

Practical Considerations in the Indirect Deployment of Intellectual Property Rights By Corporations and Investors

Limitations on *Letters of Marque & Reprisal* for Latter Day Sea Dogs



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4 Hastings Sci. & Tech. L. J. (forthcoming Winter 2011)

Abstract

Competitive pressures and rent-seeking behaviors have motivated companies and investors to develop indirect techniques for beneficially exploiting third-party intellectual property rights (IPRs) that qualitatively depart from the direct exploitation tools honed during the past 30 years of the ongoing pro-patent era. Companies and investors have learned that they do not even need to own IPRs in order to consequently benefit from their exploitation. This phenomenon is labeled here “IP privateering” because of its similarities to an historic method for waging war on the high seas. This article probes certain practical limitations of this newly identified strategy. Specifically, the article explores of the range of counterattacks available to the target of a privateering operation and finds that but for certain specific scenarios related to antitrust and market manipulation, the typical target will likely be required to prove that the privateer’s litigation was frivolous before any effective attack can be launched on the sponsor. The article also explores how the rise of market intermediaries coupled with an oversupply of patents simplifies the sponsor’s task of equipping a privateer operation.

Keywords: Intellectual property (IP), intellectual property right (IPR), competition, indirect exploitation, non-practicing entity (NPE), innovation system, antitrust, corporate formalism, equity, investor, operating company, patent, patent misuse, patent troll, privateer, tortious interference, unclean hands.

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Chapter 1

Introduction

Innovations in Intellectual Property Rights (IPR) exploitation motivated companies and investors to develop strategic techniques that facilitate the indirect application of IPRs as tools for achieving competitive goals. A companion article¹ details a further innovation in the indirect application of IPRs, one in which companies do not even need to own IPRs in order to consequentially benefit from their exploitation, which has been labeled “IP privateering.” This article explores certain practical considerations of the IP privateering strategy, such as a target’s possible counterclaims against the sponsor and how a sponsor may outfit a privateering operation.

1.1 An Overview of IP Privateering & Its Competitive Background

Competitive pressures have stimulated increasing interest in IPRs and strategies related to their commercial exploitation during the past 30 years of the ongoing pro-patent era. IP managers have explored innovations in the use of IP assets as competitive tools in their own right. The majority of these strategies could be classified as “direct uses” in which a company exploits IPRs developed from the company’s own R&D activities. IP managers honed techniques for conventional IP asset exploitation tools, including but not limited to patent licensing and assertion programs. Over time, innovative IP managers developed techniques for the indirect application of IP assets. These indirect techniques have included buying third-party patents in the technology markets for assertion against competitors and acquiring third-party patents for use in a countersuit in an ongoing infringement litigation.

Increasing IPRs competition stimulated the development of robust IPR markets² and the increasing presence of intermediaries entering the market.³ The rich varieties of IPRs available in these markets enabled the further development of indirect IPR strategies. Over time, these

¹ Citation to **Article 1**.

² See, Chesbrough, *supra* note 36; I. Troy and R. Werle, *Uncertainty and the Market for Patents*, (Max Planck Institute for the Study of Societies, 2008), <http://www.mplfg.de/pu/workpap/wp08-2.pdf>, and Alfonso Gambardella, P. Giuri, and M. Mariani, *Study on evaluating the knowledge economy: what are patents actually worth? The value of patents for today's economy and society*, Brussels, European Commission, Directorate-General for Internal Market, 2006).

³ OECD, BMWI, EPO, *Intellectual Property as an Economic Asset: Key Issues In Valuation And Exploitation*, (2005), Berlin at 8. (<http://www.oecd.org/dataoecd/18/2/35519266.pdf>) (“Many large firms have developed internal capabilities for patent management and licensing, but as in other markets a diverse set of intermediaries has also emerged to foster technology markets, more so in the United States than in Europe. Intermediaries include technology licensing offices at public research organisations, Internet-based portals and private firms that offer advice and actively link buyers and sellers of technology. Each type of intermediary has a different customer focus and different level of involvement in transactions, but all play important roles in facilitating partnerships, ensuring confidentiality of partners in a transaction (*e.g.* protecting privacy in negotiations to avoid competitors knowing about the parties’ interests), offering expertise (need to ensure that the deal corresponds to the parties’ needs) and providing an external perspective on the negotiation.”)

intermediaries have become more and more specialized.⁴ While many intermediaries work towards the further development of a robust market for the efficient exchange of IP assets,⁵ these same intermediaries can obviously serve indirect exploitation uses extremely well. Patent brokers can conduct negotiations for anonymous parties; patent valuation firms can assist in estimating settlement amounts, and patent acquisition firms, including auction houses, can assist in transitioning patents from one owner to a new, privateering owner. Patent law firms can support all of these functions as well as pioneering new roles not otherwise found in the marketplace.⁶

Over time, what might have once been a fairly simple arrangement within the innovation system has evolved into a complex IPR ecosystem.⁷ The evolving IPR ecosystem features many kinds of entities, distinct business models, patent profiles, and patent strategies.⁸ The most noticeable contemporary players in this ecosystem are the large companies holding enormous portfolios and the aggressive non-practicing entities (NPEs). The aggressive NPEs have emerged in recent years from beyond their early prototypes, in part due to the quality of IPRs available in the market. Billions of new capital has flowed into NPEs such as Intellectual Ventures, Acacia, RPX, Round Rock Research, and many others.⁹ These actors play significant roles in shaping the innovation system and interact continuously with other participants such as individual inventors, small companies, research labs and universities.

