's creation, its strategy nonetheless drew obvious support from both features. The fair use doctrine, in short, was both useless to Righthaven's defendants, and structurally facilitative of Righthaven's strategy.

3. Reining in the Troll

While Righthaven enjoyed a good deal of early success in its actions, with time courts began to grow wary of its business model and litigation strategy, especially in light of the extensive criticism it began receiving from multiple quarters. Yet, it wasn't until recently that they found a way by which to fault Righthaven for its model. During the course

⁷² Righthaven, LLC v. Hoehn, 2011 WL 2441020 (D. Nev., June 20, 2011) at 7; Righthaven, LLC v. Realty One Group, Inc., 2010 WL 4115413 (D. Nev., Oct. 19, 2010) at 2-3; Righthaven, LLC v. Klerks, 2010 WL 3724897 (D. Nev., Sep. 17, 2010) at 3-4. *But see* Righthaven, LLC v. Virginia Citizens Defense League, Inc., 2011 WL 2550627 (D. Nev., June 23, 2011) at 7 (find a blogger's posting to not amount to fair use because it reproduced the work in its entirety).

⁷³ See, e.g., *Realty One Group, Inc.*, 2010 WL 4115413 at 2-3.

⁷⁴ See David Kravets, *Righthaven Loss: Judge Rules Reposting Entire Article is Fair Use*, WIRED, June 20, 2011, available at <http://www.wired.com/threatlevel/2011/06/fair-use-defense/> (last visited July 3, 2011) (noting how Righthaven plans to appeal the decision and that it is "not often that republishing an entire work without permission is deemed fair use").

⁷⁵ See Gideon Parchomovsky & Kevin Goldman, *Fair Use Harbors*, 93 VA. L. REV. 1483, 1491-1502 (2007).

⁷⁶ See James Gibson, *Risk Aversion and Rights Accretion in Intellectual Property Law*, 116 YALE L.J. 883, 887-907 (2007); Thomas F. Cotter, *Fair Use and Copyright Overenforcement*, 93 IOWA L. REV. 1271, 1284-91 (2008).

of its most recent suits against online copiers, it was discovered that the agreement between Righthaven and Stephens Media contained language that seemed to convey to Righthaven no more than the mere right to sue, which as discussed earlier, would have been ineffective at enabling Righthaven to bring its actions.

In *Righthaven LLC v. Democratic Underground LLC*,⁷⁷ a district court in Nevada concluded that any actual assignment of copyright that Righthaven received from Stephens Media had to be understood and interpreted in light of the “strategic agreement” that the parties had entered into at the very beginning.⁷⁸ That agreement provided in explicit terms that despite any assignment to Righthaven, Stephens Media was to retain the “exclusive license” to exploit the works in all forms, and that Righthaven was to have no rights other than the rights to recover from infringers.⁷⁹ Relying on *Silvers*, the district court concluded that in light of this agreement, Righthaven’s eventual assignment left it with no more than a “fabrication,” which was the assignment of a bare right to sue.⁸⁰ Describing Righthaven’s claims to the contrary as “disingenuous” and potentially “deceitful”, the court dismissed Righthaven’s suit, finding that it had no standing whatsoever to sue for copyright infringement.⁸¹ On learning about the strategic agreement, several other courts too either dismissed or stayed most of Righthaven’s remaining suits, in rather quick succession.⁸²

While the court may have been right in its interpretation of the agreement, its solution was entirely temporary. All that Righthaven needed to do to fix it, and obtain legitimate standing for the future, was to modify the strategic agreement to convert the exclusive license retained by its client into a non-exclusive one, and obtain exploitation rights to the work as well. In other words, the court had found a procedural flaw in Righthaven’s exploitation of a substantive loophole in the law. The former could be fixed, but not the second. Surely enough, Righthaven and Stephens Media modified their agreement along precisely these lines, thereby effectively remedying the lack of standing for future cases.⁸³ In cases where Righthaven had filed its complaint prior to the amendment however, courts

⁷⁷ 2011 WL 2378186 (D. Nev., June 14, 2011).

⁷⁸ *Id.* at 3-4.

⁷⁹ *Id.* at 2.

⁸⁰ *Id.* at 3 (“In reality, Righthaven actually left the transaction with nothing more than a fabrication since a copyright owner cannot assign a bare right to sue after *Silvers*.”).

⁸¹ *Id.*

⁸² *Righthaven, LLC v. DiBiase*, 2011 WL 2473531 (D. Nev., June 22, 2011); *Righthaven, LLC v. Barham*, 2011 WL 2473602 (D. Nev., June 22, 2011); *Righthaven, LLC v. Hoehn*, 2011 WL 2441020 (D. Nev., June 20, 2011).

⁸³ David Kravets, *Righthaven Says it Owns News Articles It’s Suing Over—for Real This Time*, WIRED, June 24, 2011, available at <http://www.wired.com/threatlevel/2011/06/righthaven-survival-bid/> (last visited July 2, 2011) (describing the amendment to the agreement).

refused to use the amendment to interpret the original agreement, and continued to dismiss such cases for lack of standing.⁸⁴

Recognizing the futility of curbing Righthaven's practices exclusively through copyright law, its opponents began looking elsewhere. Shortly after the dismissals, a group known as the Citizens Against Litigation Abuse (CALA) filed a petition in the Supreme Court of South Carolina arguing that Righthaven's business model amounted to an "unauthorized practice of law," since Righthaven was not strictly speaking, a "law firm".⁸⁵ In essence, the petition alleges that Righthaven was engaged in champerty and maintenance, practices long forbidden by the common law, in an effort to avoid third party encouragement for litigation.⁸⁶ What is most intriguing about the petition though, is that the core of the argument faults Righthaven for its *unethical* as opposed to *unlawful* conduct. Describing it as "overreaching", "bullying", and "viciously attacking" defendants, the petition seems more intent on characterizing Righthaven's actions as amounting to an unfair and unethical business model, rather than as a direct violation of any legal rule.⁸⁷

In due course however, Righthaven's model began to fall apart. Shortly after the finding that it lacked standing to sue, Righthaven stopped commencing new cases, and began laying off employees.⁸⁸ In cases where the court concluded that it had lacked standing to bring its suits all along and had thereby misled the court, Righthaven was fined and sanctioned for its actions, and ordered to pay all of its opponent's attorney's fees.⁸⁹ When Righthaven failed to comply, the judge ordered its assets to be seized and

⁸⁴ See, e.g., *Righthaven, LLC v. Hoehn*, 792 F.Supp.2d 1138, 1147 (D. Nev. 2011); *Righthaven, LLC v. Mostofi*, 2011 WL 2746315 (D. Nev., July 13, 2011), at 3 ("Here, Plaintiff and Stephens Media attempt to impermissibly amend the facts to manufacture standing. Therefore, the Court shall not consider the amended language of the SAA, but the actual assignment and language of the SAA as it existed at the time the complaint was filed.").

⁸⁵ *Citizens Against Litigation Abuse, Inc. v. Righthaven, LLC*, No. __-__ (S.C. filed June 24, 2011) available at http://bloglawblog.com/docs/CALA_v_Righthaven_Supreme_Court_Petition.pdf (last visited July 3, 2011); Steve Green, *Two Groups Ask High Court to Shut Down Righthaven in South Carolina*, VegasInc, June 27, 2011, available at <http://www.vegasinc.com/news/2011/jun/27/two-groups-ask-high-court-shut-down-righthaven-sou/> (last visited July 2, 2011).

⁸⁶ *Id.* at 9-21.

⁸⁷ *Id.* at 25-26.

⁸⁸ David Kravets, *Copyright Troll Righthaven Goes on Life Support*, WIRED, Sep. 7, 2011, available at <http://www.wired.com/threatlevel/2011/09/righthaven-on-life-support/> (last visited Jan. 20, 2012).

⁸⁹ *Righthaven, LLC v. DiBiase*, 2011 WL 5101938 (D. Nev., Oct. 26, 2011); *Righthaven, LLC v. Wolf*, 2011 WL 4469956 (D. Colo., Sep. 27, 2011).

auctioned.⁹⁰ Righthaven's assets were then placed in receivership, as was its domain name—and Righthaven effectively went under.⁹¹

What Righthaven's short-lived adventures reveal more than anything else though, is the somewhat shaky legal foundation on which the case against copyright trolling—Righthaven's principal activity—was built. In the end, Righthaven's lack of standing hinged on an inadequacy in its agreement with Stephens Media, rather than a clear principle, theory, or doctrine. Its actions were however fundamentally problematic—as a matter of copyright theory and policy—which arguments altogether missed.

II. RESTRICTING THE MARKET FOR COPYRIGHT CLAIMS

In the end, courts were able to rein in Righthaven's business model on the ground that it lacked standing, since it had purportedly been given no more than the mere “right to sue,” by its client, which was in turn insufficient to confer standing under the Ninth Circuit's ruling in *Silvers*. All of the district courts that invoked *Silvers* took it to be suggesting that an actionable claim for copyright infringement could not be alienated independent of some real right to use and exploit the work.⁹² Using this reasoning, the troll was thus faulted for attempting to trade in an independent market for copyright claims. Besides being unduly formalistic and therefore likely short-lived, this approach to regulating copyright trolling remains extremely myopic, by missing some of the obvious benefits in allowing copyright claims to be traded. Not only does it misidentify the problem with copyright trolling—which is likely to undermine its effectiveness—but it also turns a blind eye to some of the benefits of third-party involvement in litigation funding, a practice that has started to gain significant momentum in numerous other areas.⁹³

⁹⁰ Steve Green, *Marshals Ordered to Seize Righthaven Assets*, VEGASINC.COM, Nov. 1, 2011, available at <http://www.vegasinc.com/news/2011/nov/01/marshals-ordered-seize-righthaven-assets/> (last visited Jan. 20, 2012).

⁹¹ See Steve Green, *Can Righthaven Survive Latest Legal Blow*, Las Vegas Sun, Dec. 13, 2011, available at <http://www.lasvegassun.com/news/2011/dec/13/can-righthaven-survive-latest-legal-blow/> (last visited Jan. 20, 2012); Steve Green, *With Sale of Domain Name, Tables Are Turned on Righthaven*, Wired.Com, Jan. 6, 2012, available at <http://www.vegasinc.com/news/2012/jan/06/sale-domain-name-tables-are-turned-righthaven/> (last visited Jan. 21, 2012).

⁹² See, e.g., *Righthaven LLC v. Democratic Underground, LLC*, 791 F. Supp. 2d 968, 973 (D. Nev. 2011).

⁹³ For recent work documenting this trend see: Jonathan Molot, *Litigation Finance: A Market Solution to a Procedural Problem*, 99 GEO. L.J. 65 (2010); Maya Steinitz, *Whose Claim Is This Anyway? Third-Party Litigation Funding*, 95 MINN. L. REV. 1268, 1275-85 (2011). For coverage in the popular media see: Binyamin Appelbaum, *Investors Put Money On Lawsuits to Get Payouts*, N.Y. TIMES, Nov. 14, 2010, <http://www.nytimes.com/2010/11/15/business/15lawsuit.html?pagewanted=all>.

This Part situates copyright law’s rules against the assignment and maintenance of actionable copyright claims within the broader context of third-party litigation financing to show why such a process has clear benefits, that in turn make such restrictions a poor solution for the problem of copyright trolling.

A. *The (In)alienability of Actionable Claims*

Whether, and indeed to what extent actionable claims may be freely alienated by their holders has for long remained a controversial issue in the common law.⁹⁴ Actionable claims came to be called “choses in action” by the common law, and were contrasted with “choses in possession”, which referred to property rights held in resources that could be physically possessed.⁹⁵ Early in the development of the common law, prior to the 17th century, courts refused to allow actionable claims to be contractually transferred.⁹⁶ The primary concern motivating this early rule was the belief that such transfers were likely to multiply the number of contentious suits before courts and encourage “intermeddling” in them by strangers.⁹⁷ In due course, the stringency with which the prohibition came to be applied changed in English common law, with American law following suit shortly thereafter.⁹⁸

One of the earliest and most salient changes to the rule of non-assignability (of actionable claims) involved the difference between personal and non-personal claims that the common law came to make.⁹⁹ Whereas the latter were thought to survive the death of the original claimant, the former (i.e., personal claims) were thought to terminate under the rule *actio personalis moritur cum persona*.¹⁰⁰ Assignability as a result came to be tied to this distinction based on whether the claim survived its original holder; i.e., the question of ‘survivability’ of the claim served as a proxy for its assignability.¹⁰¹ Thus, claims for personal injury and the like were rendered—and to this day, remain—non-assignable. On the other

⁹⁴ For early work documenting the history of this development see: Walter Wheeler Cook, *The Alienability of Choses in Action*, 29 HARV. L. REV. 816 (1916); William S. Holdsworth, *The History of the Treatment of Chose in Action By the Common Law*, 33 HARV. L. REV. 997 (1920).

⁹⁵ 2 WILLIAM BLACKSTONE, COMMENTARIES *396 (1765); Howard W. Elphinstone, *What is a Chose in Action?*, 9 L. QUART. REV. 311 (1893).

⁹⁶ 2 BLACKSTONE, *supra* note __, at *442. See, e.g., *Lampet’s Case*, 77 Eng. Rep. 994, 997 (K.B. 1612) (forbidding the assignment of a “thing in action” to a stranger).

⁹⁷ Holdsworth, *supra* note __, at 1006-9.

⁹⁸ *Id.* at 1021-22; J. AMES, LECTURES ON LEGAL HISTORY 214 (1913). Commercial considerations are believed to have been responsible for these changes.

⁹⁹ See Anthony J. Sebok, *The Inauthentic Claim*, 64 VAND. L. REV. 61, 74-75 (2011); W.W. Allen, *Assignability of Claim in Tort for Damage to Personal Property*, 57 A.L.R. 2d 603 (1958).

¹⁰⁰ Sebok, *supra* note __, at 75.

¹⁰¹ *Id.* (describing this as the equivalency principle).

hand, paradigmatic of claims that survived the original claimant and were thought assignable were property claims.¹⁰² In fact, one of the earliest modifications of the default rule of non-assignability in English common law arose in the context of a statute that allowed a claim in trover (i.e., conversion) to be brought by testators and administrators, who the law treated as assignees from the original claimant.¹⁰³ Property-based actions thus came to be treated as readily assignable at common law. The logic underlying this exception appears to be the recognition that the claim is disembodied from the individual, and mediated through a *res*, which means that as long as the *res* continues to survive and remains transferable, so should the claim.

