Patent privateering reloaded

IP privateering, while rare, does exist. The target of such efforts can typically do little more than fight them off, unless it can establish who is behind them. The practice is likely to continue unless and until a regulatory actor steps in to place boundaries on its commercial use

By **Tom Ewing**

In April 2013 Google, Red Hat, Earthlink and BlackBerry wrote to the US Federal Trade Commission and Department of Justice (DOJ) asking the US government to investigate IP privateering, which they claim "poses numerous perils to competition, consumers and innovation". Ironically, BlackBerry is a co-owner of Rockstar IP, often considered one of the world's largest patent privateers. Three years ago, *IAM* exposed the patent privateering strategy by corporations and investors (see "Introducing the patent privateers", *IAM* issue 45, January/February 2011, pages 31 to 38), the first use of the term "privateer" in respect of patents having appeared on the *IAM* blog in August 2010. Application of this IP strategy has continued to grow during the intervening years. We do not yet know what will happen in the DOJ investigation, but we do know that privateering is on the rise, with more firms engaging in varieties of this strategy, especially in the mobile telecommunications sector.

What is IP privateering?

'IP privateering' has been formally defined as "the assertion of Intellectual Property Rights by an entity (the privateer), typically in the form of a non-practising entity (NPE), against a target company for the direct benefit of the privateer and the consequential benefit of a sponsor company, where the consequential benefits are significantly greater than the direct benefits".

In other words, a privateer is a specialised entity whose assertion of IP rights has been authorised by another party, often a technology corporation. IP privateering most commonly occurs as the outsourcing of corporate patent portfolios, but can also be applied as one of a corporation's tools for altering its competitive landscape. Privateering, which typically involves a measure of stealth, provides a way for companies to assert IP assets against their competitors while enjoying a significantly reduced risk of retaliation.

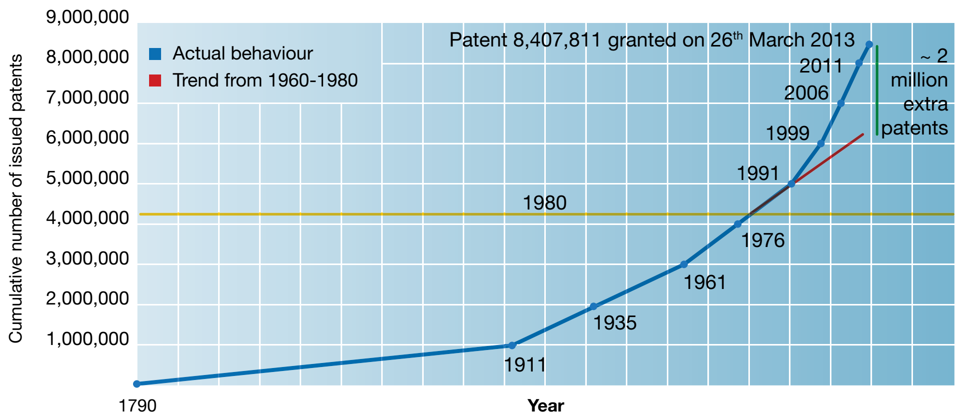
"Privateering occurs in the mobile platform wars," Ruud Peters, chief executive officer of Philips Intellectual Property and Standards, told me in an interview I conducted with him in March 2013. "The privateering litigations try to make the other guys' products less attractive in the marketplace," he added.

A common assumption is that the primary motivation behind an infringement lawsuit is to make money from the litigation. But what if the ultimate motivation is something beyond a mere litigation victory? Can third-party IP rights assertions provide a useful tool for shaping the competitive landscape? This is the simple premise behind IP privateering. The benefit to the privateer arises in the form of direct financial compensation – licensing royalties, litigation settlements or damages awards. The benefits to sponsors can range from financial gain from licensing to an improved competitive landscape that facilitates increased sales revenue.

The privateering strategy relies heavily upon the lack of transparency of ownership and motivation permitted in the IP system, especially in the United States. While industry experts and IP managers concede that privateering exists, the extent to which various privateering scenarios have occurred remains unknown and unknowable, because the sponsor's goal in most privateering engagements is stealth and because there are few existing requirements – at least under US law – that compel public exposure of the ownership structure behind a given patent-holding entity.