Operating companies have sought to replicate the IPR strategies of the NPEs in a further refinement of indirect IP strategies. The innovations coalesced as “IP privateering,” the beneficial application of third-party IPRs for a sponsoring entity against a competitor to achieve a corporate goal of the sponsor. In an IP privateering engagement, a corporation or investor serving as the sponsor employs third-party IPRs as competitive tools. The privateer, a specialized form of NPE,¹⁰ asserts the IPRs against target companies selected by the sponsor. The sponsor’s benefits do not typically arise *directly* from the third party’s case against a target but arise *consequentially* from the changed competitive environment brought about by the third party’s IPR assertion. As discussed in a companion article,¹¹ the sponsor’s benefits may include nudging the target into a less competitive position, facilitating the licensing of a larger collection

⁴ Irene Troy and Raymund Werle, *Uncertainty and the Market for Patents*, Max Planck Institute for the Study of Societies (2008). Cologne, <http://www.mplfg.de/pu/workpap/wp08-2.pdf>.

⁵ Chesbrough, *supra* note 29.

⁶ Specialized patent law firms have been around for more than one hundred year. For example, Bristows, a UK patent law firm, was founded in 1837; see: http://www.bristows.com/about_us/key_facts

⁷ See e.g., Brian Kahin, *The Patent Ecosystem in IT: Business Practice and Arbitrage* (Dec. 5, 2008) (submission based on remarks before the Federal Trade Commission), available at <http://www.ftc.gov/bc/workshops/ipmarketplace/dec5/docs/bkahir2.pdf>.

⁸ *Id.* at 4-5.

⁹ A comprehensive list of four of Intellectual Venture’s seven investment funds is provided in Appendix 2.

¹⁰ This article uses the conventional NPE acronym rather than the patent assertion entity (PAE) acronym recently advanced by the Federal Trade Commission. See, *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition* (2011) at 8. <http://www.ftc.gov/os/2011/03/110307patentreport.pdf>.

¹¹ Citation to **Article 1**.

of the sponsor's own IPRs, 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.

IP privateering, as used herein, is defined as: the assertion of IPRs by an entity (the privateer), typically in the form of an NPE, against a target company for the direct benefit of the privateer and the consequential benefit of a sponsor, where the consequential benefits are significantly greater than the direct benefits. The strategy, in part, relies upon the intransparencies of ownership and motivation permitted in the IP system.

Privateering scenarios can be shaped to fit many competitive scenarios.¹² Privateering may be used by operating companies to change the technology adoption rate between an upstart technology and an incumbent technology, to outsource the licensing of a larger collection of IPRs, and to change some aspect of the legal infrastructure. Privateering 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 to temporarily discount its shares and/or to facilitate short selling, to change a company's value during investment, and to recoup investment research and analysis costs. Outsourcing patent litigation, one branch of privateering, allows companies to shape their competitive environments and in some instances monetize their IP rights at extremely low cost. Sponsoring corporations tend to set the objectives for a privateering operation, assist in assembling the necessary resources for carrying out the plan, and then step aside from further hands-on management. Playing a more active role could show the corporate sponsor's hand, the very hand that needs to be obscured in order for the privateering effort to work properly.

IP privateering takes its name from an historic method of waging war so effective that it had to be abolished by treaty.¹³ "Privateering," as it was called, was effective and cheap – the privateer's actions cost the sponsoring government nothing. Privateering, like the creation of corporations, 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.

Indirect exploitation of IPRs via intermediaries¹⁴ does not *per se* give rise to a specific legal cause of action against the sponsor in most scenarios. In fact, the sponsor's potential legal liability rarely exceeds that of the third-party privateer who carries out the sponsor's IPR

¹² See, **Article One.**

¹³ *Declaration Respecting Maritime Law*. Paris, April 16, 1856; text of the treaty available from the International Red Cross at <http://www.icrc.org/ihl.nsf/INTRO/105?OpenDocument>.

¹⁴ These intermediaries can perform more than a mere "outsourced" litigation function. The intermediary's bringing of a litigation against a target changes the relative competitive landscape between the target and the sponsor to the sponsor's advantage such that the sponsor often benefits whether or not the litigation succeeds.

assertion plan. If the privateer avoids liability, so does the sponsor in most instances. Potential sponsor legal liability may give 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. A sponsor's greatest potential liability likely rests on adverse business consequences, particularly from public exposure of the sponsor's involvement. Indeed, a sponsor's goals for a privateering operation are often defeated by public exposure. For example, IP privateering only thwarts the "mutually assured destruction" paradigm of defensive patenting so long as the operating company sponsor can hide its links to the privateer and/or plausibly deny control over the privateer. Privateering can often achieve the sponsor's aims well before a decision on the merits of the case brought by the privateer.

1.2 Purposes and Research Question

This article explores aspects of IP privateering, a strategy in which companies do not even need to own IPRs in order to consequentially benefit from their exploitation. This article specifically aims to achieve the following purposes:

1. To explore the options available to targets to retaliate against privateering sponsors and to gauge the extent to which present law is adequate for enjoining privateering where it is discovered.
2. To evaluate the limits of the commercial uses for this strategy among both corporations and investors.

These research questions are clarified as follows.

RQ1. To what extent can targets of privateering attacks retaliate against the sponsors simply for privateering alone, as opposed to other causes of action?

The first research question explores what actions differently situated targets could launch against a privateering sponsor once its presence is discovered. This investigation focuses primarily on legal counterclaims that the target could bring, and specifically focuses on legal counterclaims that the target could bring simply based upon the act of motivating a third party's litigation.

RQ2. What are the limits on deployment of this strategy by commercial actors?

The second research question intends to gauge the extent to which commercial actors may employ the IP privateering strategy. Among other things, an examination is conducted of the ease with which a sponsor may find IPRs in the open market suitable for a privateering operation.

A companion paper explores two foundational research questions.¹⁵ The first research question in that article concerns collecting instances of IP privateering and providing an organizational framework for applications of this strategy. The second research question concerns gauging the extent to which the existing innovation system is sufficiently robust to accommodate the indirect uses of IPRs, such as privateering, and to examine if the components of the innovation system should be more explicitly linked together into an integrated whole.