This continues to remain the position, with a few small exceptions, in most states.¹⁰⁴ Purely personal claims—most prominent among them being claims for personal injury—cannot be assigned. Unfortunately thought, the common law’s willingness and ability to regulate a third party’s involvement in actionable claims doesn’t stop with its rules on assignability. Over the years, common law courts have developed specialized doctrines through which they police—as a substantive matter—the nature and extent to which a third party is involved in bringing an actionable claim to fruition. This occurs through the common law doctrines of “maintenance”, “champerty”, and “barratry,” which most state jurisdictions today recognize in one form or the other.¹⁰⁵ Unlike the previous rule (on assignments), these doctrines do not apply to outright transfers but instead to all other forms in which a third party may choose to be involved in bringing a litigation, usually entailing some form of support, assistance, or encouragement. Maintenance involves giving someone else assistance in either bringing or defending a lawsuit by someone “who has no bona fide interest in the case”.¹⁰⁶ Champerty is a species of maintenance, wherein the person providing the assistance does so for valuable (i.e., monetary) consideration.¹⁰⁷ Barratry is best defined as “adjudicative cheer-leading” wherein one person urges or encourages another (or others) to bring actions.¹⁰⁸

Consequently, even in relation to claims that are assignable as such, courts in different states often disallow the claim to be brought when it is in the nature of a maintenance or is champertous in character.¹⁰⁹ The only

¹⁰² 3 JOHN N. POMEROY, A TREATISE ON EQUITY JURISPRUDENCE § 1275 (1905); *id.* at 76.

¹⁰³ Allen, *supra* note __, at § 2 (discussing 4 Edward III, Ch. 7).

¹⁰⁴ Sebok, *supra* note __, at 74.

¹⁰⁵ *Id.* at 94; Steinitz, *supra* note __, at 1289.

¹⁰⁶ BLACK’S LAW DICTIONARY 1039 (9th ed. 2009).

¹⁰⁷ *Id.* at 262.

¹⁰⁸ CHARLES W. WOLFRAM, MODERN LEGAL ETHICS § 8.13, at 490 (1986).

¹⁰⁹ For an excellent discussion of the connection between assignments and maintenance, see: Sebok, *supra* note __, at 94-97.

well-established exception to these doctrines today is the well-known contingency fee system, wherein a lawyer is allowed to take the case upon the client's agreeing to share the proceeds of the litigation with the lawyer.¹¹⁰ Outside of contingency fee-based maintenance (by lawyers), jurisdictions continue to police a third party's involvement using the doctrines of maintenance and champerty. The law's principal *modus operandi* for achieving this is by scrutinizing the individual claim as brought in court, to show how it is somehow tainted by the third party's involvement. Following this logic, courts sort through arrangements between a litigant and a third party based either on the type of matter in question, or based on the relationship between the original claimant and the investor.¹¹¹ Some states for instance, forbid the investor from "intermeddling" in the litigation, which effectively allows courts to police the amount of control that the investor has over the litigation.¹¹² Other states forbid third parties from getting involved in specific types of cases, based on the subject matter at issue.¹¹³ And yet others regulate it contextually, by looking at the plaintiff's real motivations for bringing the action, in order to ensure that the investor's profit motives aren't the primary cause for the lawsuit.¹¹⁴

The New York case of *American Optical Co. v. Curtiss*¹¹⁵ is illustrative of how courts often work the rules against assignments and maintenance in tandem, especially given that it related to a patent litigation claim. The defendants in the case had filed and obtained patents on research that they had performed during their employment. Their employer, a university, was troubled by this, and was considering an action to be declared as the owner of the invention, and to have the invention dedicated to the public royalty-free. As it was contemplating this action, it was approached by the plaintiff, a company that offered to acquire its litigation rights "for the purpose of bringing such a suit."¹¹⁶ The plaintiff had a clear commercial interest in having the patents dedicated to the public, since this would have enabled it to use the invention freely. At trial, the district court disallowed the claim, finding that the "proposed suit was the very purpose and substance of the Agreement" between the parties, as a result of which it violated the public policy of New York.¹¹⁷ The arrangement was thus considered an impermissible assignment. Somewhat interestingly, the court

¹¹⁰ *Id.* at 99.

¹¹¹ *Id.* at 108-9.

¹¹² *Id.* at 109-12.

¹¹³ *Id.*

¹¹⁴ *Id.* at 113-20.

¹¹⁵ 56 F.R.D. 26 (S.D.N.Y. 1971).

¹¹⁶ *Id.* at 28.

¹¹⁷ *Id.* at 30.

also observed that if the university had “owned” the patent and made an “absolute assignment” of it without conditioning the assignment on the lawsuit, then it might have been valid.¹¹⁸ What is clear from the court’s opinion, even in this last concession, is that even if the assignment were otherwise valid, in order to avoid the additional rule against maintenance, the assignment would have had to be for a purpose other than the lawsuit. Indeed, this idea is readily apparent in numerous other cases where courts have impugned an otherwise valid assignment for transferring the “bare right to sue”.¹¹⁹

Despite these rules having been in existence of centuries now, courts and scholars have struggled to find a coherent rationale for them. As should be apparent, the rules begin with a presumption disfavoring the assignability of an actionable claim *qua* claim. Empirical evidence too has begun to show that the harms from such assignments and funding are greatly exaggerated, and other theoretical work has concluded that allusions to corrective justice and claim “authenticity” have little basis as reasons for disallowing such assignments.¹²⁰ The principal idea motivating the restrictions appears to be the historical belief that “litigation was something of an evil” that needed to be avoided unless necessary.¹²¹ Whether this is true or not in the abstract, it is hard to justify as a principle in relation to copyright (and intellectual property rights) more generally.

Copyright’s entire entitlement structure of “exclusive rights” is predicated on the anticipation of a breach of its primary directive: the duty not to copy.¹²² In this understanding, litigation is hardly a contingent part of the institution, but is indeed central to its very analytical structure. Indeed, at the turn of the nineteenth century, many scholars began classifying copyright as a mere “chose in action”, alluding to the centrality of its status as a claim.¹²³ Additionally, the concern with “frivolous” litigation that motivates much of the default rule on non-assignability is already off-set by relatively robust misuse doctrines in both copyright and patent law.¹²⁴ If anything, the problem with copyright law today is that it is under- rather than over-litigated, which produces a host of substantive and doctrinal

¹¹⁸ *Id.*

¹¹⁹ See, e.g., *Jackson v. Rogers & Wells*, 258 Cal. Rptr. 454, 461-62 (1989).

¹²⁰ For recent empirical work see: David Abrams & Daniel Chen, *A Market for Justice: A First Empirical Look at Third Party Litigation Funding*. For theoretical work see: Michael Abramowicz, *On the Alienability of Legal Claims*, 114 YALE L.J. 697 (2005); Sebok, *supra* note ____.

¹²¹ Stephen B. Presser, *How Did We Get Here? What Litigation Was, What It is Now, What It Might Be* 7, COMMON GOOD (June 27, 2005), <http://commongood.org/assets/attachments/142.pdf>.

¹²² For a fuller elaboration of this theory see: Shyamkrishna Balganesh, *The Obligatory Structure of Copyright Law: Unbundling the Wrong of Copying*, 125 HARV. L. REV. 1664 (2012).

¹²³ See, e.g., Spencer Brodhurst, *Is Copyright a Chose in Action?*, 11 L. QUART. REV. 64 (1895).

¹²⁴ See, e.g., Kathryn Judge, Note, *Rethinking Copyright Misuse*, 57 STAN. L. REV. 901 (2004); Mark A. Lemley, Comment, *The Economic Irrationality of the Patent Misuse Doctrine*, 78 CAL. L. REV. 1599 (1990).

complications.¹²⁵ Additionally, there are important advantages to be had from a free-standing market for copyright claims, not all of which are equally true of all other claims. One might therefore expect the law to have allowed a market for actionable copyright claims to develop. Yet, the reality is just the opposite. And somewhat surprisingly, the restrictions here originate from within copyright law itself.

B. Copyright's Rules Against Assignment and Champerty

As noted earlier, Righthaven's activities were eventually contained by the courts' invocation of the Ninth Circuit's decision in *Silvers v. Sony Pictures Entertainment*,¹²⁶ which disallowed the assignment of a "bare right to sue" for copyright infringement. The Ninth Circuit in that case disallowed an assignee of the right to sue a copyrighted work from bringing an action against an infringing defendant, called it a "bare assignment".¹²⁷ What is intriguing about the court's opinion in *Silvers* though is that it couched its reasoning entirely in terms of precedent and statutory construction, consciously disavowing any reliance on the common law. Yet, in terms of its final outcome, its rule tracks the common law's rules on the maintenance and assignment of actionable claims, just discussed.

On the question of statutory construction, the court understood the Copyright Act's grant of exclusive rights to be exhaustive, such that if a "right is not 'specified', then it is not one of the exclusive rights granted by Congress."¹²⁸ And since copyright has for long been recognized to be entirely statutory in origins, this implied—to the court—that Congress had chosen to consciously avoid including the right to sue as part of the bundle that could be independently assigned.¹²⁹

The formal logic of the court on this point makes limited sense. In creating a set of exclusive rights, treating them as divisible, and independently assignable as such, Congress was doing little more than attempting to simulate the basic structure of a property right. Yet, that

¹²⁵ Recent accounts seem to suggest that the costs and uncertainty of litigation have contributed to a heightened degree of risk aversion among potential copyright defendants. See James Gibson, *Risk Aversion and Rights Accretion in Intellectual Property Law*, 116 YALE L.J. 882, 887-907 (2007). See also PATRICIA AUFDERHEIDE & PETER JASZI, RECLAIMING FAIR USE: HOW TO PUT BALANCE BACK IN COPYRIGHT 1 (2011) (describing this phenomenon as the "culture of fear and doubt"). Recent studies also show that copyright litigation has dropped by over 60% in the last ten years. ADMIN. OFF. OF THE U.S. COURTS, JUDICIAL BUSINESS OF THE UNITED STATES COURTS: 2011 ANNUAL REPORT OF THE DIRECTOR 130 (2011) (detailing filing statistics from 2007 through 2011); ADMIN. OFF. OF THE U.S. COURTS, 2006 JUDICIAL BUSINESS OF THE UNITED STATES COURTS: ANNUAL REPORT OF THE DIRECTOR JAMES C. DUFF 167 (2006) (detailing filing statistics from 2002 through 2006).

¹²⁶ 402 F.3d at 886.

¹²⁷ *Id.* at 890.

¹²⁸ *Id.* at 887.

¹²⁹ *Id.*

structure has little to do with the ability to enforce those rights, which Congress grants as a “cause of action”-based entitlement quite independent of copyright’s exclusive rights. The Supreme Court’s more recent opinion in *Sprint Communications Co. v. APCC Services* makes this abundantly clear.¹³⁰ In *Sprint*, the Court was presented with the question of whether the assignee of a bare right to commence a legal claim for money had standing to commence the action.¹³¹ The original entitlement to sue, much like in *Silvers*, was entirely statutory in origin—emanating from the Communications Act of 1934.¹³² Nonetheless, the Court relied on the common law’s allowance for the assignability of claims—even when done so exclusively to bring suit—to find that the assignee had standing to sue.¹³³ In light of this, the Ninth Circuit’s belief that a statutory scheme somehow had to be self-contained as far as the rights that it creates seems rather myopic.

The Ninth Circuit’s other two reasons—the analogies to patent law and precedent from other circuits—appear to do little more than buttress its myopic construction of the Copyright Act. The Supreme Court has for long noted that analogies between patent and copyright law are modest at best, given the different theoretical rationales underlying the two systems.¹³⁴ As for precedent from other circuits, the Ninth Circuit could have chosen a more permissive precedent to follow—namely, the Fifth Circuit’s approach¹³⁵—instead of the one that it finally did. The Fifth Circuit had in a previous case specifically allowed the assignee of an accrued cause of action for copyright infringement, i.e., of the bare right to sue, to commence an action, finding that it had standing as the holder of a “chose in action”, under Rule 17 of the Federal Rules of Civil Procedure.¹³⁶ The *Silvers* court declined to follow the Fifth Circuit’s decision since it was decided under the 1909 Act, even though this made little substantive difference.¹³⁷

Underneath all of its formalist rhetoric though, one suspects that the Ninth Circuit was indeed motivated by many of the same policy concerns that have motivated the common law’s rules on the maintenance of lawsuits, and for which it used assignability as an easy proxy. Indeed, one

¹³⁰ 554 U.S. 269 (2008).

¹³¹ *Id.* at 271.

¹³² *Id.*

¹³³ *Id.* at 289.

¹³⁴ See, e.g., *Eldred v. Ashcroft*, 537 U.S. 186, 216 (2003); *Kewanee Oil Co. v. Biocron Corp.*, 416 U.S. 470, 484 (1974).

¹³⁵ *Prather v. Neva Paperbacks, Inc.*, 410 F.2d 698 (1969).

¹³⁶ *Id.* at 700.

¹³⁷ See *Silvers*, 402 F.3d at 890. The dissent in *Silvers* faulted the majority opinion for failing to rely on the Fifth Circuit’s approach, and pointed to the fact that merely because it was decided under the 1909 Act made no difference, since the 1976 Act’s standing provisions were modeled on developments under the previous Act. *Id.* at 908.

of the two dissenting opinions criticized the majority precisely along these lines, arguing that the court was failing to undertake a “policy-based analysis” along the lines that it does in other contexts.¹³⁸ This dissent went on to apply a public policy analysis of its own, and concluded that there was nothing in copyright’s fundamental purpose—of encouraging creativity—that precluded allowing a transfer of the right to sue.¹³⁹

Even if the court in *Silvers* was being genuinely formalist in its approach to the issue, and eschewing any analogy—even implicitly—to the common law’s rules on maintenance and assignment, the fact of the matter remains that later courts have interpreted and applied it to that effect. In applying it to the Righthaven cases, the District Court of Nevada specifically accorded the *Silvers* case broad latitude.¹⁴⁰ As discussed earlier, the court used the “strategic” agreement between Righthaven and Stephens Media in its interpretation of the assignment, to conclude that the arrangement as a whole “was designed” to do no more than transfer the mere right to sue.¹⁴¹ The court took this position despite Righthaven’s explanations of their intent, and indeed their subsequent amendment of the agreement to reflect what they claimed was their true intent. Whereas the Ninth Circuit’s logic in *Silvers* was formalist, and connected to a literal construction of the assignment in question, the Nevada court converted it into a functional one, where it now scrutinized not just whether the conferral was formally of the mere right to sue, but instead whether its “design” and purpose was to give the third party effective control. In effect, this interpretation moved the *Silvers* rule from being one forbidding the assignment of actionable copyright claims, to being about the nature and extent of a third party’s involvement in the claim, much like the law of maintenance and champerty.