The US Patent and Trademark Office (USPTO) has proposed more overt disclosure of the real party in interest related to patent ownership. "I wonder why anybody would be against this," said Peters. But he acknowledged that defining the real party in interest could be problematic. Many operating companies have fairly complicated corporate structures and any transparency rules should not be so onerous that they would require an operating company to disclose its entire corporate structure, Peters stated.

Figure 1. **The growth of US patents**



Source: Avancept LLC using USPTO data

Competitive background

Companies have increasingly employed IP assets as competitive tools, frequently with the goal of extracting value directly from their own IP rights, whether from licensing revenue or litigation rewards. As IP rights competition has accelerated, companies and investors have tried to grow ever-greater returns from IP assets, which has incentivised the exploration of new applications of IP rights to fulfil competitive aspirations.

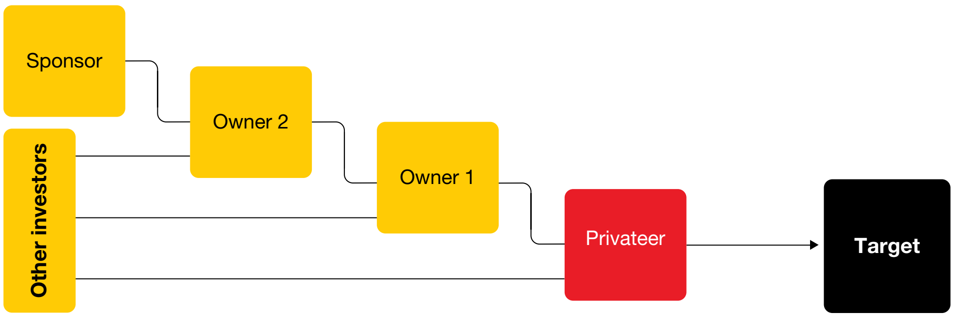
During the pro-patent era, which began in 1980, competitive pressures stimulated increasing interest in IP rights and consequently strategies related to their deployment. The majority of these strategies could be classified as 'direct uses', in which a company exclusively focuses on how to maximise the effectiveness of IP rights developed as the result of its own R&D activities. Over time, this increasing interest in IP rights spurred the development of IP rights markets. The competitive pressures and the varieties of IP rights available in these markets led to the development of various indirect IP rights strategies. Companies no longer felt obliged to rely solely on IP rights developed from their own R&D. Innovations in IP rights exploitation have led companies and investors to develop a class of strategic techniques that facilitate the indirect application of IP rights for beneficial effects. IP privateering – one technique among these indirect strategies – concerns the exploitation of third-party IP rights as tools for achieving wider competitive goals.

Companies may purchase for themselves (or others) external, third-party IP rights to fulfil a variety of needs. A corporation or investor acting as the sponsor for an IP privateering engagement employs third-party IP rights as a competitive tool. The privateer – a specialised form of NPE – asserts the IP rights against target companies, often selected by the sponsor. The sponsor's benefits may arise directly from the third party's case against a target, but may also arise consequentially from the changed competitive environment brought about by the third party's IP rights assertion. The sponsor's benefits may include nudging the target into a less competitive position, facilitating the licensing of a larger collection of the sponsor's own IP rights, and causing a beneficial change to the target's share price and/or corporate valuation. The third-party privateer's motivation comprises collecting a litigation settlement or damages award.

Varieties of IP privateering

Corporate IP managers can shape privateering scenarios to fit many competitive scenarios. Privateering may be used to change the technology adoption rate between an upstart technology and an incumbent technology, to outsource the licensing of a larger collection of IP rights or to change some aspect of the legal infrastructure. It may be used by investors to grow existing investments by privateering against competitors in a given technology area, to change the value of the stock price of a public company in order

Figure 2. **A possible ownership structure for a privateering arrangement**



to discount its shares temporarily and/or to facilitate short selling, to change a company's value during investment and to recoup investment research and analysis costs.