1.3 Scope, Limitations, & Methodology

The impact of IP privateering can be interpreted in many ways depending on the purposes and scope of the study. This report has the following scope of analysis and limitations of the results:

1. This study primarily focuses on the identification of an IP strategy that has not previously been identified. The study explores aspects of this strategy and further studies the potential limitations on its usage. The practitioners' needs for secrecy make collecting actual cases difficult, although many have been collected, and they amount to several billion dollars in economic activity. Nevertheless, the number of cases presently known is limited, rendering it difficult to undertake the types of statistical analyses that one would prefer to utilize.

2. The study is implemented primarily in the USA using US patents and considering the US legal system. Therefore it does not provide a detailed investigation regarding other countries, apart from one possible instance of IP privateering in Germany. Thus, the boundaries and limitations on the strategy discussed in Chapters 2 and 3 may be substantially different in other legal systems. As a result, the strategy may possibly be differently deployable in other legal settings, and possibly not available at all.

The methodology here has focused on exploratory research, employing various techniques for probing the possible range of IP privateering activity. Once a greater data set of privateering cases has become available, then much more sophisticated empirical analysis can be conducted.¹⁶

The range and potential forms of privateering, which comprise Chapters 2 and 3, probe the theoretical limits of what corporate and investor actors could achieve with the privateering strategy and the practical difficulties in equipping a privateer. Chapter 2 investigates the limits to which a risk-averse commercial actor may pursue the strategy while still minimizing any possible negative consequences. Chapter 3 discusses practical aspects of finding IPRs to employ in a privateering operation.

¹⁵ See, **Article 1**.

¹⁶ Many of the managers and practitioners contacted for this research declined to participate on the grounds of confidentiality. As more information about the strategy becomes available, managers and practitioners are likely to become less concerned, albeit not unconcerned, with certain aspects of confidentiality.

This investigation has proceeded using existing case law as a methodological touchstone against which any commercial actor would be compelled to test privateering strategies or defenses against the privateering strategies of others. Since there is an absence of case law related to IP privateering, *per se*, I would assume that an entity considering a privateering operation would likely seek legal advice regarding the possibilities for and limitations of such a strategy – and the attorneys providing such advice would be compelled to analyze existing case law in order to predict the range of claims that a target could bring and how a court would react to them. The analysis here attempts to replicate what such advice would most likely resemble under the assumption that the collective mass of such advice would define the effective exploitation limits for the strategy, at least initially, until a body of privateering case law develops in its own right. In this sense, the methodology mirrors that of the early American legal realists, particularly Holmes’ predictive theory of law.¹⁷ In essence, the assumption is that the boundaries of a commercial behavior not specifically and expressly subject itself to legal prohibition or regulation will likely be pursued by the reasonable commercial actor in terms of something akin to a cost/benefit analysis.

As Granstrand has observed, law and economics often follow differing methodologies while attempting to find answers to common problems.¹⁸ Economics tends to focus on the aggregate while law tends to focus on specific instances. Thus, one discipline tends to start high and work downward while the other discipline starts small and works up. The IP field lends itself to hybrid approaches. Among other things, IP rights are legal rights that have significance only so long as they can be enforced in court while the motivations for using these rights are almost entirely economic. Thus, the hybrid nature of the IP field arises from its fundamental elements.

Methodologies such as questionnaires and structured interviews have not seemed applicable for this research because many IP managers are not yet aware of the strategy and those IP managers who are aware of the strategy generally have an interest, and possibly a legal obligation, in not spreading information about it. First, an IP manager’s knowledge would tend to have arisen from a privateering operation that his firm conducted and one still possibly not known by the target, hence the manager has everything to lose and nothing to gain by discussing the strategy. Second, most IP managers, even IP managers whose firms employ the strategy themselves, would prefer that no one else knows about it. One would not likely expect the IP manager for a major corporation to appear in a public forum, for example, and provide detailed instructions to other companies’ IP managers on how to go about privateering. Consequently, the methodology of gleaning existing court litigations for nuggets of information, which time consuming, may in some situations serve as a robust data source.

¹⁷ Oliver Wendell Holmes, *The Path of the Law*, 10 Harvard Law Review (1897) 457.

¹⁸ See, Granstrand, *supra* note 16.

Comparative case analysis has not been formally conducted because no cases have yet been found where the sponsor lost.¹⁹ Thus, of the known privateering cases, the sponsor has achieved a consequential benefit from all of them. If privateering were to become more common as a strategy, then not only will there be more cases, but there will likely be a great diversity among the cases that lends itself to a comparative analysis. Similarly, if the raw investor data becomes available, then a great deal of analysis can be performed on investor-side IP privateering.

1.4 Outline of the Article

Chapter 1 has provided background information about IP privateering, including the methodologies that have been employed to probe the limits of this strategy. Chapter 2 explains how present law may be used to curtail anticompetitive and market manipulative privateering but further observes that effective curtailment may require the intervention of the Securities and Exchange Commission and/or the Antitrust Division of the Department of Justice. Chapter 2 also examines those forms of privateering that are not clearly anticompetitive or market manipulative and concludes that these forms of privateering will likely continue in the short-to-medium term and may require the intervention of the legislator if their curtailment is desired. Chapter 3 discusses aspects of the infrastructure that supports privateering and concludes with a discussion of how a present patent oversupply seems to facilitate privateering.

Chapter 2

The Target's Possible Counterclaims Against the Sponsor

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

Assume that you are the CEO of YoungCo, a young innovative company that has developed a replacement technology for the present industry standard for Widget Z. Your company has been sued for patent infringement by NPE LLC.²⁰ Your patent attorneys tell you that you are likely to win the case if it goes to a final judgment – some years from now. The chairman of the board has told you that several prospective investors have backed away since the lawsuit was filed. Your litigators have told you that NPE's representatives will not discuss settlement beyond 15% of the company's gross receipts, which would be an outrageous sum even if the patent was valid and infringed. The CTO tells you that while he was at an annual industry gathering, he heard rumors that NPE LLC was actually funded by LargeCo, the largest manufacturer of conventional Widget Zs. Does one retaliate?