The logic of *Silvers* relied in large part on the structure of the Copyright Act, and the fact that Congress’s failure to treat the right to sue as an independent right meant that it might have been a conscious omission. In this formulation, if parties however choose to use a valid and legitimate part of the statute to overcome the omission, it makes little sense to prohibit it, unless of course the omission emanated from a valid policy reason other than the statutory origins of copyright law. Indeed, the *Silvers* court too seems to have recognized this, when it observed that the Act recognized standing to sue “no matter how small” the assignment of a subdivided exclusive right was.¹⁴² By prohibiting the assignment because it violated the

¹³⁸ 402 F.3d at 893 (Berzon, J. dissenting).

¹³⁹ *Id.* at 893-94.

¹⁴⁰ *See, e.g.*, Righthaven LLC v. Democratic Underground, LLC, 791 F. Supp. 2d 968, 973 (D. Nev. 2011); Righthaven LLC v. Mostofi, 2011 WL 2746315, at 2 (D. Nev. July 13, 2011).

¹⁴¹ *Democratic Underground*, 791 F. Supp. 2d at 973.

¹⁴² *Silvers*, 402 F.3d at 887.

spirit of the prohibition in *Silvers*, later courts were essentially reading a policy-reason into it—and one that tracks the law’s restriction on champertous lawsuits rather than its prohibition on assignments of actionable claims.

As a functional matter then, *Silvers* operates as copyright law’s rule against *both* the assignment of actionable copyright claims *and* champertous lawsuits. It allows courts to police an arrangement to make sure that it isn’t motivated by, or “designed” to transfer the bare right to sue. Formal construction aside, the only reasoning that seems to justify the rule in *Silvers* seems to be the very same set of reasons proffered by the common law for its restrictions on maintenance and champerty. Yet, in blindly adhering to, and indeed expanding, the *Silvers* rule, few courts have fully considered the potential upsides to allowing such a market. These upsides reveal that while the rule may have been adequate to curb the troll, it likely goes much farther than is necessary, and ignores potential efficiencies to be had from a secondary market for actionable copyright claims.

* * *

Given that copyright trolling depends entirely on the transferability of actionable copyright claims, one sees why courts viewed regulating (or indeed eliminating!) this market as the easiest way to curtail such behavior. The *Silvers* decision was thus an easy doctrinal mechanism for courts to invoke, to render trolling impermissible. Yet, as I have shown, the *Silvers* decision rests on a faulty premise about why trading in actionable claims is problematic; a premise that the common law itself has come to move away from in the last century, in recognition of the benefits involved in allowing third party investment in litigation.¹⁴³

None of this is to suggest that copyright trolling ought to be encouraged, or that trolling as such—as opposed to the market for actionable copyright claims—isn’t independently problematic. Indeed, the opposite remains true. The next Part explores more fully why copyright trolling nonetheless remains problematic, and shows how the problem originates in the peculiar motivations of the troll rather than in the market for actionable copyright claims.

III. THE REAL PROBLEM WITH COPYRIGHT TROLLS

The problem with copyright trolls, interestingly enough, has little to do with the free alienability of actionable copyright claims. It originates

¹⁴³ For a fuller exploration of this idea see: Shyamkrishna Balganesh, *The Market for Copyright Claims* (unpublished manuscript on file with the author).

instead in ideas that are fundamental to the existence and justification of the copyright system. Copyright law contains an enforcement optimality/equilibrium that originates in its structure as a private law mechanism. This equilibrium is in turn very closely connected to copyright's fundamental social purpose—namely, the inducement of creativity. The troll's activities disrupt this equilibrium, but in so doing, also run counter to copyright law's basic goal, which is why its actions are seen as deeply problematic.

This Part unbundles the connection between copyright's overall purpose and its private enforcement mechanism (III.A), and argues that this connection produces a hidden enforcement equilibrium between different types of copyright claims (III.B). It then describes the way in which a troll's actions are disruptive of both the equilibrium and copyright's goals (III.C and III.D).

A. The Presumptive Alignment of the Incentives to Create and Litigate

As a fundamentally utilitarian institution, copyright's basic purpose is thought to lie in its providing creators with a market-based inducement to create.¹⁴⁴ Through its grant of a set of exclusive rights in a work of original expression, copyright law is thought to incentivize the very production of that expression.¹⁴⁵ The U.S. Supreme Court put it best, when it unequivocally emphasized that “[c]opyright is based on the belief that by granting authors the exclusive rights to reproduce their works, they are given an incentive to create.¹⁴⁶” The public welfare—manifested in the “progress” of the sciences and useful arts—is thus believed to be promoted by granting individual creators limited entitlements in their creations.¹⁴⁷ This idea, often referred to as copyright's incentives theory, is today taken to be the central dogma of U.S. copyright law. It routinely informs legislative activity in the area, and indeed motivates courts' analyses and interpretation of copyright doctrine.¹⁴⁸

Put in simple incentive-based cost-benefit terms, copyright's logic of incentives posits that because the benefits that are likely to accrue to creators from its grant of exclusive rights outweigh the costs involved in the

¹⁴⁴ See Shyamkrishna Balganesh, *Foreseeability and Copyright Incentives*, 122 HARV. L. REV. 1569, 1577 (2009); Justin Hughes, *Fair Use Across Time*, 50 UCLA L. REV. 775, 797 (2003); Joseph P. Liu, *Copyright and Time: A Proposal*, 101 MICH. L. REV. 409, 428 (2002); Stewart E. Sterk, *Rhetoric and Reality in Copyright Law*, 94 MICH. L. REV. 1197 (1996).

¹⁴⁵ *Id.*

¹⁴⁶ *Sony Corp. of Amer. v. Universal City Studios, Inc.*, 464 U.S. 417, 477 (1984).

¹⁴⁷ U.S. CONST., Art. I, § 8, Cl. 8.

¹⁴⁸ See, e.g., *Eldred v. Ashcroft*, 537 U.S. 186 (2003); *Golan v. Holder*, 131 S. Ct. 1600 (2011).

creative process, creators are induced to produce creative expression.¹⁴⁹ As rational actors, creators are thus motivated to create by this cost-benefit calculus, thereby enhancing overall social welfare. If B_{\odot} represents the benefits likely to accrue to a creator from copyright (determined ex ante, at the time of creation), and C_C the costs involved in the creative process, the copyright system is premised on the idea that $B_{\odot} > C_C$ to generate the incentive to create.

Beyond simply identifying the fact that copyright confers likely benefits on creators, the incentives theory pays little attention to the precise contours of those benefits and the ways in which their likelihood figures in creators' calculations—assuming, of course, that the basic idea underlying the incentives theory holds true.¹⁵⁰ Copyright certainly doesn't promise creators a viable market for their works. Works protected by copyright routinely fail in the marketplace, producing no tangible benefits to their creators. Yet, this is hardly copyright's fault. What copyright promises to creators on the other hand, is best described as an assurance of “market preservation”, i.e., the assurance that it will protect the creator's market through its entitlement structure, regardless of how economically viable (or unviable) that market turns out to be. If market preservation forms the core of copyright's promise to creators, much of its incentive then originates in the precise mechanism of preservation that it offers creators. Copyright's basic mechanism of market preservation remains its conferral of “exclusive” rights to copy the work on creators. In granting creators exclusive rights in their works, it assures them that they alone will be able to exploit the market for copies of their works, however large or small that market may be. However, since expression is by its nature non-rivalrous, the functional significance of these exclusive rights emanates in large measure by the correlative duty that they impose on non-owners not to copy the work.¹⁵¹ This point is best illustrated by a hypothetical.

Consider an open area scattered with edible apples on the ground. In order to induce individuals to make effective use of these apples (and clean up the ground), assume that the law now creates a rule under which a person who expends effort to pick up an apple obtains the exclusive right to the apple. In this situation, a person who picks up an apple from the ground comes to be in *de facto* exclusive possession of it, as a result of which even though the act of picking it up imposes a duty (to stay away from that apple,

¹⁴⁹ See, e.g., WILLIAM M. LANDES & RICHARD A. POSNER, *THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW* 38-39 (2003); William M. Landes & Richard A. Posner, *An Economic Analysis of Copyright Law*, 18 J. LEGAL STUD. 325, 327 (1989) (“For a new work to be created, the expected return—typically, and we shall assume exclusively, from the sale of copies—must exceed the expected cost.”).

¹⁵⁰ But see Diane Leenheer Zimmerman, *Copyrights as Incentives: Did We Just Imagine That?*, 12 THEORETICAL INQUIRIES IN THE LAW 1 (2011) (expressing skepticism about copyright's fundamental.

¹⁵¹ See Shyamkrishna Balganesh, *The Obligatory Structure of Copyright Law: Unbundling the Wrong of Copying*, 125 HARV. L. REV. (forthcoming May 2012).

once picked up) on others, the functional value/significance of the exclusive right doesn't depend entirely on the duty for its functioning. The holder of the apple can simply take a bite of the apple once he/she picks it up, without having to assert any rights over it. Copyright law works almost exactly like this regime, except that the apple is replaced with a non-rival resource, namely, original expression. Once the creator expends effort to produce original expression, he/she obtains an exclusive right to copy it. Since the expression is incapable of being possessed exclusively, the exclusive right is however—unlike with the apple—only ever realized by *disabling* others from performing acts, which the owner is granted an exclusive right over, i.e., copying. And this disabling dimension emanates from the duty that copyright law imposes on non-owners.¹⁵²

Copyright's incentive structure—its market-preserving exclusive rights framework—is therefore heavily dependent on creating a correlative duty on others, and then maintaining and enforcing breaches of this duty. Enforcing breaches of this duty, either directly through the law, or in the shadow of the law, remains integral to the benefit-side of the exclusive rights that copyright law confers on creators. And yet, analyses of the benefits likely to flow from the copyright entitlement rarely ever look to the contingencies of enforcement, which obviously entails its own set of costs.¹⁵³ To put the point more sharply, if a creator were granted an exclusive rights entitlement, but nonetheless realized that the enforcement of that entitlement were likely to be cost-prohibitive and unviable, it would feed directly into the entitlement's ability to induce creative expression to begin with. Consider the following example.

Assume a movie studio (the creator), ABC Inc. is determining whether to create a movie. It recognizes that the cost of making a motion picture is \$2.5 million, but that it is likely to make at least \$4 million in revenues from the movie—through theatres and other forms of distribution. Now assume that ABC Inc. also recognizes that rampant copying of the movie on the Internet and by competitors is likely to diminish its revenues from the movie to zero, by interfering with the public's interest in going to movie theatres or in buying legal copies of the movie. The theory of incentives tells us that by promising creators (such as ABC Inc.) that they have exclusive rights to make copies of their creation, copyright law enables them to exploit the full market potential of their works, effectively preserving their incentive to create. In our case, copyright therefore promises ABC Inc. that it will preserve ABC's ability to earn revenue from its movie after all—by rendering unauthorized copying actionable—and ABC estimates based on this promise that it can thereby obtain a net gain of

¹⁵² *Id.* at ____.

¹⁵³ See generally Louis Kaplow, *Private Versus Social Costs in Bringing Suit*, 15 J. LEGAL STUD. 371 (1986) (identifying and discussing the different costs that private litigation entails, some of which are borne by the private actor, and others by society).

\$1.5 million. Copyright certainly doesn't promise ABC that it will actually earn \$4 million, just that it will preserve ABC's ability to do so by disabling unauthorized copying. Copyright is in effect preserving the entirety of ABC's market, meaning that in this case B_{\odot} (i.e., \$4 million) $>$ C_C (i.e., \$2.5 million), motivating ABC Inc. to make the movie.

Now, if ABC Inc. also realizes that copyright's mechanism of preservation, its promise of exclusivity, is heavily dependent on ABC Inc.'s being able to enforce the exclusive rights that it grants creators, and here, that enforcing copyright law to make sure that their revenues stay at \$4 million (and preserve the market in its entirety) will likely take another \$1.5 million, ABC Inc. will have *no incentive to create the movie*, since it can calculate that its net gain will be zero. What this points to then is the simple fact that the effective functioning of copyright as an incentive to create—in the standard incentives story—depends directly on the cost-effectiveness of enforcement. The costs (and benefits) of enforcing/litigating the claim, in other words, are just as integral as the costs (and benefits) of creation—to the copyright system's realization of its fundamental utilitarian goal.¹⁵⁴

Two important qualifications are in order here. First, the argument above assumes that what are described as *enforcement* costs map onto *litigation* costs; and one might argue that the exclusive rights entitlement could indeed be enforced independent of litigation—e.g., through technological measures, cease and desist letters, and the like.¹⁵⁵ It bears emphasizing that while these mechanisms may not constitute forms of “litigation” strictly speaking, their effectiveness is always dependent on eventual recourse to litigation. In other words, enforcement by self-help is always parasitic on the threat of eventual litigation, and happens in the shadow of the law.¹⁵⁶ As a result, *ex ante* calculations of enforcement must invariably consider the possibility of litigation. Second, copyright's benefits can certainly be seen as entailing more than just the benefits of enforcing the entitlement. Since the entitlement is inherently marketable (i.e., through

¹⁵⁴ In some ways, it is surprising that the litigation and enforcement costs of the copyright system haven't been taken to impact its ability to function as an incentive to create. The analogous point has for long shown to be true in relation to the deterrence function of tort law, namely, that when litigation costs are excessive, a regime of liability is likely to under-deter, since the incentive to take adequate precautions is reduced. See Keith N. Hylton, *Litigation Costs and the Economic Theory of Tort Law*, 46 U. MIAMI L. REV. 111, 113-14 (1991); Keith N. Hylton, *The Influence of Litigation Costs on Deterrence Under Strict Liability and Under Negligence*, 10 INT'L REV. L. & ECON. 161, 161 (1990) (developing a model to show how strict liability and the negligence rule lead to under-deterrence when litigation costs are taken into account). See also Thomas J. Miceli, *Deterrence, Litigation Costs, and the Statute of Limitations*, 20 INT'L REV. L. & ECON. 383, 393 (2000) (developing the model further).