IP privateering is not limited to operating companies – investor groups are as likely to privateer. In many instances, the potential returns and liabilities for these investors are even more favourable than they are for the operating companies. Investor privateering is presently the least exposed area of the activity, since it is not easy to trace anything other than aggregate returns (unless you are a government regulator). Hybrid privateering efforts by operating companies and investors may also occur, especially in instances where the investors are also major stockholders of the operating company that will indirectly benefit from the privateering litigation.

Legal liability

Indirect exploitation of IP rights via intermediaries does not *per se* give rise to a specific legal cause of action against the sponsor. The sponsor's potential legal liability under current US law rarely exceeds that of the third-party privateer that carries out the sponsor's assertion plan. If the privateer avoids liability, so does the sponsor in most instances. Potential sponsor legal liability potentially gives rise to causes of action ranging from tortious interference in business relations to patent misuse, as well as possible market manipulation charges and antitrust problems.

However, a sponsor's greatest potential liability rests on adverse business consequences, particularly from public exposure of the sponsor's involvement. A sponsor's goals for a privateering operation are often defeated by public exposure. IP privateering thwarts the mutually assured destruction paradigm of defensive patenting only as long as the sponsor's identity remains hidden. Consequently, the sponsor typically makes every effort to hide its involvement. Privateering can often achieve the sponsor's aims well before a decision on the merits of the case.

Although privateering might not give rise to legal or equitable causes of action, whether the practice should be encouraged is subject to debate. Privateering raises questions about the social utility of IP rights, particularly patents. Among other things, is 'intransparency' in the IP rights system, particularly the US IP rights system, a bad thing or are society's objectives in maintaining an IP rights system met simply through the enforcement of government-granted rights by any actor, even a hidden one? Privateering also raises questions about the impact, or non-impact, of NPE investment and litigation on the overall economy and investment in research and development.

In addition, privateering suggests further analysis of the quantity of active and available patents in the so-called pro-patent era, and the ease with which these can be acquired and asserted.

As shown in Figure 1, if the patent allowance rate between 1963 and 1980 had stayed in effect through the pro-patent era, there would be 2 million fewer issued patents today. That means we would have 6 million US patents as opposed to the current 8 million-plus.

The USPTO issued its first patent in 1790. Patents issue sequentially. On 26th March 2013 it issued Patent 8,407,811. On that date, the midpoint for US patents was 4,203,905, and the patent of that number was issued on 20th May 1980. So, half of all granted US patents were issued after 20th May 1980 – 190 years of patenting on one side of the midpoint line and 33 years on the other.

Of course, some portion of this growth has resulted from increased R&D funding. Statistics show that R&D spending worldwide has increased tremendously during this 30-year period. However, another portion of the growth in patents can be attributed to companies simply filing for patents more often. Having so many spare patents lying around provides ample ammunition for patent privateering.

Philips' Peters is among those arguing for higher-quality patents with clearer claim scopes. He does not believe that this will necessarily lower the number of issued patents, but he does believe it will reduce the ability for patent claims "to be stretched" during litigation.

The impact of privateering on the

innovation system and the apparent presence of key innovation system actors in privateering suggest the possible consideration of a more overtly constructed innovation system explicitly designed by all of its major stakeholders, including independent inventors. However, conclusions are difficult to draw with the information presently available and additional investigation seems warranted.

Relationship to maritime privateering

IP privateering resembles a historic method of waging war so effective that it had to be abolished by treaty – the Paris Declaration Respecting Maritime Law (1856). Privateering, as it was called, was effective and cheap – the privateer's actions cost the sponsoring government nothing. Like the creation of corporations, privateering allowed governments to pursue policy objectives without any impact on the treasury. In short, classical privateering removed most obstacles to waging war, save for the opponent's ability to retaliate. IP privateering similarly has the opponent's ability to retaliate as its greatest obstacle – hence the importance of stealth to the sponsor.

Privateering was state-sponsored piracy. The sovereign granted the privateer a letter of marque and reprisal, which allowed him to seize the property of the state's enemies. The privateer captured ships flying under the enemy's flag, then sold them and their cargoes at auction and kept the proceeds. Many of the famous English sea dogs, such as Sir Francis Drake, were privateers.