¹⁹ Excluding the *IMS* case, which was conducted for a relatively small amount of money by Intel.

²⁰ All corporation records have not been searched, but Delaware records show that there is not an NPE LLC incorporated in Delaware, although there are firms with NPE in their names.

“There’s not a lot of money in revenge,”²¹ essentially sums up the target’s position – unless the target can discover the sponsor’s identity, and then things may change. Knowing that a litigation has been sponsored may provide a helpful tool in settlement. The sponsor’s greatest goal often involves discretion. 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 many instances, retaliation may simply involve making the privateering operation public. Stealth is typically a critical element in IP privateering and the advantages of privateering may vanish if the sponsor’s actions see the light of day.

Rule 7.1 of the Federal Rules of Civil Procedure requires litigants to disclose their parent corporation and any publicly held corporation owning 10% or more of their stock.²² The law imposes this rule on all litigants. The law’s purpose is not to discover litigation sponsors, but to assist judges in disqualifying themselves due to conflicts of interest.²³ Rule 7.1 can easily be circumvented by the resourceful sponsor. Individual courts may impose additional disclosure rules, but none of the disclosure rules requires disclosure of a litigation’s sponsor. Some jurisdictions use a local variation of Rule 7.1 known as a “Certification as to Interested Parties,” or Local Rule 7.1-1, which states:²⁴

L.R. 7.1-1 Certification as to Interested Parties.1 To enable the Court to evaluate possible disqualification or recusal, counsel for all non-governmental parties shall file with their first appearance an original and two copies of a Notice of Interested Parties which shall list all persons, associations of persons, firms, partnerships and corporations (including parent corporations clearly identified as such) which may have a pecuniary interest in the outcome of the case, including any insurance carrier which may be liable in whole or in part (directly or indirectly) for a judgment that may be entered in the action or for the cost of defense. Counsel shall be under a continuing obligation to file an amended certification if any material change occurs in the status of interested parties as, for example, through merger or acquisition, or change in carrier which may be liable for any part of a judgment.²⁵

These additional disclosure rules have proven more effective in revealing potential sponsors than Rule 7.1. For example, Intellectual Ventures involvement in several cases was not disclosed under Rule 7.1 but was later disclosed under Local Rule 7.1-1, including one case in

²¹ William Goldman, *The Princess Bride*, (Harcourt 1973).

²² See, *Federal Rules of Civil Procedure* (2010), http://www.law.cornell.edu/rules/frcp/Rule7_1.htm.

²³ See, Glen Weissenberger, *Federal Civil Procedure Litigation Manual* (Matthew Bender, 2010).

²⁴ For example, the Central District of California follows Local Rule 7.1-1; see, e.g., <http://www.cacd.uscourts.gov/cacd/locrules.nsf/a224d2a6f8771599882567cc005e9d79/ddb6b1163100e00388256dc5005973ca?OpenDocument>.

²⁵ *Id.*

which a major portion of its own investors was disclosed.²⁶ However, even this more inclusive local rule does not ostensibly require disclosure of parties with whom the plaintiff is in contract, owes a debt, or the disclosure of parties that encouraged the filing of the litigation but have no actual stake in its outcome.²⁷ Such a requirement in normal civil litigation could require an onerous amount of disclosure.

Likewise, the records for public companies can be less than revealing, while being completely open. The onus on corporate record keeping is to account for how corporate funds have been spent.²⁸ This simply means that the expenses related to privateering must show up in the company's books somewhere. This does not mean that the company's books need a line item that reads "privateering against Competitor X." For a company with more than \$1 billion in annual turnover, camouflaging an expense of a few million (or less) should not be difficult. After a bit of explanation, the company's auditors will also likely not object to the company's books since the activity is legitimate and not obviously illegal. Thus, following the money is not typically possible in privateering cases.²⁹ Of course, privateering is not illegal *per se*, so there's little incentive for insider whistleblowing, although an insider threatening to reveal all to a competitor target could possibly make for troublesome blackmail.

The following sections provide an overview of the legal causes of action and options that a privateering target might be able to employ against a privateering sponsor once the target has learned that a litigation has been privateered. The target's opportunities for revenge against a sponsor should increase significantly once the target can obtain litigation sanctions against the privateer, but the basis for the sanctions will typically lie in the inapplicability of the IPR used for privateering and not initially in the privateering itself.

2.1 The Target's Counterclaims Paired with Sponsor Backgrounds

Most of the target's counterattacks depend on first obtaining litigation sanctions against the privateer. This will remove the privilege otherwise accorded plaintiffs in civil litigation. The target's avenues for obtaining sanctions against the privateer come from showing that the litigation is frivolous, that the plaintiff lacks standing to sue, and possibly from inequitable conduct associated with patent prosecution. The target could theoretically bring an action under the *Kobe* antitrust cases³⁰ without obtaining sanctions against the privateer, although the target would need to make a convincing case against the sponsor for attempting to monopolize a given area. Similarly, the target could bring an action for market manipulation against an investor

²⁶ See, e.g., Appendix 1 from **Article 1**, and see, Certification of Interested Parties from *Oasis Research LLC v. Adrive et al.*, 4:10-cv-00435-MHS (E.D. Texas, 2010), which disclosed the financial involvement of "Intellectual Ventures Plateforce Computing, LLC."

²⁷ *Supra* note 22.

²⁸ Barry Elliot and Jamie Elliot, *Financial Accounting And Reporting*, (Prentice Hall, 2010), 134-156.

²⁹ But would be remarkably enlightening if it were possible.