¹⁵⁵ See, e.g., Kenneth W. Dam, *Self-Help in the Digital Jungle*, 28 J. LEGAL STUD. 393 (1999); Julie E. Cohen, *Copyright and the Jurisprudence of Self-Help*, 13 BERKELEY TECH. L.J. 1089 (1998);

¹⁵⁶ Cf. Robert H. Mnookin & Lewis Kornhauser, *Bargaining in the Shadow of the Law: The Case of Divorce*, 88 YALE L.J. 950 (1979) (showing how interactions against the backdrop of a legal regime occur in “the shadow of the law”).

licenses, transfers, and assignments), the very possibility of such contractual transfers might generate important benefits for the creator. The fact of the matter however remains that such purely contractual benefits, are on their own likely to be fairly marginal, when unbundled from the possibility of their enforcement. When contracting parties recognize that the possibility of the claim being enforced is cost-prohibitive or unviable, the claim is likely to be valued at a much lower level, rendering its benefits to the transferor (i.e., owner) marginal.

Returning then to the main point, that copyright's incentive to create must factor in the incentive to litigate the copyright claim, allows us to now further specify the idea. Incentives to litigate a claim—for a rational private actor—can in similar terms be mapped onto the costs and benefits of a recovery. The benefits from litigation are thus the difference between the probabilistic expected recovery (i.e., damages), and the costs of litigation, often represented by the formula:¹⁵⁷ $B_L = p(D) - C_L$, where B_L represents the benefit from litigation or the expected value from litigation, p the probability of succeeding in a recovery, D the damages that the recovery is likely to result in, and C_L the costs that the litigation entails. Only when this produces a positive yield for an actor, will it make sense to litigate.¹⁵⁸

If copyright's market-preserving benefits (previously B_{\odot}) consists in large part of the benefits from enforcing/litigating the copyright claim (B_L) and the marginal benefits that flow directly from the copyright entitlement (B_{Dir}), the original calculus for the incentive to create ($B_{\odot} > C_C$) therefore becomes effectively: $\Sigma [B_{Dir} + p(D)] > \Sigma [C_C + C_L]$. In other words, for copyright to work as a rational inducement to create, the sum of the marginal non-enforcement benefits and the probabilistic recovery from enforcement must exceed the costs of creating the work *and* enforcing the claim.

Copyright's fundamental utilitarian goal—of inducing creativity—thus takes shape in significant part from the mechanism that the law sets up to enforce its grant of exclusivity to creators. The realization of this social goal is, as a result, contingent on the enforcement mechanism being cost effective to creators. Altering the costs, benefits, and probabilities of recovery thus affects not just the incentive to litigate, but in the process presumptively, the very incentive to create. In this respect, copyright law tracks other areas of law where Congress seeks to motivate private actors to bring claims, in the belief that by so doing, a broader social goal is likely to be realized.¹⁵⁹ The reason all of this matters, we shall soon see, is because the copyright troll operates by driving a neat wedge between the two

¹⁵⁷ See SEAN FARHANG, *THE LITIGATION STATE* 22 (2010); A. Mitchell Polinsky & Steven Shavell, *Punitive Damages: An Economic Analysis*, 111 HARV. L. REV. 869, 882 (1998).

¹⁵⁸ FARHANG, *supra* note __, at 22.

¹⁵⁹ *Id.* at 30-31.

incentives, in the process disrupting the continuity that the regime is predicated on.

B. Sorting Copyright Claims—A Hidden Equilibrium

In addition to relying on private enforcement to achieve its social goal, copyright law also depends entirely on its private law apparatus to realize an additional institutional function—namely, that of differentiating between various types of copyright claims. This function is in many ways parasitic on its social goal, but is nonetheless important to the smooth functioning of the system. In delegating the decision *whether* to enforce a claim against a copier to the copyright owner (the right-holder), copyright law allows right-holders to decide precisely *what kinds* of claims they want to litigate and enforce. Yet, its delegation of this decision isn't unbridled, for it derives from the variables that impact the decision to litigate, which are in turn under the control of the state.¹⁶⁰ And given the regime's purported realization of its social goal through litigation, this controlled delegation can be seen as emanating from the institution's basic premise on the alignment of the incentive to create with the incentive to litigate. This framework requires some unbundling.

"Not all copying, however, constitutes copyright infringement."¹⁶¹ Perhaps more importantly though, not all copyright infringement is likely to result in liability. This is because the decision whether to enforce a claim (and impose liability on a defendant) is very often influenced by costs and variables that make it both impractical and inefficient for the copyright owner to commence an action.¹⁶² Putting these two together, we see that potential copyright claims can thus be categorized, broadly speaking, into three basic categories:

Actionable and Enforced Claims (Type I). This category covers claims that constitute acts of infringement as a legal matter *and* which are in fact enforced by the copyright owner because it makes economic sense to enforce them. Paradigmatic of this category are instances of competitive copying, where the copyright owner suffers direct, recurring, harm.¹⁶³ The action is commenced on the recognition that the potential recovery is very likely to exceed the harm from allowing the copying to continue unabated.

¹⁶⁰ Indeed, some argue that statutory regimes which delegate their enforcement to private actors do so for political reasons having to do with inter-branch dynamics and the avoidance of gridlock. *See id.*

¹⁶¹ *Feist Pub. Corp., Inc. v. Rural Telephone Serv. Co.*, 499 U.S. 340, 361 (1991).

¹⁶² Shavell, *The Social Versus Private Incentives*, *supra* note ___, at 333.

¹⁶³ *See, e.g.*, Jessica Litman, *Real Copyright Reform*, 96 IOWA L. REV. 1, 45 (2010); Lydia Pallas Loren, *The Evolving Role of "For Profit" Use in Copyright Law: Lessons from the 1909 Act*, 26 SANTA CLARA COMPUTER & HIGH TECH. L.J. 255, 281-84 (2010).

Actionable but Tolerated Claims (Type II). This is the most important category for our purposes and covers claims that as a matter of law constitute infringement, but are nonetheless treated as non-actionable by copyright owners through their conscious inaction. Tim Wu calls uses that form the basis of these claims “tolerated uses” and posits that they come about when the copyright owner chooses not to enforce its rights for reasons of “simple laziness or enforcement costs, a desire to create goodwill, or a calculation that the infringement...actually benefits the owner.¹⁶⁴” Examples include copying by fan fiction websites, or the private home copying of literary, musical, or audiovisual works by consumers.¹⁶⁵

Non-Actionable Claims (Type III). These are typically instances of copying that *the law* (as opposed to the individual copyright owner) treats as non-infringing to begin with. The most prominent claims in this category are instances of fair use, which the law treats as independently legitimate.¹⁶⁶ Also included are instances of copying that do not meet the “substantial similarity” requirement,¹⁶⁷ and forms of copying under a statutory exemption¹⁶⁸ or implied license.¹⁶⁹ The key analytical point here though is that these claims are rendered non-actionable as a matter of law. Private parties, in other words, have little say in expanding or contracting this category.¹⁷⁰

What is crucial for our purposes though, is that fact that copyright law—in its reliance on private enforcement—actively delegates to copyright owners, the process of categorizing claims into the first two categories, i.e., Type I and II. In other words, while copyright owners are required and asked to differentiate between Types I and II on the one hand, and Type III on the other, they are *mandated* to do so by the law. As between Types I and II however, copyright law (i.e., doctrine) as such says

¹⁶⁴ Wu, *supra* note __, at 619.

¹⁶⁵ *Id.* See also Jessica Litman, *Lawful Personal Use*, 85 TEX. L. REV. 1871, 1895-1903 (2007).

¹⁶⁶ 17 U.S.C. §107 (2005) (defining fair use).

¹⁶⁷ See Shyamkrishna Balganesh, *The Normativity of Copying in Copyright Law*, 62 Duke L.J. __ (forthcoming December 2012) (describing substantial similarity and its role in copyright law).

¹⁶⁸ See 17 U.S.C. §§108-112 (2005).

¹⁶⁹ See, e.g., Orit Fischman Afori, *Implied License: An Emerging New Standard in Copyright Law*, 25 SANTA CLARA COMPUTER & HIGH TECH. L.J. 275 (2009).

¹⁷⁰ Fair use thus operates as a mandatory, rather than default rule, and cannot be contracted away. See David Nimmer, Elliot Brown & Gary N. Frischling, *The Metamorphosis of Contract into Expand*, 99 CAL. L. REV. 17, 68 (1999).

nothing at all. The decision is an entirely private one, and resembles the gatekeeping function that ownership performs in property law.¹⁷¹ Just as a property owner gets to decide who to treat as an uninvited but welcome guest and who to treat as a trespasser, copyright owners get to choose what kinds of uses (and hence claims) to treat as actionable and enforced, as opposed to actionable but tolerated.¹⁷²

This raises the obvious question then of identifying the criteria by which copyright owners separate between these claims and choose to enforce some but not all. Here, we return back to the factors that influence the decision whether to litigate/enforce the claim to begin with. The decision to litigate is contingent on the expected benefit from litigation exceeding its expected costs, or the costs of litigation when subtracted from the probabilistic recovery of damages producing a positive payout to the plaintiff, i.e., $p(D) > C_L$, since $B_L = p(D) - C_L$.¹⁷³ On the continuing assumption that the decision whether to commence an infringement action or not is a rational economic one, we may readily conclude then that it is because $p(D) < C_L$ that some claims fall into the category of actionable but tolerated.

What is important to recognize is that the variables in question, namely, the costs of litigation, the probability of success, and the damages recoverable aren't necessarily individual to each plaintiff, but instead develop a level of uniformity over time. For instance, the litigation costs involve among other things, the cost of finding a lawyer, paying the attorney's fees for representation, paying the court fees, the costs of negotiating a settlement, and the indirect costs that litigation entails (e.g., involving reputation, goodwill, and the like). These are often exogenous to an individual plaintiff, and in addition show a surprising level of consistency across diverse subject matter. As a result, sorting between Type I and Type II claims begins to occur as a system-wide phenomenon, rather than an individual one. In other words, certain kinds of claims begin to fall into Type II rather than Type I because it makes little economic sense for a rational, individual utility-maximizing plaintiff to enforce them, regardless of the specifics of the plaintiff and defendant. An example best illustrates this point.

Jason is an amateur artist. Enamored by a movie poster—for the movie *Avatar*—that he comes across, he decides to paint an oil reproduction of the poster at home. He buys an authorized copy of the poster, and produces three oil paintings of it that are each virtually identical to the original. He hangs each up in a different room of his house, for his friends to admire each time they visit him. As a purely doctrinal matter, Jason's

¹⁷¹ Larissa Katz, *Exclusion and Exclusivity in Property Law*, 58 U. TORONTO L.J. 275, 288 (2008).

¹⁷² *See id.* at 289-90.

¹⁷³ FARHANG, *supra* note __, at 22.

actions don't fall under any of the copyright statute's exemptions from infringement, including the fair use doctrine; i.e., it *is* in theory actionable.¹⁷⁴ Now assume that one day, a representative of the movie studio, Lightstorm Entertainment—which owns the rights to the original poster—visits Jason. Will Lightstorm choose to enforce its claim against Jason?

Clearly not. As a rational actor, Lightstorm will realize that: (i) Jason's actions were not for profit, and didn't produce a negative market effect (i.e., harm) on the sale of its own poster, (ii) a court/jury is likely to be sympathetic to Jason's "personal use" of the protected work (the probability of recovery, p , hypothetically is thus closer to .4)¹⁷⁵, (iii) even if it succeeds, and elects to recover statutory damages (since there are no actual damages), its recovery (D) will likely be closer to the minimum \$750, since proving that Jason's actions were willful is extremely difficult,¹⁷⁶ and (iv) the costs of hiring a law firm, initiating the action, and going through the litigation will likely be (hypothetically) at least \$5,000 (C_L). Putting it all together, enforcing the claim will come at a net loss of \$4,700 ($5000 - (.4)750$), which endows the claim with little economic sense for Lightstorm to enforce. Over time though, the same type of calculation is likely to be applied by a majority of copyright owners to most types of personal home reproductions of protected works—making it highly unlikely that they will be enforced, and effectively pushing such uses into the category of actionable but tolerated uses.

Now one might worry that if the costs of litigating/enforcing the claim in such Type II claims is prohibitive, it might affect Type I claims as well—effectively interfering with the incentive to litigate, which as we saw, feeds into the very incentive to create. This is where Congress has the power to step in and alter the calculus, as it deems necessary.¹⁷⁷ Through modifications to the expected recovery (D), the probability of such recovery (p) and the costs of litigation, Congress, if it so chooses, could alter the calculus, so as to ensure that at any point in time there remains a balance between Type I and Type II claims, which makes it viable for some copyright claims to be brought and enforced, in turn furthering copyright's purpose of motivating creativity. This point bears emphasis for it reveals two extremely important things about the enforcement of copyright claims: one, that the balance between Type I and Type II claims is realized through private copyright owners' calculations of when it makes economic sense to enforce; and two, that Congress is always in a position to influence this

¹⁷⁴ See Litman, *supra* note __, at 1903 (describing such acts as infringing in the "nominal" sense).

¹⁷⁵ *Id.* at 1878-79 (describing a personal use as one where "even the most rapacious copyright owners have always agreed that some uses are lawful even though they are neither exempted nor privileged in the copyright statute nor recognized as legal by any judicial decision").

¹⁷⁶ See, 17 U.S.C. §504(c) (2005).

¹⁷⁷ See FARHANG, *supra* note __, at 24-28 (showing how Congress can do this in numerous domains).

balance statutorily, if it finds that the balance is impeding copyright's social purpose of inducing creativity.