IP privateering, unlike classical privateering, has associated costs and the sponsor typically stays hidden. The sponsor may outfit the privateer, but secrecy allows it to achieve objectives that would be difficult, if not impossible, to secure by operating under its own colours. Thus, IP privateering thrives in a shadowy world where camouflaging the sponsor's existence is often crucial.

Privateering by analogy

The last *IAM* privateering article illustrated privateering from the point of view of a frustrated king who wanted to marry his befuddled son off to the beautiful princess of a distant land. The king's adviser, Sir Peter, devised a cunning plan involving privateers and enlisted a ruthless pirate, Barrister Bill, to carry out the plan. Barrister Bill returns in our latest illustrations. Figure 1 shows Barrister Bill and two of his shipmates taking aim at a new assertion target. Figure 2 shows the king granting Barrister Bill his letter of marque and reprisal. In Figure 3, Barrister Bill and his fellow privateers spy a prospective new licensee and ready themselves to assert their IP assets. In Figure 4 Barrister Bill and his fellow privateers board the prospective licensee's ship to inspect the scope of infringement and complete the settlement paperwork.

Table 1. **Corporations driving up the value of patents**

Number	Privateering variables	Variable possibilities
1	Sponsor	Operating company, investor, hybrid
2	Discretion level	High, moderate, low
3	Indirect monetisation focus	Monetisation via: (a) Change in valuation/stock price (b) Change in legal infrastructure (c) Change in technology adoption rate (d) Change in business innovation adoption rate (e) Change in business relationships (f) Licensing of a larger IP rights collection not involved in the privateering operation
4	Privateer's knowledge of sponsor	Known to privateer, unknown to privateer
5	Sponsor's control level over privateer	Controlled, uncontrolled
6	Privateer corporate structure	Sole owner, investor, debtor
7	Profit sharing structure	None, flat, percentage, debt repayment

How does privateering work?

Some IP strategies, such as privateering, escape notice for years. Successful privateering typically demands stealth, so only a select group understands the overall plan. Few venues exist for discussing such strategies. Law journals and legal texts do not typically discuss IP strategy issues, focusing instead on sets of specific legal issues arising from various litigations and the rationale behind the court decisions in those cases. As a whole, the legal system does not typically reflect on the motive behind any given patent lawsuit. If anything, the motive is simply assumed to be obtaining money via a damages award or settlement. Likewise, business publications tend to gloss over the details of IP rights cases, considering such information specialist knowledge.

However, IP privateering exists, as Peters has confirmed. "Privateering has probably been around for decades," he said in our previous analysis of the strategy. "It lets the other guy do the work with no direct exposure to the company. Privateering seems to be a growing practice that takes place under a whole shade of arrangements." Understandably, Peters and the other executives with

Figure 1. **Barrister Bill and his privateers have returned to the high seas, readying their main gun with legal grapeshot for vessels on their target list**

whom we spoke were reluctant to provide specific examples.

Privateering objectives

The privateer's objective is easily understood – cash obtained through a litigation damage award or settlement. Like any commercial actor, the sponsor's objective is also monetary – albeit not necessarily from the litigation, but rather from the changing landscape brought by the litigation.

IP privateering begins to make sense when one recalibrates the currency unit from the millions at stake in a typical NPE litigation to the billions at stake among the world's major commercial actors. For a company with an annual turnover of several billion, the prospect of a court judgment involving a few million is more of an irritant than a major concern. However, while a given litigation's immediate costs may be inconsequential at the billion-level filter, the consequences of such litigations may involve serious sums by any reckoning.

Assume, for example, that a consortium of public schools is seeking to purchase a new computerised developmental reading system for its lower-grade students. One candidate company offers a bespoke product, while another offers an open source product. Each company vigorously advocates its products to the school consortium. The company offering the bespoke product argues that open source products are difficult to maintain because no one "stands behind" the product for any purpose, including IP rights issues. The company could prove its point by suing the open source product with its own patents, but this approach would be risky and might make the company appear too aggressive to the school consortium. So the company instead searches for a third-party patent that the open source product arguably infringes.