³⁰ Discussed below in section 2.7.

sponsor, but the practicalities of a target obtaining sufficiently detailed transaction information to bring suit would seem to be exceptionally difficult.³¹

Sponsor	Possible Cause of Action	Note
Operating Company & Investor	If Litigation Sanctions Awarded Against Privateer, then possible causes of action include: Tortious Interference, Antitrust, Patent Misuse, and Conspiracy	Target likely has to breach the formal corporate structure behind the privateering effort organized by the sponsor to succeed
Operating Company	Antitrust under <i>Kobe</i>	The Target will have a heavy burden in proving an attempt to monopolize
Investor	Market Manipulation, Insider Trading, and Conspiracy	Target likely has to breach the formal corporate structure behind the privateering effort organized by the sponsor to succeed

Table 2. A Target's Causes of Action Against a Sponsor

2.2 Litigation Sanctions Against a Privateer

Many, if not most, of the potential causes of action that a target might have against a privateering sponsor require some showing of wrongdoing on behalf of the intermediary privateer before the sponsor's potential liability can ever be reached. As a strategy against privateering, targets may file more motions for sanctions against privateers during litigation and press harder for courts to grant their sanction motions. The primary form of potential litigation wrongdoing for most privateering cases would presumably lie in bringing an action that should never have been brought, *e.g.*, a frivolous litigation.

Sanctions against a litigant may be appropriate when there has been inappropriate conduct related to a matter in litigation, such as litigation misconduct, vexatious or unjustified litigation, conduct that violates Federal Rules of Civil Procedure 11, or similar infractions.³² Absent misconduct in the litigation, sanctions may be imposed against the patent plaintiff only if both (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless.³³ This standard presents a fairly low bar to hurdle for the reasonably conscientious privateer and sponsor.

³¹ On the other hand, an agency with investigation powers such as the SEC could relatively easily align its data regarding stock trades in public companies against litigation filings and investigate linkages between the two.

³² See *e.g.*, *Cambridge Prods. Ltd. v. Penn Nutrients Inc.*, 962 F.2d 1048, 1050-51 (Fed. Cir. 1992) and *Beckman Instruments, Inc., v. LKB Produkter AB*, 892 F.2d 1547, 1551 (Fed. Cir. 1989).

³³ *Professional Real Estate Investors v. Columbia Pictures Industries*, 508 U.S. 49, 60-61 (1993); see also, *Forest Labs., Inc. v. Abbott Labs.*, 339 F.3d 1324, 1329-31 (Fed. Cir. 2003).

The US Supreme Court has held that the central purpose of Rule 11 is to deter baseless filings.³⁴ Attorney fees for the prevailing party in a litigation may be warranted for misconduct “if both (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless.”³⁵ Even when monetary sanctions are awarded under Rule 11, courts have held that sanctions should not replace tort damages but instead focus on the discrete event of the offending filing.³⁶ The injured party in a patent case is to be placed, as near as may be, in the situation it would have occupied if the wrong had not been committed.³⁷ Apart from Rule 11, federal courts possess an inherent power to sanction bad faith litigation conduct.³⁸ In addition, attorney fees can be awarded to a prevailing party in a patent case under 35 U.S.C. § 285 whenever the case is proven to be exceptional.

The privateering target will have to overcome the presumption that the assertion of infringement of a duly granted patent is made in good faith.³⁹ Thus, the underlying improper conduct and the characterization of the case as exceptional must be established by clear and convincing evidence.⁴⁰ For example, a losing plaintiff in a patent case typically avoids sanctions by showing that it undertook reasonable pre-litigation steps such as obtaining infringement opinions, conducting an infringement investigation, making claim charts, and serving notice of infringement on the defendant.⁴¹ Even for an exceptional case, the decision to award attorney fees and the amount thereof are within the trial court’s discretion.⁴²

As a further aid to the privateer, the enforcement of patent rights that are reasonably believed to be infringed does not entail a special penalty just because the patentee is unsuccessful, although the entirety of a patentee’s conduct may be considered in determining whether to award sanctions.⁴³ In addition, a duly granted patent is a grant of the right to exclude all infringers.⁴⁴

³⁴ *Cooter & Gell v. Hartmarx Corp.*, 496 U.S. 384 (1990).

³⁵ *Brooks Furniture Mfg., Inc. v. Dutailier Int’l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005).

³⁶ *Business Guides, Inc. v. Chromatic Communications Enters., Inc.*, 111 S.Ct. 922, 934.

³⁷ 35 U.S.C.A. § 285.

³⁸ *Chambers v. NASCO*, 111 S.Ct. 2123, 2136 (1991) (district court not required to exhaust all other sanctioning avenues before exercising its inherent power). *See also, North Am. Watch v. Princess Ermine Jewels*, 786 F.2d 1447, 1451 (9th Cir.1986).

³⁹ *Springs Willow Fashions, LP v. Novo Indus., LP*, 323 F.3d 989, 999 (Fed. Cir. 2003).

⁴⁰ *Beckman Instruments v. LKB Produkter AB*, 892 F.2d 1547, 1551 (Fed Cir 1989).

⁴¹ *See, Brooks, supra* note 302 at 1386.

⁴² *See S.C. Johnson & Son, Inc. v. Carter-Wallace, Inc.*, 781 F.2d 198, 201 (Fed. Cir. 1986) (even an exceptional case does not require in all circumstances the award of attorney fees).

⁴³ *See generally, National Presto Indus., Inc. v. West Bend Co.*, 76 F.3d 1185, 1197 (Fed. Cir. 1996) (“The trial judge’s discretion in the award of attorney fees permits the judge to weigh intangible as well as tangible factors: the degree of culpability of the infringer, the closeness of the question, litigation behavior, and any other factors whereby fee shifting may serve as an instrument of justice.”)

⁴⁴ *The United States v. United States Steel Corp.*, 251 U.S. 417, 451 (1920) (“The law does not make mere size an offense.”).