Copyright law at all times then, contains a balance not just between Type I and Type III, or actionable and non-actionable claims, but also a *balance between Type I and Type II, or actionable and enforced, and actionable but tolerated claims*. As long as the expected benefits for potential Type I claims are significant enough, the incentive to create continues to be fuelled by copyright. When Congress has reason to suspect that the balance is problematic such that it is likely to impact the incentive to create, it alters the variables. A case in point is Congress's introduction of statutory damages into the Copyright Act in 1909, when it recognized that copyright owners were finding it difficult to prove how much damage they had suffered.¹⁷⁸ Presumably then, Congress realized that this difficulty was expanding the scope of Type II claims—since it affected the variable $p(D)$ —and chose to fix it in an effort to push claims back into the category of actionable and enforced.

What this reveals then, is that copyright law as a structural matter, contains an under-appreciated enforcement equilibrium, manifested in the ratio of Type I to Type II claims. This equilibrium is maintained entirely through the rational economic decisions of private copyright owners, with periodic support and tailoring from Congress. By ensuring that the costs of bringing certain kinds of claims—measured in terms of primary litigation costs, and the secondary reputational, social, and long-term market consequences of such actions—exceeds any likely recovery, copyright law ensures that certain kinds of claims remain *de facto* lawful, even when legally actionable. Indeed, this balance is precisely why we have a host of “gray area” uses that while infringing in the nominal sense are nonetheless rampant.¹⁷⁹

As a species of transaction costs, litigation costs are routinely taken to be wasteful, and worthy of being minimized (if not eliminated).¹⁸⁰ Yet, much like positive transaction costs, which can produce certain beneficial outcomes contextually,¹⁸¹ positive litigation costs are responsible for the Type I/Type II equilibrium, which injects added breathing space into any private enforcement regime. Positive litigation costs, in other words, perform an important “cautionary function”, by forcing plaintiffs to assess

¹⁷⁸ See Pamela Samuelson & Tara Wheatland, *Statutory Damages in Copyright Law: A Remedy in Need of Reform*, 51 WM. & MARY L. REV. 439, 446 (2009).

¹⁷⁹ Wu, *supra* note __, at 633.

¹⁸⁰ See, e.g., Pierre Schlag, *The Problem of Transaction Costs*, 62 S. CAL. L. REV. 1661, 1685 (1989); Ward Farnsworth, *Do Parties to Nuisance Cases Bargain After Judgment? A Glimpse Inside the Cathedral*, 66 U. CHI. L. REV. 373, 410 (1999).

¹⁸¹ For the leading account on the contextual benefits of positive transaction costs, see David M. Driesen & Shubha Ghosh, *The Functions of Transaction Costs: Rethinking Transaction Cost Minimization in a World of Friction*, 47 ARIZ. L. REV. 61, 85-103 (2005).

the costs and benefits of their actions before enforcing their claims.¹⁸² This cautionary function in turn produces beneficial spillover effects to the rest of society, manifested in the maintenance of a large set of Type II claims.

What is perhaps most important to appreciate about this equilibrium, which may seem otherwise uncontroversial is that it forms an essential boundary condition for copyright's functioning as an incentive to create. It represents, in other words, a calibration of the amount of incentive—in terms of the expected value from copyright—needed to stimulate creativity. This calibration however is done by copyright owners themselves, in the aggregate. This is where the fact that the equilibrium originates entirely in the aggregated calculations of private copyright owners over time, while supported by legislative alterations as circumstances change, assumes significance. This certainly isn't to suggest that the equilibrium never changes. Indeed, quite independent of legislative activity (which is purportedly responsive to the demands of private actors), private actors can themselves come to recognize that the balance of Type I to Type II claims is inappropriate (i.e., inadequate) to serve as an inducement for creativity. When this occurs, copyright owners begin to alter their calculus, often ignoring the costs of enforcing previously tolerated claims and incurring short term losses to instigate long term benefits. A prime example of this phenomenon is the recording industry's campaign against file-sharing.¹⁸³

In 2003, as the practice of peer-to-peer file-sharing started becoming common among college and high school students, recording studios began to worry that such digital downloads would diminish their revenues from regular sales.¹⁸⁴ Individual actions against downloaders had until then remained a paradigmatic Type II, or actionable but tolerated claim, since the recovery was costly and had little expected value.¹⁸⁵ Nonetheless, recording studios under the rubric of the Recording Industry Association of America (RIAA), decided that there remained a hidden benefit to such otherwise economically inefficient lawsuits—namely, their deterrent effect on other potential downloaders.¹⁸⁶ They thus made the calculation that even if bringing the individual lawsuits proved inefficient, it was likely to generate quantifiable long-term benefits that might render it worthwhile in due course. Between 2003 and 2008, the RIAA then commenced about 18,000

¹⁸² Cf. Lon L. Fuller, *Consideration and Form*, 41 COLUM. L. REV. 799, 800 (1941) (describing how consideration in contract law acts as a “check against inconsiderate action”).

¹⁸³ For some literature documenting this see: Jessica Litman, *The Sony Paradox*, 55 CASE W. RES. L. REV. 917, 958 (2005); Justin Hughes, *On the Logic of Suing One's Customers and the Dilemma of Infringement-Based Business Models*, 22 CARDOZO ARTS & ENT. L.J. 725, 744-50 (2005); Litman, *Lawful Personal Uses*, *supra* note __, at 1876-77.

¹⁸⁴ See David Kravets, *Copyright Lawsuits Plummet in Aftermath of RIAA Campaign*, WIRED.COM, May 18, 2010, <http://www.wired.com/threatlevel/2010/05/riaa-bump/> (noting how the campaign began in September 2003).

¹⁸⁵ Litman, *Lawful Personal Uses*, *supra* note __, at 1877.

¹⁸⁶ *Id.*; Hughes, *supra* note __, at 744.

lawsuits against downloaders at a huge loss, but which they hoped would deter further downloading on peer-to-peer networks.¹⁸⁷ Evidence seems to suggest that this campaign had little to no deterrent effect on individual downloaders, with the RIAA eventually abandoning the campaign.¹⁸⁸ Nonetheless, the concerted action by the copyright owners did have the effect of altering the equilibrium of non-enforcement for peer-to-peer private copying, which had until then been tolerated. Scholars referred to this as a “historical shift” that occurred in copyright enforcement¹⁸⁹—brought about entirely through the action of owners. They had thus succeeded in altering the equilibrium, by moving such downloading from Type II to Type I— independent of its effect on deterrence and social norms among downloaders.¹⁹⁰ Individual home downloading is today viewed as likely to trigger an infringement action.

Despite the fact that the equilibrium of Type I/II claims plays an important role in constituting the incentive that copyright law creates, it has thus far received little attention in attempts to understand copyright’s incentive framework. The “incentives-access” framework first developed by Arrow is thought to inform standard economic accounts of copyright law;¹⁹¹ and yet, few recognize that actionable but tolerated claims play an important role in framing the boundary between incentives and access, which has traditionally thought to derive entirely from copyright law’s doctrinal filters between protectable and unprotectable material.¹⁹² The typology and equilibrium described here reveal that the balance is maintained not just by protectability, but also by enforcement levels.

Note that thus far, we have avoided much discussion of non-actionable claims, of which fair use claims are the most common. The problem with fair use however is that given its uncertainty, its borders remain unclear.¹⁹³ As a result, while much of what is colloquially understood as “fair use” represents Type III, *some* of what is taken to be fair

¹⁸⁷ Nate Anderson, *Has the RIAA Sued 18,000 People ... Or 35,000?*, ARS TECHNICA, July 10, 2009, <http://arstechnica.com/tech-policy/news/2009/07/has-the-riaa-sued-18000-people-or-35000.ars>; Mike Masnick, *RIAA Spent \$17.6 Million in Lawsuits ... To Get \$391,000 in Settlements?*, TECHDIRT, July 14, 2010, <http://www.techdirt.com/articles/20100713/17400810200.shtml>.

¹⁸⁸ Mike Masnick, *Defining Success: Were the RIAA’s Lawsuits a Success or Not?*, TECHDIRT, June 7, 2010, <http://www.techdirt.com/articles/20100606/2308559704.shtml> (arguing that the campaign was not a success). *But see* Litman, *Lawful Personal Use*, *supra* note __, at 1877.

¹⁸⁹ Ben Depoorter & Sven Vanneste, *Norms and Enforcement: The Case Against Copyright Litigation*, 84 OR. L. REV. 1127, 1127 (3005).

¹⁹⁰ *See generally* Litman, *Lawful Personal Use*, *supra* note __, at 1877.

¹⁹¹ *See* Kenneth J. Arrow, *Economic Welfare and the Allocation of Resources for Invention*, in THE RATE AND DIRECTION OF INVENTIVE ACTIVITY 609, 617 (1962) (setting up what would become the paradigm).

¹⁹² *See, e.g.*, Glynn S. Lunney, Jr., *Reexamining Copyright’s Incentives-Access Paradigm*, 49 VAND. L. REV. 483 (1996).

¹⁹³ *See, e.g.*, Litman, *Lawful Personal Use*, *supra* note __, at 1873.

use is in reality Type II. And given that the decision whether something is in Type II or instead in Type I (and therefore enforced) is entirely a private decision delegated to copyright owners, potential defendants have little ability to contribute to the scope of Type II claims on their own. This is another way of saying that the balance between Type I and Type II claims is *entirely* a factor of costs and benefits specific to potential plaintiffs, which reveals its stability over time. Once again, Congress can of course, carve certain claims out of Type II and put into Type III, and indeed it has done so in the past.

C. *The Equilibrium as a Focal Point*

The balance between Type I and Type II claims described above—the “equilibrium”—is more than just a descriptive reality of the copyright system. It also is of deep functional significance to the institution, which makes its erosion through artificial mechanisms troubling. The importance of “balance” in copyright law is hardly new and is well-documented in the literature.¹⁹⁴ Given that copyright protection produces large costs over time, the importance of safety valves to minimize the system’s costs to society has for long been seen as essential to its functioning and legitimacy. Fair use, the idea-expression dichotomy, originality, and a host of other devices internal to copyright doctrine are thus seen as performing this balancing function.¹⁹⁵

While the Type I/II equilibrium contributes in similar vein to copyright’s basic ideal of balance, in turn central to the incentives-access trade-off that economic accounts of copyright law rely on,¹⁹⁶ there is also something fundamentally different (and important) about it. Since it originates in market-based calculations that copyright owners themselves are forced to make over a period of time, the balance partakes of a “spontaneous order¹⁹⁷,” analogous to customary regimes where participants have greater control over the content of the rules that govern them. The

¹⁹⁴ For recent work on this topic see: Abraham Drassinower, *From Distribution to Dialogue: Remarks on the Concept of Balance in Copyright Law*, 34 J. CORP. L. 991 (2009); Peter B. Maggs, *The Balance of Copyright in the United States of America*, 58 AM. J. COMP. L. 369 (2010).

¹⁹⁵ See generally Robert Kasunic, *Preserving the Traditional Contours of Copyright*, 30 COLUM. J.L. & ARTS 397 (2007); Joseph P. Liu, *Copyright and Breathing Space*, 30 COLUM. J.L. & ARTS 429 (2007).

¹⁹⁶ See LANDES & POSNER, *supra* note __, at 21.

¹⁹⁷ Friedrich Hayek is credited with developing this idea. See 3 FRIEDRICH A. HAYEK, *LAW, LEGISLATION AND LIBERTY: THE POLITICAL ORDER OF A FREE PEOPLE* xii (1981) (describing it as synonymous with “self-generating order” or “self-organizing structures”). See also Robert Sugden, *Spontaneous Order*, 3 J. ECON. PERSP. 85 (1989); A.I. Ogus, *Law and Spontaneous Order: Hayek’s Contribution to Legal Theory*, 16 J. LAW & SOC’Y 393 (1989); Francesco Parisi, *Toward a Theory of Spontaneous Law*, 6 CONST. POL. ECON. 211 (1995).

balance thus assumes a different kind of normativity from the one ordinarily communicated and enforced by the rest of copyright law.¹⁹⁸

As a private law institution, copyright law is structured to speak through relational directives—of rights and duties. Being an obligatory (as opposed to optional) regime, its private law architecture is composed of a set of “exclusive rights” that operate through their correlative duties “not to copy,” and compels individuals to behave, or refrain from behaving in certain ways.¹⁹⁹ Copyright’s legal rules therefore communicate a formal legal normativity, largely analogous to other areas of law. By declaring certain actions to be within the exclusive providence of the copyright owner, the law *directs* others not to engage in those actions, and subjects them to the possibility of legal liability if they choose not to comply.

The Type I/II equilibrium however is devoid of any formal normative significance. Being neither a direct nor delegated creation of the law, but rather a reality of the enforcement environment, its status is more *de facto* than *de jure*. This hardly suggests that it isn’t of great importance. To the contrary, it performs a crucial coordination function in the creative marketplace, as a “focal point” for interactions between copyright owners and users/copiers.

The typical interaction between a copyright owner and a private (non-commercial) copier in the marketplace can be understood as one of coordination, rather than pure conflict. A coordination situation (in Game Theory) is one where the interests of parties are aligned to some degree (even if not completely), and yet this fact alone doesn’t ensure that they will act to further their aligned self-interest.²⁰⁰ The literature is replete with examples of such coordination: cars on a street seeking to proceed in an orderly and efficient manner, rowers on both sides of a boat seeking to move the boat in the same direction, hunters trying to catch a common prey, and so on.²⁰¹ Users and copiers care deeply about many of the uses that fall into the category of “actionable but tolerated” (or “tolerated”), since they contribute to the effective consumption and use of creative works. Indeed, some scholars describe the allowance for such uses as an integral part of the free speech and liberty interests that users have, even if copyright law treats them as formally actionable.²⁰² Copyright owners too remain indifferent to such uses as we discussed, *so long as* they do not eat into their revenues

¹⁹⁸ For copyright’s traditional normativity see: Balganesch, *Obligatory Structure*, *supra* note __.

¹⁹⁹ *Id.* at 1667-74.

²⁰⁰ Richard H. McAdams, *A Focal Point Theory of Expressive Law*, 86 VA. L. REV. 1649, 1655 (2000) (“In a coordination game, players have common interests, but this fact does not guarantee that the players will do the best they can for themselves.”).

²⁰¹ *Id.* at 1655-58.

²⁰² See Litman, *supra* note __, at 1918-19 (“A healthy copyright system requires an equilibrium between copyright owners’ rights to exploit works and *individuals’ liberties* to enjoy them.”) (emphasis supplied).