With so many active US patents, there is likely to be an ample supply of candidates. The company then approaches the owner of the best option and offers to pay the costs of its litigation against the open source company. If the owner declines, the company can offer to purchase the patent and then employ it against its competitor using a series of limited liability companies as exploitation vehicles. Once the lawsuit has been filed against the open source competitor, the company can repeat its message to the school consortium that open source products are essentially unsupported and vulnerable to IP litigation, and that the school consortium could potentially face patent litigants alone if it adopted the open source product. In the end, it probably will not matter which party ultimately wins the patent litigation, as the school consortium will certainly make its purchasing decision before it concludes.

As another example, assume that an incumbent's market position is being eaten away by an upstart competitor employing a replacement technology. Assume that their technologies are sufficiently different that neither company's patent portfolio has much relevance to the other's products. This pattern would be ideal for privateering. After all, neither competitor holds IP rights that it could use effectively against the other. Employing patents against the other company essentially means obtaining patents from a third party anyway.

In this scenario, should the newly acquired patents fly under the company's flag or stay with the third party? One can imagine environmental factors that would suggest keeping the newly acquired patents in the hands of a third party. Privateering may even be cheaper than buying and asserting patents. If the party owning the patents is agreeable, the costs of privateering should be lower because the sponsor need only spend enough money to motivate the patents' owner to sue the competitor. Hamstringing, distracting and embarrassing the competition is the sponsor's goal, rather than collecting a large damages award. Because privateering is stealthy, the litigation can continue for a long time before the target realises, if it does at all, who sponsored it. Thus, while one company is distracted, disrupted and embarrassed by the litigation, the other can focus on its business.

Some companies dominate their markets so completely that employing an IP rights portfolio risks problems with the competition authorities. Thus, the company's IP rights cannot operate as fully as they would if it held a smaller market position. When a dominant company finds itself in a situation where another company would typically employ its own IP rights against a competitive threat, it may have little choice but to sponsor a privateer. Of course, such sponsorship needs to be done in a manner that will not provoke the competition authorities.

As an extreme example, assume that a large company would like to change some aspect of IP law in a particular jurisdiction, but has trouble finding enough other companies that agree to make a persuasive case to the legislature. As part of its public relations campaign, the large company could privateer against other companies using IP rights whose litigation would raise the same or similar issues as the aspect of IP law that it wants to change. As long as the other companies do not realise who is behind these litigations, the large company should succeed in gathering allies for making the case to the legislature. The large company's privateering expenses may be substantially lower than its lobbying expenses, while yielding greater results.

Technique

IP privateering comes in a variety of flavours, depending primarily on the sponsor's need for stealth. Some techniques have already been discussed. We discuss some more below.

In a less stealthy case, the sponsor could sell some of its own IP rights to a third party, which would then use those assets against the sponsor's competitors. The lawsuit would be brought under the third party's name and the sponsor would retain no legal title to the IP rights. (Of course, the sponsor could possibly retain some interest in the litigation by contract.) In the case of patents, the sponsor might even provide the new owner with helpful items, such as claim charts related to the prospective target.

Micron Technology Inc's sale of roughly one-quarter of its portfolio (about 4,000 patents) to Round Rock Research, LLC in 2009 represents an example of this. John Desmarais, a distinguished patent litigator, runs Round Rock. Micron has been fairly circumspect about its relationship to the company, as well as the sale – although Desmarais has publicly stated that the company approached him with the idea of setting up Round Rock Research. In a similar vein, Nokia has sold patents to Mosaid and Ericsson has sold patents to Unwired Planet.

Figure 2. **Barrister Bill receives his privateering commission from the king. The king's letter of marque and reprisal specifies the targets that the privateer is authorised to attack**

In a stealthier case the sponsor might conduct its own search for the perfect third-party patent to use against a competitor and then provide seed money for the litigation. The sponsor could help to purchase the patent from its current owner and provide it to a trusted third party. In an even simpler case, the sponsor need merely motivate the present owner's commencement of litigation against various targets. This last approach is not only the stealthiest, but also the cheapest. The sponsor could likely motivate the patent owner by paying a fee, especially since the patent owner should collect additional funds from either a damages award or settlement.