The US Supreme Court has advised appellate courts to apply “an abuse-of-discretion standard in reviewing a district court’s Rule 11 determination.”⁴⁵ Before awarding Rule 11 sanctions, a district court itself must conduct a two-prong inquiry to determine (1) whether the complaint or the relevant document is legally or factually “baseless” from an objective perspective, and (2) if the attorney has conducted “a reasonable and competent inquiry” before signing and filing it.⁴⁶

Under 35 U.S.C. § 285, a “court in exceptional cases may award reasonable attorney[s]’ fees to the prevailing party.”⁴⁷ Section 285 must be interpreted against the background of the Supreme Court’s decision in *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.*⁴⁸ There, the Court recognized that the right to bring and defend litigation implicated First Amendment rights and that bringing allegedly frivolous litigation could only be sanctioned if the lawsuit was “objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits.”⁴⁹ Only if the challenged litigation is objectively meritless may a court examine the litigant’s subjective motivation.⁵⁰

Relying on *Professional Real Estate*, the Federal Circuit has held that absent misconduct during patent prosecution or litigation, sanctions may be imposed against a patent plaintiff “only if both (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless.”⁵¹ The Federal Circuit has held that an infringement action “does not become unreasonable in terms of [§ 285] if the infringement can reasonably be disputed. Infringement is often difficult to determine, and a patentee’s ultimately incorrect view of how a court will find does not of itself establish bad faith.”⁵²

Under this rigorous standard, the plaintiff’s case must have no objective foundation, and the plaintiff must actually know this. Both the objective and subjective prongs of “must be established by clear and convincing evidence.”⁵³ The Federal Circuit recognized a “presumption that the assertion of infringement of a duly granted patent is made in good faith.”⁵⁴ To be objectively baseless, the infringement allegations must be such that no reasonable litigant could

⁴⁵ *Cooter & Gell v. Hartmarx Corp.*, 496 U.S. 384, 405 (1990).

⁴⁶ *Christian v. Mattel, Inc.*, 286 F.3d 1118, 1127 (9th Cir. 2002) (quoting *Buster v. Greisen*, 104 F.3d 1186, 1190 (9th Cir. 1997)).

⁴⁷ *Superior Fireplace Co. v. Majestic Prods. Co.*, 270 F.3d 1358, 1376 (Fed. Cir. 2001).

⁴⁸ 508 U.S. 49 (1993).

⁴⁹ *Id.* at 60.

⁵⁰ *Id.*

⁵¹ *Id.*; see also, *Wedgetail Ltd. v. Huddleston Deluxe, Inc.*, 576 F.3d 1302, 1304–06 (Fed. Cir. 2009) (refusing to find patentee’s unsuccessful case exceptional under *Brooks Furniture*).

⁵² *Brooks Furniture Mfg., Inc. v. Dutailier Int’l, Inc.*, 393 F.3d 1378, 1384 (Fed. Cir. 2005).

⁵³ See, *Wedgetail*, 576 F.3d at 1304, *supra* note 318.

⁵⁴ See, *Brooks Furniture*, 393 F.3d at 1382, citing *Springs Window Fashions LP v. Novo Indus., L.P.*, 323 F.3d 989, 999 (Fed. Cir. 2003).

reasonably expect success on the merits.⁵⁵ Other potential counterclaims, such as antitrust, do not factor into this analysis.

As previously mentioned, sponsors and privateers have reasons for being stealthy. Avoiding sanctions in the event that they lose a case presents another reason for sponsor stealth. While not technically actionable, a court aware of privateering might view the plaintiff privateer and the sponsor in a less favorable light. The Federal Circuit, for example, prefaced one sanctions award by describing the plaintiff's triumphant conduct as follows:

As stated in its 1987 Annual Report, Refac's primary business is licensing and technology transfer, with a staff of patent law experts "prepared to litigate without financial risk to its clients." According to Refac's then president, Phillip Sperber, "It only makes sense to use the cost of litigation as a bargaining leverage to force a settlement on terms favorable to the party that can litigate the matter to death without worrying about the cash flow." Sperber, *Overlooked Negotiating Tools*, *Les Nouvelles*, June 1985, at 81.⁵⁶

These prior remarks likely harmed Refac's arguments against its own liability for sanctions. Consequently, discretion should remain an ever more useful tool for privateers and their sponsors.

2.3 Corporate Formalisms & Privateering Organizational Structures

The privateering target that succeeds with a Rule 11 motion and/or locates an appropriate cause of action that could be used against a privateering sponsor may discover that the sponsor relied upon various corporate formalisms to create difficult obstacles to hurdle. The typical sponsor, as discussed below, has access to capital and legal resources and has likely prepared for most adverse contingencies.

Among other things, the sponsor's legal counsel has likely constructed a corporate structure that will minimize the legal claims that can be brought against the sponsor directly. Many known NPEs have fairly complicated ownership and management structures. For example, Searete LLC is a fairly well-known Intellectual Ventures shell company.⁵⁷ IV parks many of its "inventioneering" patent applications in Searete.⁵⁸ Searete is a Delaware company with a presence in Nevada.⁵⁹ Searete's official manager in Nevada is "Nevada Licensing Manager,

⁵⁵ *Dominant Semiconductors Sdn. Bhd. v. OSRAM GmbH*, 524 F.3d 1254, 1260 (Fed. Cir. 2008).

⁵⁶ *Refac Int'l, Ltd. v. Hitachi, Ltd.*, 921 F.2d 1247, 1248 (Fed.Cir.1990)(citing *Refac Int'l, Inc. v. IBM*, et al., 710 F.Supp. 569, 571, 11 USPQ2d 1476, 1478 (D.N.J.1989)).