(i.e., as long as they remain within the zone of tolerance), for example, by turning commercial or competitive. In some instances, copyright owners might not just be indifferent to such uses, but might instead seek to encourage them—given their spillover effects on the primary market for the work in question (e.g., fan fiction, or sampling).²⁰³ The two sides' interests are thus aligned, but absent some formal communication, there is no guarantee that they will coordinate—i.e., that copyright owners will refrain from enforcing their claims, and that private users will use/consume the work within the zone of tolerance.

In such situations needing coordination, scholars have posited that very often “focal points” tend to spontaneously emerge, either through the interaction of parties over time, or through a third party, which has the effect of making some information salient, thereby inducing the coordination that both parties desire.²⁰⁴ What is critical to appreciate though is that these focal points need not be endowed with any normative significance for them to work. All that they do is raise the “salience” of one option over others, causing parties to converge around that option.²⁰⁵ The focal point thus generates credible expectations on each side as to the behavior of the other, which allow them to move forward collectively.²⁰⁶ Since focal points don't work through their formal normativity, their origins matter very little. A focal point might thus originate in a third party (e.g., a government) or indeed through the action of one side of the interaction over time. It is precisely in this manner that the equilibrium described before operates.

Over a period of time, when copyright owners decide not to enforce certain kinds of actionable claims (i.e., Type II claims), it has the effect of communicating a signal to users/copiers. While it certainly doesn't carry any normative significance in the sense of binding the copyright owner, it nonetheless assumes a certain amount of salience that is sufficient to enable owners and users to coordinate their actions.²⁰⁷ Copyright owners' behavior over time thus creates a self-fulfilling expectation that behavior of a certain kind will occur, even if it isn't formally obligatory. It creates a credible expectation that certain kinds of unauthorized copying and use on the part of the public will likely not be enforced against them, even though such enforcement is permitted as a formal legal matter.

²⁰³ See, e.g., *Sony Corp. of Amer. v. Universal City Studios, Inc.*, 464 U.S. 417, 446 (1984) (noting how some copyright owners “welcome the practice” of unauthorized copying in some contexts).

²⁰⁴ McAdams, *supra* note __, at 1658-63.

²⁰⁵ *Id.* at 1666.

²⁰⁶ Richard H. McAdams, *Beyond the Prisoners' Dilemma: Coordination, Game Theory, and Law*, 82 S. CAL. L. REV. 209, 231 (2009).

²⁰⁷ For an attempt to convert the equilibrium into a normative commitment see: Wu, *supra* note __, at 633-35 (advocating the creation of “copyright no action policies” by copyright owners that commits them to not enforcing actionable but tolerated uses).

Indeed, the significance of such Type II uses, despite their non-obligatory status, was emphasized by the Supreme Court in *Sony Corp. of America, Inc v. Universal City Studios* otherwise known for its doctrine of “substantial non-infringing” uses in the area of contributory liability.²⁰⁸ There, the court noted how significant it was that several copyright owners readily testified (at trial) that *they viewed* certain kinds of copying as permissible. It thus noted that one prominent copyright owner “had absolutely no objection to home taping for noncommercial use” and that numerous such owners had no objection to, and indeed “welcome[d]” such, copying for various reasons.²⁰⁹ Particularly telling is the Court’s conclusion that “owner of a copyright may well have economic or noneconomic reasons for permitting certain kinds of copying to occur” and that “[i]t is not the role of the courts to tell copyright holders the best way for them to exploit their copyrights.²¹⁰” The court repeatedly emphasized that it was using these findings not to accord the behavior normative significance—for example, as a collective implied license—but instead to conclude that such uses were *de facto* non-infringing because of copyright owner’s own inaction, which the users/copiers of the protected work could legitimately rely on.²¹¹ In other words, the Court too seems to have thought the existence of Type II claims and the identification of the demarcating line between Type I and II to be both salient and behavior-influencing, i.e., as a focal point. Indeed, the Court’s own recognition and validation of such uses can be seen as giving it additional prominence and salience to this end.

Nobel Laureate Thomas Schelling, who is commonly credited with developing the idea of focal points, observes that a “prime characteristic” of such focal points is that they introduce an element of “prominence or conspicuousness” into the situation—one that depends on “time and place and who the people are.²¹²” “Who the parties are and what they know about each other” is thus an extremely important determinant for the emergence and continuing significance of such focal points.²¹³ The credible expectation that a focal point creates is thus heavily dependent on one party being able to understand the reasoning/thinking that goes into the other’s decision, which is in turn dependent on the characteristics and incentives of both sides remaining relatively static over time, place and context. In our situation, members of the public who seek to use copyrighted works must thus be able to understand how (and perhaps why) copyright owners will not enforce Type II claims, for the equilibrium to operate as a focal point

²⁰⁸ 464 U.S. 417 (1984).

²⁰⁹ *Id.* at 445-46.

²¹⁰ *Id.* at 446 n.28.

²¹¹ *Id.* at 446.

²¹² THOMAS C. SCHELLING, *THE STRATEGY OF CONFLICT* 57 (1980).

²¹³ *Id.*

and vice-versa, which in turn necessitates a set of minimum shared characteristics on both sides. Indeed, it is precisely this element that the troll's actions alter, in the process changing both the equilibrium *and* its ability to operate as a focal point for coordination between owners and copiers/users. The next Section details this process.

D. *The Copyright Troll, the Enforcement Equilibrium, and the Unease*

To this point, we have avoided any discussion of the copyright troll and its interaction with the enforcement equilibrium built into copyright law. It is precisely because of the existence of this equilibrium that the troll's actions start to become problematic. Its unique set of market motivations and structural features turn the equilibrium—fragile, unstable, and dependent on private actors—on its head. In the process, it risks disrupting the connection between copyright enforcement and the institution's fundamental purposes of inducing creativity through the market.

When the copyright troll steps into the shoes of the copyright owner by acquiring an actionable copyright claim, it brings several of its advantages to the enforcement game. The first is its *expertise* in enforcing copyright claims. The troll is usually comprised of individuals with experience enforcing and litigating copyright claims—i.e., copyright lawyers. As a result, the transaction costs of initiating the claim come to be reduced quite dramatically, with the need for external counsel being eliminated altogether. Second is its reliance on *scale*. To the copyright troll, the substance of an individual claim matters much less than its aggregate returns from the enforcement of multiple claims. This explains why it is able to settle each claim for amounts much lower than the damages it seeks. Yet, when aggregated together, the settlements prove to be beneficial. Third, the copyright troll focuses entirely on its *short-term gains* from enforcement. Not being a participant in the market for creative works, and therefore with no customer-base as such, it has little to worry in terms of the reputational consequences of going after defendants indiscriminately and of suing parties who to traditional copyright owners constitute their “customers”.²¹⁴

Going back then to the incentive to enforce a claim, represented by the idea of $B_L = p(D) - C_L$, what we begin to see is that the copyright troll is able to quite significantly lower its costs of litigation (C_L) because of its

²¹⁴ See Justin Hughes, *On the Logic of Suing One's Customers and the Dilemma of Infringement-Based Business Models*, 22 CARDOZO ARTS & ENT. L.J. 725 (2005); Fred von Lohman, *Is Suing Your Customers a Good Idea?*, LAW.COM (Sept. 29, 2004), <http://www.law.com/jsp/article.jsp?id+1095434496352> (last visited Apr. 8, 2012).

cost efficiencies and expertise, and at the same time raise its probability of success (p), once again owing to its expertise and systematic enforcement, altering its expected payoff from the enforcement of the claim. Its expected benefits from litigating/enforcing the claim (B_L) are thus significantly higher than that of the original copyright owner, i.e., the creator, as a result of these features. The reason this matters however, is because it has the effect of altering the balance between Type I and Type II claims described earlier. Recall that what held the balance between the two categories was the fact that at some point, i.e., for a large variety of claims $p(D) < C_L$ as a result of which those claims aren't litigated/enforced.

Yet, this too is hardly problematic, for as we noted earlier, the equilibrium is hardly immutable, and copyright owners do occasionally try to change the balance when they feel like the incentive provided by Type I claims is insufficient. In this sense, the troll's actions are no different from an otherwise over-zealous copyright owner, such as the RIAA, described earlier.²¹⁵ What differentiates the troll from the copyright owner however is that its reasons for not adhering to the balance aren't germane to copyright's fundamental purpose.

As noted earlier, the balance between Type I and Type II copyright claims can be seen as an essential boundary condition for the incentive to create that copyright law provides creators. In other words, the point at which copyright owners treat some claims as Type II ones can be taken to represent the point at which the returns from enforcement are no longer necessary for the inducement of creative expression. Over time, this might change through the actions of copyright owners, and when it does, the logic is normally that the marketplace for creative expression necessitates higher expected returns, pushing tolerated Type II claims into the category of enforced Type I claims in order to produce those returns. While the balance between Type I and II claims is changed through the concerted action of copyright owners in certain domains, the copyright system ordinarily views that change as unproblematic because it is taken to be a mere re-calibration of the returns needed to induce creativity, which the law delegates to copyright owners themselves.²¹⁶ Thus when recording companies (copyright owners) start enforcing infringement claims against non-commercial downloaders, the system is compelled to see it as unproblematic because it is thought to represent the fact that the copyright owners are merely re-assessing an equilibrium that represents the returns needed to continue producing music. Given the connection between the incentives to create and enforce described earlier (i.e., $\Sigma [B_{Dir} + p(D)] > \Sigma [C_C + C_L]$), an increase in the costs of creating new works (C_C) necessitates

²¹⁵ See *supra* text accompanying notes 38-44.

²¹⁶ Cf. Hughes, *supra* note __, at 737 (noting how the market for music sales declined during the period that the RIAA began to alter its equilibrium by suing defendants who had engaged in noncommercial, home downloading).

greater cumulative recovery ($\Sigma p(D)$), which accounts for the change.²¹⁷ In short then, since copyright's fundamental purpose is thought to lie in its providing creators with an inducement to produce original expression through the market, alterations in the balance between Type I and Type II claims that derive from that purpose remain unproblematic.

The troll's attempt to change the balance however has very different origins. The troll's impetus for enforcing claims that would have otherwise been actionable but tolerated, originates not in the increased costs of creating new works (C_C)—since it obviously plays no role in the creation of the work—but is instead a result of its ability to reduce its own litigation costs (C_L) and enhance its chances of recovery ($p(D)$), both of which raise its expected payoffs from enforcing/litigating a copyright claim. To the extent then that the balance between Type I and Type II claims is not just a contingent part of copyright's incentive structure, but is instead integral to its very functioning, the troll's disruption of the balance can be seen as emanating from reasons external to copyright's basic purpose of producing creative expression. And it is precisely this aspect of copyright trolling that differentiates it from any other attempt to over-enforce copyright claims. The *real problem* with the copyright troll thus lies in its disruption of the balance between actionable and enforced (or Type I) and actionable but tolerated (or Type II) claims for reasons that have nothing whatsoever to do with copyright's functioning as an incentive to create.²¹⁸

The troll's actions produce obvious harm for defendants relying on the earlier equilibrium, and who perceived their actions to be actionable but tolerated. The troll however does more than just render the activities of a few defendants infringing and subject to liability. If allowed to continue unimpeded, in due course, the troll's actions disrupt not just the equilibrium as it exists at any given point in time, but also the very process by which the equilibrium is formed and functions as a mechanism of coordination. Therein lies the real danger that trolling poses for the effective functioning of the copyright system.

The equilibrium functions as a focal point because of its ability to generate credible expectations on the part of both copyright owners and copiers as to the other's behavior. The identities of parties as noted earlier,

²¹⁷ *See id.* at 744-46.

²¹⁸ A good analogy here is to the recent modifications to the copyright system that have in similar fashion been thought to alter copyright's balance. The retroactive term extension—of 20 years—brought about by the Copyright Term Extension Act (CTEA) of 1998 was seen by numerous parties as fundamentally problematic not just because it altered the contours of the copyright system, which would have otherwise been fine, given that copyright law has been amended by Congress on numerous occasions, but because the extension to the exclusive rights entitlement (by 20 years) was seen as bearing no connection at all to copyright's fundamental purpose. It was precisely because there was no evidence (or claim) that the extension was connected to copyright's working as an inducement to create new expressive work, that many considered the CTEA deeply flawed. Indeed, this formed the very basis of the unsuccessful constitutional challenge to the CTEA. *See Eldred v. Ashcroft*, 537 U.S. 186, 210-222 (2003).

plays a major role in the development of such a focal point. When the copyright troll enters the enforcement game and begins to enforce its right indiscriminately, and by reference to its own set of motives and incentives (which are different from traditional creator-owners), it affects the ability of the equilibrium to function as a credible commitment from copyright owners across a variety of domains and contexts. Users and copiers of works whose actions would fit the category of Type II now have to worry that the very identity and reasoning of copyright owners has changed, moving a greater number of Type II claims into Type I. Being devoid of formal normative significance—i.e., in not binding the party generating the signal—the focal point begins to lose its salience as a mechanism of coordination. And with this development, the possibility of Type II claims and the uses that it represents (tolerated uses) disappearing altogether begins to loom large.

This lack of formal normativity is unfortunately also the reason why the troll's behavior is hard to fault as a matter of copyright law. Strictly speaking, the troll has done nothing illegal or unlawful. Its actions are fully in compliance with copyright law's rules on transfers, standing, and recovery of damages.²¹⁹ Yet, its actions have the potential to disrupt an informal dynamic in copyright law that is just as integral to the institution as its formal framework of exclusive rights, privileges and immunities. This in turn explains why the case against copyright trolls is rather difficult. Since its actions relate to an informal, uncodified part of the copyright system, reining it in as a matter of formal law presents a host of challenges. Any doctrinal tool employed to this end is likely to be either over- or under-determinative.

Take for instance the two approaches that courts used to rein in Righthaven. Some courts expanded fair use to cover the defendant's actions of reproducing an article in its entirety.²²⁰ In so doing, these courts were effectively moving certain Type II claims into Type III simply in order to disallow a recovery, and preclude the troll from moving it into Type I. Until this point no court had ever concluded that such verbatim copying could amount to a fair use – and these decisions surprised both copiers and copyright owners, who quite legitimately viewed it as a doctrinal aberration motivated by the courts' purpose.²²¹ A few other courts, as noted before, invoked the *Silvers* rule to deny Righthaven formal standing to sue for

²¹⁹ See *supra* Part I.C.