One can theoretically arrange matters so that even the plaintiff patent owner does not know who has sponsored the litigation – or that it was even really sponsored at all. To add another layer of stealth, the sponsor could create a limited liability company (LLC) that itself funds the litigation. The

Figure 3. **The privateer spies a new target on the horizon. His legal team prepares for action**

sponsor could even attract other investors so that the LLC would not be its wholly owned subsidiary.

A privateer need not necessarily be an NPE. However, an operating company that acts as a privateer might put itself at risk of a countersuit by the target. Of course, where the plaintiff and the defendant operate in different industries or are otherwise dissimilar, the privateer could be an operating company.

Looking for clues

We examined the pre-litigation behaviour of patent plaintiffs to test whether privateering could be detected. One proxy for privateering relates to the amount of litigation filed by a patent assertion entity (PAE). The expanded AIA500 database – assembled by myself, Sara Jeruss of Lex Machina and Professor Robin Feldman of the University of California Hastings School of Law – includes every US patent litigated during the periods 2007 to 2008 and 2011 to 2012. The database was initially assembled at the request of the US General Accountability Office as part of its oversight of the implementation of the America Invents Act.

The expanded AIA500 database shows that in some 13,000 cases involving 30,000 litigated patents, patent monetisation entities brought some 58.7% of all cases filed in the United States in 2012, up from 24.6% of the patent litigations filed in 2007. Some portion of these litigations is likely to represent privateering operations. However, determining precisely how many would require a level of disclosure that is not typically available in US litigations.

If one assumes that a privateering operation involves transferred patents, then the AIA500 database provides ample evidence for potential privateering exemplars. Analysis of the PAE litigants shows that some 52% of the asserted patents were owned by a different party from the original owner. In terms of stealth, some 43 patents were transferred to other parties on the day that the litigation was filed, while another 73 patents had recorded transaction dates within one day of the litigation filing. While the mere transfer of a patent to a new owner does not necessarily indicate a privateering operation, it is clear that many patent monetisers have begun serving an outsourced licensing function for large corporations, which represents one flavour of privateering.

The target's response

A patent defendant may often find its own counsel not terribly interested in investigating whether the plaintiff's litigation has a sponsor. After all, the issue at hand is whether the defendant infringes the asserted patent(s), not how the plaintiff was enticed into filing the lawsuit. The existence of a sponsor provides no defence to infringement.

Nevertheless, knowing that a litigation has been sponsored may provide a helpful tool in settlement. For example, if Company A discovers that Company B has sponsored a privateer's lawsuit, then Company A can approach Company B for settlement terms and/or threaten retaliation.

In the United States, Rule 7.1 of the Federal Rules of Civil Procedure requires all litigants to disclose their parent corporation and any publicly held corporation owning 10% or more of their stock. The law's purpose is not to discover litigation sponsors, but to help judges to disqualify themselves due to conflicts of interest, and Rule 7.1 can likely be circumvented by a resourceful sponsor. The law does not require disclosure of parties with which the plaintiff is in contract. Such a requirement in normal civil litigation could entail an onerous amount of disclosure. Some US courts have adopted a stricter rule that requires disclosure of the real party in interest, but these are in the minority.

Likewise, records for public companies can be less than revealing, while being completely open. The onus on corporate

Figure 4. **Barrister Bill and his legal team board a target to begin a discussion about licensing terms**

record keeping is to account for how corporate funds have been spent. This simply means that expenses related to privateering must show up in the company's books somewhere. It does not mean that the company's books need a line item that reads "privateering against Competitor X". For a company with more than US$1 billion in annual turnover, camouflaging an expense of a few million (or less) should not be difficult. Thus, following the money is not typically possible. Of course, privateering is not illegal, so there is no motivation for whistleblowing.

Advanced mobile devices and smartphones look to be a market rife with privateers sponsored by multiple competitors. In this lucrative and highly competitive landscape, it would not be surprising for companies to try to shape the landscape using IP rights. Lawsuits involving the market's smaller players could drain their meagre resources, distract management and serve to make the defendant appear as a less than suitable supplier/partner to large telephony operators.