⁵⁷ John Letzing, *Microsoft's Big Brains Spill Into Patent Firm*, MarketWatch, Feb. 4, 2009, <http://www.marketwatch.com/story/microsofts-big-brains-spill-over-patent>

⁵⁸ *Id.*

⁵⁹ Delaware Corporations file 3776428 shows that Searete LLC was formed on March 12, 2004; <https://delecorp.delaware.gov/tin/controller> and Nevada Corporations records show that Searete LLC, Nevada

LLC,” which is a Nevada corporation.⁶⁰ Nevada Licensing Manager’s own manager is “Nevada Assets, LLC,” which is a Delaware Company.⁶¹ At some point, Nevada Assets, LLC presumably connects with Intellectual Ventures, LLC or one of IV’s many investment funds. In short, the ownership and management structures for NPEs can be complicated, and various state corporation laws complicate the process of finding out who the real directors and managers are for a given limited liability company.⁶²

Fig. 1 illustrates a possible ownership structure for a privateering operation. As shown in Fig. 1, a target has been sued for patent infringement by a privateering company. The privateering company is owned by an “owner 1” company and at least one other investor. The “owner 1” company is itself owned by an “owner 2” company and at least one other investor. The “owner 2” company is owned by the sponsor and at least one other investor. The investors themselves could presumably be “friends” of the sponsor (*e.g.*, major investors). The structure set out in Fig. 1 may be fairly easy to understand, once the information is revealed.⁶³ However, all the target may know in some instances is the ownership of the privateer, and a court may be reluctant to grant additional discovery for finding the owners of Owner 1 without first having some showing of a cause of action against the owners of Owner 1 by the target, and similarly may be even more reluctant to grant discovery related to the owners of Owner 2, especially if the court can be persuaded by Owner 2’s counsel, among others, that such inquiries amount to harassment.⁶⁴ Thus, explaining to a court that the sponsor is the party who has motivated the action of the privateer may be difficult to articulate given the corporate formalisms and number of other parties involved. The plaintiff-side parties would all presumably claim that their interest in the litigation was simply to seek redress for the financial loss engendered by the defendant’s infringement. Creating this ownership structure would only require a few thousand dollars in legal costs and government fees.⁶⁵

Corporate Id NV20041267664 was registered in Nevada on Nov. 15, 2004;

<http://nvsos.gov/sosentitysearch/CorpSearch.aspx>.

⁶⁰ *Id.*, and Nevada Corporation records show that Nevada Licensing Manager, Nevada Corporate ID NV20041268216 was created on Nov. 15, 2004 <http://nvsos.gov/sosentitysearch/CorpSearch.aspx>.

⁶¹ Delaware Corporations file 3881571 shows that Nevada Assets, LLC was also created on Nov. 15, 2004; <https://delecorp.delaware.gov/tin/controller>.

⁶² Nevada, for example, is known for being particularly respectful of such information. Some but far from all foreign corporations laws are also protective of such information

⁶³ This analysis has been conducted from the target’s point of view. The tax authorities would be better positioned to understand the ownership situation, but this information would not necessarily be available to the target.

⁶⁴ The structure may be even more difficult to unravel if Owner 2 instead of having an ownership interest in Owner 1 is instead a secured creditor of Owner 1.

⁶⁵ A Delaware Limited Liability Company can be established for as little as \$285; http://www.thedelawarecompany.com/quote_and_compare.asp.

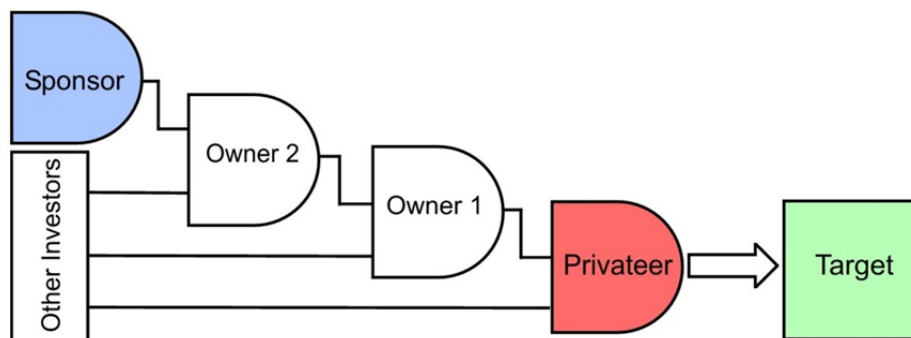


Figure One. Example Ownership Structure

Webvention, LLC, mentioned above, provides a real-life example of an ownership structure that is possibly even simpler than the one shown in Fig. 1 yet has baffled many observers.⁶⁶ Webvention obtained a group of patents from Ferrara Ethereal, LLC, a well-known Intellectual Ventures shell company in 2009. The Webvention patents were obtained by merger of Ferrara Ethereal, a Nevada corporation, into Webvention, a Texas company.⁶⁷ On the same day that Webvention, LLC was created in Texas, a Webvention Licensing LLC was also created.⁶⁸ The Texas filing papers also mention a Delaware company named Webvention Holding, LLC.⁶⁹ The corporate filing papers for Webvention were signed by an attorney on behalf of the companies owners.⁷⁰ This same attorney has signed all the power of attorney documents filed with the USPTO. One filing paper mentioned that the attorney was working for Philip Vachon,⁷¹ who may possibly be the president of Liberate Technologies and the Interstate Baking Company.⁷²

However, the exact ownership for these Webvention companies remains uncertain, and even though Webvention has sued a number of different companies for infringement, no further information has been forthcoming publicly. Webvention's staff appears to be independent of Intellectual Ventures. Further analysis by some researchers has led to suspicions that Webvention may be more tightly tethered to IV than previously believed.⁷³ In any event, even a

⁶⁶Josh Rosenthal, *Is Nathan Myhrvold's Intellectual Ventures Behind The IOS In-App Purchase Patent Troll Job?*, Edible Apple Blog, May 13, 2011, <http://www.edibleapple.com/is-nathan-myhrvolds-intellectual-ventures-behind-the-ios-in-app-purchase-patent-troll-job/#comments>; J. Damus, *Is Intellectual Ventures Behind Apple IOS In-App Purchase Lawsuit Threats? We Think So.*, Wireless Goodness Blog, May 15, 2011, <http://www.wirelessgoodness.com/2011/05/15/is-intellectual-ventures-behind-apple-ios-in-app-purchase-lawsuit-threats-we-think-so/>; and Joff Wild, *Is Intellectual Ventures Making A Big Move To Snare Apple As A Licensee?*, IAM Blog, May 16, 2011, <http://www.iam-magazine.com/blog/Detail.aspx?g=c28a272d-3afd-49f6-9d64-aaa2ff595e97>.