²²⁰ *Righthaven, LLC v. Hoehn*, 792 F. Supp. 2d 1138, 1141 (D. Nev. 2011).

²²¹ See, e.g., Steve Green, *Book, Record Industries Attack Righthaven Fair Use Ruling*, VegasInc.com, Dec. 5, 2011, <http://www.vegasinc.com/news/2011/dec/05/book-record-industries-attack-righthaven-fair-use/> (describing the amicus curiae brief of copyright owners opposing the Hoehn decision's expansion of fair use); Brad A. Greenberg, *The Quick Rise and Fall of the Copyright Troll—And How One Accidentally Expanded Fair Use*, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1947601 (last visited Apr. 4, 2012).

infringement.²²² Yet, as discussed, this approach effectively precludes any form of third part involvement in copyright litigation, and can be overcome by a tightly worded artificial assignment. In short then, the absence of a viable doctrinal solution to the problem is a reflection of the reality that the problem with the copyright troll is (i) entirely one of copyright theory/policy, that (ii) isn't formally embodied in copyright *law*. The challenge thus lies in formulating a *legal* response that can account for this reality, to which the next Part turns.

IV. CURTAILING COPYRIGHT TROLLING DIRECTLY: “COMPENSABLE HARM”

Having identified the real problem with copyright trolls to lie in the fact that their reasons for enforcing copyright claims diverge rather significantly from the institution's (i.e., copyright's) fundamental purpose, this Part moves to the prescriptive and suggests mechanisms by which copyright trolls can be reined in. In specific, any solution to the problem of copyright trolling needs to focus directly on policing the entity's *motives* and *reasons* for enforcing copyright claims, while at the same time ensuring that it doesn't (a) alter the contours of copyright's traditional doctrines (such as fair use), and (b) preclude a secondary market for copyright claims from developing altogether. The approaches that courts currently adopt tend to do one or the other—as described earlier—making them unviable as long-term solutions to the problem.

This Part argues that a direct, more tailored solution lies in a rule that introduces *a heightened rule of standing for non-author plaintiffs, by ensuring that the basis of their legal claims, in theory, tracks those of actual authors/creators, who copyright law is primarily designed to serve*. Such a rule would require (i) non-author plaintiffs (e.g., trolls) who in infringement claims (ii) elect for statutory damages (as opposed to actual damages to injunctive relief), to establish that the defendant's actions would in principle have enabled a claim for “actual damages²²³” and/or attributable profits, the type of injury that copyright law's statutory damages allowance was “intended to prevent.²²⁴” In other words, it would make the availability of statutory damages for non-author plaintiffs depend on their establishing the existence of some *compensable harm*.

A. A Limited Analogy to the Antitrust Injury Rule

²²² Righthaven LLC v. Democratic Underground LLC, 2011 WL 2378186 (D. Nev., June 14, 2011); Righthaven, LLC v. DiBiase, 2011 WL 2473531 (D. Nev., June 22, 2011); Righthaven, LLC v. Barham, 2011 WL 2473602 (D. Nev., June 22, 2011); Righthaven, LLC v. Hoehn, 2011 WL 2441020 (D. Nev., June 20, 2011).

²²³ 17 U.S.C. §504(c) (2005).

²²⁴ Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc., 429 U.S. 477, 489 (1986).

Scholars commonly make reference to antitrust law's "antitrust injury" rule to suggest that copyright law ought to incorporate an equivalent rule of standing to limit plaintiffs' claims to situations that relate to copyright's core objective of inducing creativity through the market.²²⁵ While no doubt well-intentioned, this argument is hard to square with copyright's basic structure as a strict liability tort. My claim here is in contrast, quite different. Subsequent interpretations (and applications) of the Supreme Court's opinion in *Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc.*,²²⁶ which is credited with formulating the antitrust injury rule, make the claim that the Court was attempting to lay down a formal rule of standing for all private plaintiffs in antitrust cases.²²⁷ Whether this is accurate or not, the Court's opinion in *Brunswick* also sheds important light on how a federal statute's remedial provisions ought to be understood and interpreted, when the statute specifically contemplates private actions, and the realization of a public goal through such actions. This interpretive approach should inform how courts approach the question of when plaintiffs should be allowed to invoke copyright law's allowance for statutory damages.

Brunswick involved an action brought by a few individual bowling centers, complaining that the defendant's acquisition of a few other centers in the region was in violation of Section 7 of the Clayton Act, which regulated anti-competitive mergers.²²⁸ The defendant was the largest owner/operator of bowling centers in the region. The action was brought under Section 4 of the Act, which allowed a plaintiff to recover "threefold the damages" (treble damages) upon establishing that it had been "injured in his business or property by reason of anything forbidden in the antitrust law."²²⁹ Speaking for a unanimous court, Justice Thurgood Marshall concluded that Section 4 needed more than just any causal connection between the merger and the plaintiffs' injury, since mergers by their very nature caused some dislocation.²³⁰ Instead, the plaintiffs needed to show "injury of the type the antitrust laws were intended to prevent and that flows from that which makes the defendants' acts unlawful."²³¹ In other words, the causation required to allow the claim had to originate in antitrust law's fundamental purpose of avoiding anticompetitive behavior and effects. Thus

²²⁵ See, e.g., Sara K. Stadler, *Copyright as Trade Regulation*, 155 U. PA. L. REV. 899, 934 (2007); Shyamkrishna Balganesh, *Rethinking Copyright: Property Through the Lenses of Unjust Enrichment and Unfair Competition*, 156 U. PA. L. REV. PENUMBRA 345, 346 (2008); Christina Bohannon & Herbert Hovenkamp, *IP and Antitrust: Reformation and Harm*, 51 B.C. L. REV. 905, 979 (2010).

²²⁶ 429 U.S. 477 (1986).

²²⁷ 2A PHILLIP E. AREEDA & HERBERT HOVENKAMP, ANTITRUST LAW ¶ 335, at 73 (3d ed. 2007).

²²⁸ 429 U.S. at 479-80.

²²⁹ 15 U.S.C. §15(a) (2005).

²³⁰ *Brunswick*, 429 U.S. at 487.

²³¹ *Id.* at 489.

emerged antitrust law’s “antitrust injury” rule, which has since become a formal doctrine of standing in antitrust law.

Many scholars have suggested that copyright law (and indeed perhaps all of intellectual property law) would stand to benefit from a similar injury requirement—and that courts should allow copyright claims only when plaintiffs succeed in showing “harm” to their incentives to create or distribute the work in question.²³² While this would certainly render non-actionable a large number of copyright claims that do not directly further social welfare by inducing creative expression, it is also likely to dramatically alter the analytical structure of copyright law.

Liability for copyright infringement has always been seen as “strict”, in the sense that it requires neither a showing of fault, nor proof of actual harm.²³³ Making liability now depend on proof of harm/injury is likely to alter the contours of liability not just as a procedural matter (i.e., as to standing), but as a substantive one as well. As a private law regime, copyright law depends entirely on private enforcement via infringement suits for its functioning. Unlike antitrust law, where private actions are *one* of several forms of enforcement,²³⁴ the very existence and validity of a copyright claim is thus dependent on a copyright owner’s ability to enforce it. In the antitrust context, when a private plaintiff’s claim is dismissed under the antitrust injury rule, it never precludes various other forms of enforcement. As a purely analytical matter then, the underlying violation (of antitrust laws) isn’t automatically legitimized, since public enforcement continues to remain viable. In copyright law on the other hand, precluding an infringement claim when proof of harm is lacking would serve to validate the defendant’s actions, given the absence of alternative enforcement mechanisms.²³⁵ To the extent that copyright law is meant to operate as an inducement to create, to the creator who understands that as a functional matter, the very existence of the entitlement is heavily dependent on proof of harm, the rule is likely to impede the system’s operation. A full-blown copyright injury rule—modeled on antitrust law’s antitrust injury requirement—will thus operate as a substantive, rather than procedural bar. And certainly for our purposes, it is likely to do much more than just curtail trolling, since it will effectively alter *all* claims for copyright infringement.

A more modest use of the antitrust analogy however also derives from *Brunswick*. What analogies to Justice Marshall’s opinion routinely

²³² See, e.g., Stadler, *supra* note __, at 933-34; Christina Bohannon, *Copyright Harm, Foreseeability, and Fair Use*, 85 WASH. U. L. REV. 969 (2007)

²³³ Balganes, *Obligatory Structure*, *supra* note __, at 1682.

²³⁴ See, e.g., 15 U.S.C. § 15a (2005) (dealing with suits by the United States); 15 U.S.C. §15c (2005) (dealing with suits by State Attorneys General).

²³⁵ To put the point in terms of a distinction drawn earlier, it would effectively remove acts of copying that do not cause harm to the plaintiff out of the category of Type I claims, but its effect wouldn’t just be to move it into Type II, but rather Type III – i.e., non-infringing claims.

ignore is the extent to which he focused on the “remedial” nature of the treble damages provision that was in question.²³⁶ In other words, the opinion was motivated in large part by the Clayton’s Act purported fusion of compensatory and punitive (i.e., deterrent) objectives into the damages provision, which in turn necessitated a rule that would unbundle the two. Justice Marshall thus observed in *Brunswick*:

Section 4, in contrast [to Section 7], is in essence a remedial provision. It provides treble damages to “[a]ny person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws” Of course, treble damages also play an important role in penalizing wrongdoers and deterring wrongdoing, as we also have frequently observed. . . . It nevertheless is true that the treble-damages provision, which makes awards available only to injured parties, and measures the awards by a multiple of the injury actually proved, is designed primarily as a remedy.²³⁷

Justice Marshall was thus clearly observing that the Act’s damages provision served two separate functions: a compensatory one, and a punitive one. Indeed, Congress’s conflation of the two played an important role in the Court’s analysis, when it went on to further note:

The discussions of [the treble damages remedy under the Sherman Act—which the Clayton Act then incorporated] on the floor of the Senate indicate that it was conceived of primarily as a remedy for “[t]he people of the United States as individuals,” especially consumers. . . . Treble damages were provided in part for punitive purposes . . . but also to make the remedy meaningful.²³⁸

The antitrust injury rule was thus motivated primarily by the concern that allowing a plaintiff to rely on a loose idea of causation, even if demanded by the punitive dimension of the remedy, would dilute the remedy of its compensatory significance. Despite later courts’ extension of the logic to other antitrust remedies, the *Brunswick* Court saw its rule intricately tied to the treble damages recovery being invoked. It thus concluded that “*for plaintiffs to recover treble damages on account of 7 violations, they must prove more than injury causally linked to an illegal presence in the market [but instead an] antitrust injury, which is to say injury of the type the antitrust laws were intended to prevent and that flows from that which makes defendants' acts unlawful.*²³⁹” Had the plaintiff been

²³⁶ *Brunswick*, 429 U.S. at 485.

²³⁷ *Id.* at 485-86.

²³⁸ *Id.* at 486 n.10.

²³⁹ *Id.* at 489 (emphasis supplied).

seeking just an injunction, one doubts that the Court would have insisted on the same rule, even though later courts have extended *Brunswick* in that direction.

Brunswick was thus in the end about standing for a damages recovery that combined compensatory and punitive purposes. It thus provides us with a narrower, and more direct framework with which to think about the primary motivation of the copyright troll, namely copyright's statutory damages provision.

B. A Rule of Standing for Non-Author Plaintiffs Seeking Statutory Damages

Statutory damages were introduced into U.S. copyright law for the first time in 1909.²⁴⁰ The primary reason for their introduction was to aid courts and litigants in situations where it was difficult to prove and quantify actual damages and lost profits.²⁴¹ In attempting to facilitate the recovery of actual damages through a fixed amount, their original purpose was thus compensatory in nature.²⁴² While the 1909 Act's statutory damages provision authorized courts to make awards that they considered "just", the law also set a range for such awards and provided suggested awards for common types of infringements.²⁴³ Perhaps most importantly though, the statute specifically provided that statutory damages were "not to be regarded as a penalty", thereby seemingly endowing them with exclusively with a compensatory dimension.²⁴⁴ Thus, courts routinely refused statutory damages awards when plaintiffs could establish actual damages and lost profits.²⁴⁵

In revising the statute in 1976, Congress altered much of this. In addition to modifying the range for awards, the law eliminated suggested awards amounts, and the explicit recognition that awards were not to be considered penalties. In due course, courts came to interpret the new provision —§ 504(c)—as thus consciously embodying a punitive dimension in addition to a remedial/compensatory one.²⁴⁶ Yet, since statutory damages

²⁴⁰ See Pamela Samuelson & Tara Wheatland, *Statutory Damages in Copyright Law: A Remedy in Need of Reform*, 51 WM. & MARY L. REV. 439, 446 (2009).

²⁴¹ *Id.* at 446 n.22 (detailing the legislative history of the 1909 Act's statutory damages provisions).

²⁴² See, e.g., *Douglas v. Cunningham*, 294 U.S. 207, 209 (1935) (discussing the compensator purpose).

²⁴³ 17 U.S.C. §101(b) (1976) (superseded).

²⁴⁴ *Id.*

²⁴⁵ See, e.g., *Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U.S. 390, 399 (1940) (finding that statutory damages could not be awarded when damages and profits had been proven); *Zeigelheim v. Flohr*, 119 F. Supp. 324, 329 (E.D.N.Y. 1954).

²⁴⁶ See, e.g., *On Davis v. Gap, Inc.*, 246 F. 3d 152, 172 (2d Cir. 2001); *NFL v. PrimeTime 24 Joint Venture*, 131 F. Supp. 2d 458, 478 n.17 (S.D.N.U. 2001); *U.S. Media Corp. v. Edde Ent. Corp.*, 1998 WL 401532 at *18 (S.D.N.Y. July 17, 1998); Samuelson & Wheatland, *supra* note ___, at 460-61 n.89 (citing several other examples where courts have recognized this dual purpose).

were intended as replacements for actual damages, they continued to serve their core compensatory purpose, while accommodating a punitive one. In effect, the compensatory and punitive/deterrent dimensions came to be merged in practice, especially towards the higher end of the permitted range, i.e., for willful infringements.²⁴⁷

Much like antitrust law's treble damages rule, copyright law's statutory damages provision thus blends compensatory and punitive purposes into a single award. Especially since an election for such damages forms an alternative to actual damages/lost profits, the compensatory dimension—of making the plaintiff whole in situations of injury—must continue to form at least part of the rationale for the provision. Given this reality then, courts ought to scrutinize the election for statutory damages more closely, so as to ensure that the compensatory purpose isn't lost altogether. Indeed, this is the modest lesson that can be taken away from *Brunswick*.