MobileMedia Ideas LLC (MMI) is one of the companies on our AIA500 list of patent plaintiffs whose IP rights were acquired just before litigation. MMI, which was formed in January 2010, sued Apple, HTC and Research In Motion for patent infringement related to smartphones. MMI's Rule 7.1 disclosure in the *Apple* lawsuit states that more than 10% of its stock is owned by MPEG-LA LLC, Nokia Corp and Sony Corp. MMI holds some 141 patents and applications, all of which were owned by either Nokia or Sony at the beginning of 2010.

Apple Inc transferred a dozen patents to Cliff Island LLC in August 2011. Apple had itself acquired the patents from Mitsubishi, some of them as recently as March 2011, just six months before the start of litigation. Cliff Island was established with the assistance of Altitude Capital Partners, which was in the process of raising US$50 million to support a litigation vehicle known as Digitude Innovations LLC. Digitude sued more than 22 companies for patent infringement before its portfolio was purchased by RPX for licensing to RPX's clients. Apple has not disclosed its motivation behind supporting the Digitude effort, but it seems somewhat unlikely that obtaining cash for the sale of patents recently obtained from Mitsubishi was the primary reason for its sale to Cliff Island.

Some commentators have suggested that Linux and various open source cooperatives have been subjected to privateering. An often-cited example is Microsoft's support of the SCO Group Inc in its copyright battles against IBM and Novell relating to portions of Linux. In early 2003, Microsoft began paying some US$16.6 million to SCO for a Unix licence, apparently becoming SCO's largest licensee. The funds appear to have been delivered shortly after the litigation against IBM began. Microsoft also referred SCO to BayStar Capital and the Royal Bank of Canada, which made arrangements for more than US$50 million investment in SCO. "It was evident that Microsoft had an agenda," Lawrence Goldfarb, managing partner of BayStar, later told the *New York Times*. SCO apparently spent most of the cash on the litigations and eventually declared bankruptcy in September 2007. SCO has not prevailed, thus far, in these litigations. Of course, the success of a privateering operation is the extent to which the sponsor (not the privateer) achieves its objectives.

Intellectual Ventures (IV), which holds one of the world's largest patent portfolios, has itself sold small portions of its portfolio, typically to third-party licensing firms. Many of the patents sold by IV have unsurprisingly ended up in litigations brought by their new acquirers. Patents formerly owned by apparent IV shells

Action plan

A privateering target should learn all that it can about the parties opposing it in litigation. In particular, it needs to understand the relationships between possible privateers and possible sponsors, including their relationships to the target's competitors. This information may allow the target to obtain a better outcome in litigations where other parties are effectively involved and/or where one party has effectively brought multiple litigations against the target using different entities.

Litigation counsel should thus do everything in their power to discover the real party in interest in all IP-related litigations. They should then report the results of any investigation to the appropriate person in the target company's senior management.

The privateering target's management is likely to be in a better position to resolve a privateering operation than its litigation counsel, although counsel's efforts to find the real party in interest will be invaluable. Knowing the real party in interest allows the privateering target to better formulate and target its anti-privateering efforts. For example, the target may discover that a particular investor associated with a competitor has backed a substantial number of the non-practising entity's litigations against it. This information will allow the target to craft better countermeasures.

Questions for finding the real party in interest include:

- Is the entity that owns the asserted patents presently involved in other litigations against the privateering target? Have these parties been previously involved in litigation against the privateering target?
- What are the names of every person and/or organisation that will benefit financially from this litigation?
- Who are the owners of any non-public entities (eg, limited liability companies) associated with the litigation?
- Has any entity, individual or organisation requested, paid for or otherwise encouraged the assertion of these patents against the privateering target?
- Who financed this litigation? Has the plaintiff received a loan that paid for its purchase of the patents in this litigation and/or its litigation expenses? If so, discover the name of the party that provided the funds and the name of any party that assisted in securing the loan.
- Who provided material support for this litigation (eg, technical analysis, product analysis or prior art analysis), regardless of whether such parties have been financially compensated?
- Will (or has) the plaintiff received a bounty of some sort from any party at the conclusion of this litigation? If so, discover the name of this party.

Viviana LLC, Gisel Assets KG LLC, Kwon Holdings Group LLC, Sinon Data LLC, SF IP Properties 24 LLC and Ferrara Ethereal LLC have been employed in patent infringement litigations respectively brought by Picture Frame Innovations LLC, Patent Harbor LLC, Oasis Research LLC, InMotion Imagery Technologies LLC and Webvention LLC. These litigations have been brought against companies such as Kodak, HP and Samsung. IV also continues to sell patents. The extent to which IV's sales are part of an effort to licensing its retained patents as opposed to generating profit from the sale of portfolios is somewhat unclear.

Of course, many companies do not find that their sales of patents to third parties have anything to do with privateering, and in many cases they are likely correct. Philips' Peters argues that his company's sale of 679 patents to IPG Electronics 503 Limited in 2009 was a commercial transaction unrelated to privateering. He characterised the patent transfer as a simple transaction with a financial investor.

Normative aspects of privateering

Debate about the usefulness of privateering continues. Some argue that it provides an efficient method for monetising otherwise unused corporate patent portfolios. This may be correct for privateering related to outsourcing patent licensing and litigation. On the other hand, some entities that purchase corporate patent portfolios also purchase the portfolios of other corporations and aggregate them. The extent to which this creates or could create an anti-competitive market has attracted the attention of the DOJ and the Federal Trade Commission (FTC). The DOJ and FTC held a workshop in December 2012 focusing on competition issues and PAEs. While it addressed more issues than just privateering, this was definitely on the agenda.

At the workshop, companies such as Nokia defended the outsourcing of portions of its giant portfolio to third parties as making good business sense. Other participants were not so certain that such arrangements aided competition. The FTC and DOJ have now completed their public comment period related to PAEs. Whether and when they will begin a more thorough investigation of the PAE market remains unclear. If they do proceed with their investigation, they could well be armed with a subpoena power that would allow them access to all agreements signed by PAEs, including ones with strict confidentiality clauses.

Peters argues that investigating PAEs and privateering may be tackling the issue from the wrong end. He adds that many potential problems can likely be solved by high-quality patent examination, increased clarity of patent claims and efforts to reduce the cost of patent litigation.

IP privateering works only when one can find an IP right that is sufficiently valid and sufficiently infringed to survive in litigation long enough for settlement to become plausible. In short, these are essentially the same necessary conditions for just about any IP rights litigation. It is difficult to argue why it is acceptable for anyone to infringe a valid IP right, and it would be even more difficult to set out the boundary conditions for when and under what circumstances infringement becomes acceptable. In short, privateering provides a tool for evicting freeloaders from the IP system – companies must pay something for the third-party IP assets that they consume. Of course, privateering does not ensure that every IP asset is enforced.

Privateering can be opposed on a number of grounds. The easiest objection relates to transparency. If Company A wants to sue Company B for patent infringement, this is fine, as long as Company A does not hide behind a third party. One would be hard pressed to name the systemic economic benefits of camouflaged litigations.

One could also take the position that patents should be deployed primarily to thwart the infringement of products. Of course, this is the general argument against NPEs. How so-called 'legitimate' NPEs (eg, universities and research labs) receive compensation for use of their IP assets is always problematic to this argument (the AIA500 database, incidentally, shows that university patent litigation is about the smallest component of overall patent litigation in the United States. Of course, this does not account for licensing activities in lieu of litigation).

It is also difficult to argue why a market incumbent should be able to privateer against an upstart competitor. Of course, the sponsor's stockholders will likely benefit from the privateering, but the general public may be deprived of the upstart's optimal product and service offerings.

Shaping the IP landscape

IP privateering, while rare, does exist. The practice is a tool that can be employed by a company to shape its competitive landscape. The target of a privateering effort can typically do little more than simply fight off the privateer(s) – unless it can establish who sponsored it. Once the sponsor has been exposed, the target can employ various techniques to make the privateering stop, including retaliatory privateering. The privateering strategic paradigm will likely continue to grow unless and until a regulatory actor steps in and places boundaries on its commercial use. *iam*

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