§504(a) of the copyright statute allows a plaintiff in an infringement suit to elect to receive statutory damages in lieu of actual damages/lost profits at any time before the final judgment is delivered.²⁴⁸ In its compensatory dimension then, the provision operates in largely evidentiary terms—either allowing the plaintiff to prove actual damages (and lost profits) or to avoid this burden by settling for an amount within a specified range. To ensure that the compensatory dimension is indeed at play—which Congress never sought to eliminate—courts should scrutinize a plaintiff's election more closely to ensure the existence of “actual damages” or “any additional profits of the infringer” so as to trigger the very need for damages. In other words, since the statutory damages provision was intended to aid courts in their computation for compensatory damages, courts ought to satisfy themselves as to the *need* for such damages before proceeding to its computation within the prescribed range. In situations where the court finds no basis for compensation, i.e., no actual damage suffered, the need to invoke a computational aid ought to disappear, since the primary logic for damages as a category disappears—and punitive damages are by and large impermissible without compensatory damages.²⁴⁹

Indeed, the idea of scrutinizing the basis of and need for the plaintiff's election has been suggested before. In arguing for reforming copyright law's statutory damages provision, Pamela Samuelson and Tara Wheatland exhort courts to “[a]sk parties to offer proof of damages and profits, or in the alternative, to demonstrate why damages or profits are

²⁴⁷ Samuelson & Wheatland, *supra* note ___, at 460-61.

²⁴⁸ 17 U.S.C. §504(a) (2005).

²⁴⁹ See *BMW of North America, Inc. v. Gore*, 517 U.S. 559 (1999); *Cooper Indus., Inc. v. Leatherman Tool Group, Inc.*, 532 U.S. 424 (2001). *But see* *Abner v. Kansas City R.R. Co.*, 513 F.3d 154 (5th Cir., 2008) (finding that punitive damages could be awarded without compensatory damages under the Civil Rights Act because of an explicit provision in the Act that enabled such awards).

sufficiently difficult to prove.²⁵⁰ They continue on to note that Congress consciously chose to avoid requiring plaintiffs to offer such proof, but seems to have contemplated an award of no more than the statutory “minimum” when the plaintiff fails to offer such proof of actual damages.²⁵¹ Accordingly, they would have courts award the prescribed minimum statutory damages when the plaintiff has lost no profits or suffered actual damage.²⁵² The Samuelson-Wheatland proposal, while thus aimed at ensuring greater scrutiny of a plaintiff’s election, doesn’t quite convert the scrutiny into an actual pre-requisite for recovery.

Interposing Justice Marshall’s logic from *Brunswick* into this framework however moves us in the direction of a formal rule of standing. As noted previously, *Brunswick* can be seen to stand for the idea that in dealing with a mixed damages provision in a statute (i.e., where both compensatory and punitive purposes are blended), the court should ensure that the compensatory purpose is being directly served—in a manner intended by the statutory framework—before allowing the award. In the copyright context, this should mean that when a court has reason to suspect that a plaintiff’s election for statutory damages isn’t as a computational aid, but is instead a cloak for some recovery as such, it should deny the election of the statutory damages remedy. Instead, the court should tie the recovery to any actual damages sustained, without which, the plaintiff should be unable to recover. In effect, this would work as an “injury” requirement for plaintiffs seeking to invoke the statutory damages remedy. At the same time, for plaintiffs that are initial owners of the copyright—i.e., authors/creators—this rule of standing might be relaxed, for two interconnected reasons.

First, given copyright’s purpose of creating an ex ante incentive to create original works of authorship, the very act of infringement—once seen to exist—can be seen to operate as a valid basis for presuming potential market harm.²⁵³ Since the insistence on a plaintiff’s proving actual damages is meant to work as a proxy for injury, it ceases to remain necessary when such injury is known to exist in certain domains. Put in opposite terms, one could argue that the very availability of statutory damages operates as an ex ante incentive to create for authors, which in turn ought not to be disturbed.²⁵⁴ Second, going back to the connection between the incentive to

²⁵⁰ Samuelson & Wheatland, *supra* note ___, at 502.

²⁵¹ *Id.* at 502 n.313.

²⁵² *Id.* at 501.

²⁵³ Indeed, the absence of market harm is often dispositive in fair use cases. Consequently, if a court were to find a defendant’s copying to be infringement—and not fair use—it is but reasonable to infer the existence of potential market harm. *See Harper & Row v. Nation Enterp.*, 471 U.S. 539, 566 (1985).

²⁵⁴ Indeed this point is consistent with the Court’s expansive interpretation of copyright law’s structure as an incentive to create. *See Eldred v. Ashcroft*, 537 U.S. 186, 210 (2003).

create and the incentive to enforce, requiring a plaintiff to adduce evidence of actual harm as a precondition for recovery will undoubtedly raise the costs of litigation (C_L). Without a corresponding rise in benefits, it will undoubtedly modify the incentive calculus, altering the Type I/Type II claim equilibrium in one domain, which could in turn produce effects in others. In other words, by pushing some claims from Type I to II—which the rule could result in for creator-plaintiffs—it might conversely result in their moving other types of claims from Type II to I to balance out the effects of the rule.

The rule of standing would thus operate only in relation to elections made by non-initial copyright owners, i.e., non-author owners, a class recognized by the copyright statute itself.²⁵⁵ Indeed the Copyright Act itself treats authors as a special class, and vests them with additional protection, in the nature of inalienable termination rights—in the interests of fairness.²⁵⁶ There should thus be little reason in exempting author-plaintiffs from a formal rule of standing when they invoke the statutory damages provision. In short then, the logic of *Brunswick* and the purpose behind copyright law’s provision on statutory damages allow for courts to impose on non-author plaintiffs in infringement suits who elect to recover statutory damages, the burden of showing the existence of some “actual damages” or lost profits before validating the election.

This rule then raises the obvious next question—of precisely what a non-author plaintiff will need to show to establish that some “actual damages” are in principle recoverable. As Nimmer notes, “[a]ctual damages represent the extent to which infringement has injured or destroyed the market value of the copyrighted work at the time of infringement.²⁵⁷” At its simplest, the “basic rule for computing injury to the market value of a copyrighted work arising from infringement is to inquire what revenue would have accrued to plaintiff but for the infringement” and to place the burden on the plaintiff “of establishing with reasonable probability the existence of a causal connection between defendant’s infringement and loss of anticipated revenue.²⁵⁸” In situations where lost revenue is hard to quantify, and the defendant hasn’t any attributable profits to speak of, some courts look to the “value of use” in their assessment, i.e., they equate actual injury with the likely cost of the infringing use to the defendant had permission been sought, which the defendant saved on.²⁵⁹ Note that for our purposes, the quantification of these harms is irrelevant, since what matters

²⁵⁵ 17 U.S.C. §201(a) (2005).

²⁵⁶ *Id.* at §203.

²⁵⁷ 4 NIMMER, *supra* note __, at §14.02[A].

²⁵⁸ 4 *id.* at §14.02[A][1].

²⁵⁹ 4 *id.* at §14.02[B].

is *their existence*, and once shown to exist, the non-author plaintiff may conveniently elect for statutory damages.

Requiring non-author plaintiffs to establish some basis for “actual damages” before their election is validated would thus operate as a rule of substantive standing that comports with copyright’s fundamental institutional purposes. It would operate as the perfect antidote against the copyright troll, by rendering its business model unviable—an issue to which we return.

C. *Detering the Troll*

A formal rule disallowing a non-author plaintiff from electing for statutory damages (under §504(c)) without proof of compensable harm operates as a direct, targeted measure that is likely to impede copyright trolling. What is crucial to appreciate about this strategy though is that it operates by affecting the core motivation of the copyright troll, namely its reliance on copyright’s statutory damages provision. Unlike a formalized denial of all standing to sue—such as the expanded *Silvers* rule—the version offered here doesn’t formally *prohibit* trolling, but instead *deters* it. In other words, it focuses on eliminating the troll’s basic incentive that drives its business model. Without the automatic availability of statutory damages, the troll will have absolutely no guarantee of legal recovery. Since the troll will in most cases be unable to establish any compensable harm as such, its ability to recover damages will be dramatically impeded. Knowing this to be the case, trolls are unlikely to pursue defendants that copyright owners are unlikely to have gone after themselves (e.g., non-commercial defendants, or those engaging in purely personal uses), in the process aligning the ability to obtain statutory damages with copyright’s basic *a priori* incentive structure to litigate the claim.

None of this is to suggest that this strategy will of necessity be fool proof. Copyright trolls might choose to take their chances and hope that defendants are risk averse enough to settle even without a valid claim for statutory damages. While this might have limited payoff in the short run, it is certainly unlikely to be a viable model once a defendant emerges who is willing to test the troll’s claims and have it adjudicated in a court.

The situation where the compensable harm pre-requisite is more likely to be insufficient involves defendants that have an interest in continuing their use of the work. In other words, when a defendant has something to lose from being enjoined from copying, a troll could in theory choose to seek a permanent injunction by way of remedy and use the threat of such an injunction to obtain a hefty settlement from the defendant—which would operate as a licensing fee of sorts.²⁶⁰ The reason why this too

²⁶⁰ Injunctive relief while codified in Title 17 is largely equitable in its origins and availability. See 17 U.S.C. §502(a) (2005); *Abend v. MCA, Inc.*, 863 F.2d 1465 (9th Cir. 1988).

is unlikely is because the grant of injunctive relief is predicated on a plaintiff being able to show a likelihood of “irreparable injury” without such relief.²⁶¹

The first requirement that courts of equity look to before granting injunctions is the requirement that the plaintiff establish that an ordinary legal remedy—namely compensatory damages—will not adequately repair the harm. While the rule diminished in significance in the last century, the last few years have seen its revival following the Supreme Court’s decision in *eBay, Inc. v. MercExchange*,²⁶² which held that courts had to look to equity’s traditional requirements, including the irreparable injury rule, before granting injunctive relief. While *eBay* dealt with permanent injunctions in patent cases, its logic and reasoning apply with equal force to copyright law and preliminary injunctions as well, and indeed later courts have extended it in that direction.²⁶³ In essence, the irreparable injury rule prohibits courts from presuming that an injunction ought to follow merely because a plaintiff establishes ownership of copyright and an infringement. It needs to be additionally satisfied that damages aren’t sufficient.

Now one of the ways in which courts have historically satisfied the irreparable injury requirement is when damages are too hard to be measured accurately.²⁶⁴ Here however, courts are required invoke the logic of the compensable harm requirement suggested for statutory damages.²⁶⁵ Merely because damages cannot be adequately measured shouldn’t imply that courts do not satisfy themselves of the *existence* of compensable harm for such damages to begin with.²⁶⁶ In other words, the gist of *eBay* is that a court cannot presume irreparable harm merely because a right is violated, but instead needs to be convinced that such harm does in fact exist or is very likely.²⁶⁷ Consequently, the copyright troll is unlikely to succeed in merely replacing its quest for statutory damages with injunctive relief and going after defendants that intend to continue using the work. Courts are likely to insist on a showing of actual/potential harm—which the troll is unlikely to satisfy by merely pointing to lost licensing revenue.

CONCLUSION

²⁶¹ *eBay, Inc. v. MercExchange*, 547 U.S. 388, 391 (2006).

²⁶² *Id.*

²⁶³ *See, e.g., Salinger v. Colting*, 607 F.3d 68 (2d Cir. 2010).

²⁶⁴ *See* Douglas Laycock, *The Death of the Irreparable Injury Rule*, 103 HARV. L. REV. 687, 711 (1990); *Salinger*, 607 F.3d at 81.

²⁶⁵ *See* 6 WILLIAM PATRY, PATRY ON COPYRIGHT §22:74 (2010).

²⁶⁶ *Salinger*, 607 F.3d at 82 (“After *eBay*, courts must not simply presume irreparable harm.... Rather, plaintiffs must show that, on the facts of their case, the failure to issue an injunction would actually cause irreparable harm.”).

²⁶⁷ *Id.*

The copyright troll is today a common bogeyman used to illustrate the innumerable problems that underlie our copyright system. In the process, discussions of copyright trolling all too readily ignore the mechanisms of copyright law that motivate trolling, and the precise reasons why copyright trolling is fundamentally problematic. This in turn has courts and scholars develop antidotes to copyright trolling that are ineffective, short-lived, over-expansive, or which in their myopic focus on the consequences of trolling, end up foreclosing potentially important developments in the copyright system.

In this Article, I have argued that copyright trolling remains a deeply problematic activity, but for reasons that have little to do with fair use, or the acquisition of copyright claims by third parties. Copyright law, as an inducement for creativity, is premised on the connection between the incentive to create and the incentive to enforce actionable claims. It contains an important balance between claims that are enforced and those that are tolerated despite their being actionable as such. Very importantly, this balance is realized by the private enforcement decisions of copyright owners over time. As an entity having no interest in the creation, distribution, or use of creative works, yet motivated to enforce copyright claims relating to such works in a dogmatic manner, the copyright troll disrupts this—informal, unwritten, and fragile—equilibrium. In the process, it detaches the enforcement-side of copyright from its functioning as an inducement to create. What makes its actions additionally troublesome is the fact that in disrupting this informal equilibrium, it actions nonetheless comply perfectly with all of copyright law's formal rules. This is precisely what makes the case against copyright trolls complicated.

Despite its having risen to prominence only recently, the conceptual and analytical tools that make trolling possible have been in existence ever since the Copyright Act of 1976. The Righthaven episode brought home—to courts, lawyers, and the public—the speed and effectiveness with which copyright trolls could operate, and the powerlessness of courts to deal with the phenomenon. While Righthaven may have ended its operations, it is certainly only a matter of time before an entity learns from Righthaven's mistakes and picks up where it left off. And when that occurs, courts and policy-makers will do well to fully appreciate *what* copyright trolling is and is not, and *why* it is that trolling is detrimental to the copyright system, before formulating a response to it. Failing such an approach, copyright trolls will have little reason to worry about their future.