⁶⁷ See, USPTO assignment database, <http://assignments.uspto.gov/assignments/?db=pat> (search in "Assignor" field for "Ferrara Ethereal," showing execution dates to Webvention on Nov. 16, 2009).

⁶⁸ Corporate filing records available from the Texas Secretary of State's office.

⁶⁹ Delaware Secretary of State records indicate that Webvention Holdings was created on July 22, 2009.

⁷⁰ *Supra* note 335.

⁷¹ *Id.*

⁷² See, *Philip A. Vachon Appointed to IBC Board of Directors*, PR Newswire, March 6, 2007

<http://www.prnewswire.com/news-releases/philip-a-vachon-appointed-to-ibc-board-of-directors-51635777.html>.

⁷³ See, *supra* note 333.

web of as few as three companies can be used to thwart public knowledge of ownership. The only public parties, excluding government agencies, who could pierce this information barrier are attorneys operating under a broad discovery order in litigation, and even these attorneys may have to conduct their inquiry under a discovery protective order that may prevent them from sharing this information even with their client. In short, a target might know after a litigation has been filed something about the ownership of the entity that has sued it, but the target is highly unlikely to have any guarantee about knowing who owns the entity prior to the litigation if the entity wishes to cloak its ownership.

A corporation is normally regarded as a legal entity separate and distinct from its stockholders, officers and directors. Under the alter ego doctrine, however, where a corporation is used by another entity to perpetrate fraud, circumvent a statute, or accomplish some other wrongful or inequitable purpose, a court may disregard the corporate entity and treat the corporation's acts as if they were done by the persons actually controlling the corporation.⁷⁴

The US Supreme Court itself has said that a key predicate in disregarding corporate formalities is whether a new party to a case is not a distinct legal entity from the party already in the case. In the structure set out in Fig. 1 above, the sponsor is formally a distinct legal entity from the privateer.⁷⁵ Like the Supreme Court, California courts recognize that “[a]lter ego is an extreme remedy, sparingly used.”⁷⁶ Thus, the target will almost certainly have to address the alter-ego doctrine, also known as “piercing the corporate veil,” in order to bring an action directly against the sponsor. Much of alter ego law comes from state law which for patent cases will be applied by federal courts operating within state borders.⁷⁷

In order to disregard corporate formalities, the target will need to show: (1) that there is such unity of interest and ownership that the separate personalities of the corporations no longer exist and (2) that, if the acts are treated as those of one corporation alone, an inequitable result will follow.”⁷⁸ The issue is whether in a particular case and for the purposes of that case, “justice and equity can best be accomplished and fraud and unfairness defeated by a disregard of the distinct entity of the corporate form.”⁷⁹ The burden of proving alter-ego liability lies with the moving party⁸⁰ by a preponderance of the evidence.⁸¹

⁷⁴ See e.g., *Communist Party v. 522 Valencia, Inc.*, 35 Cal. App. 4th 980, 993 (1995).

⁷⁵ See, *Nelson v. Adams USA, Inc.*, 529 U.S. 460, 470-471 (2000).

⁷⁶ *Sonora Diamond Corp. v. Superior Court*, 83 Cal. App. 4th 523, 539 (2000); accord *Dole Food Co. v. Patrickson*, 538 U.S. 468, 475 (2003).

⁷⁷ See, *In re Levander*, 80 F.3d 1114, 1121 (9th Cir. 1999) and *Katzir's Floor & Home Design v. M-MLS.com*, 394 F.3d 1143, 1146-47 (9th Cir. 2004).

⁷⁸ See, *Automotriz del Golfo de California v. Resnick* (1957) 47 Cal. 2d 792, 796; *Sonora Diamond*, 83 Cal. App. 3d at 538-39; and *Associated Vendors, Inc. v. Oakland Meat Co.*, 210 Cal. App. 2d 825, 838-40 (1962).

⁷⁹ *Kohn v. Kohn*, 95 Cal.App.2d 708, 718 (1950).

⁸⁰ *Minifie v. Rowley*, 197 Cal. 481, 488 (1921).

⁸¹ *Wollersheim v. Church of Scientology Int.*, 69 Cal. App. 4th 1012, 1018. (1999).

Targets seeking recompense (and revenge) may also have to contend with the general rule that there is only one final judgment in a litigation.⁸² In other words, if a target seeks sanctions against a privateer for bringing a case and not the sponsor, then the target may have difficulty later bringing an action against the sponsor if the sponsor can convincingly argue that the target could have brought the action against the sponsor during the first case.

While the occurrence and knowledge of privateering cases is relatively low, the typical target will be more likely not to retaliate against the sponsor by filing a counterclaim. The barriers provided by legal formalisms alone are likely sufficient to thwart the typical target's counterattack until judges become more sensitive to the issues. One of the reasons for bringing a privateering case is to create management distraction – plotting revenge against a sponsor could possibly result in an enormous management distraction for the target and have inadvertently furthered the sponsor's goals.

2.4 Lack of Standing & Subject Matter Jurisdiction

Sponsors who retain too many rights in the patents they provide their privateers may find their proxies' cases dismissed for lack of standing. This particular issue is most likely to arise in those privateering cases where the sponsor has either outsourced a portion of its litigation/licensing efforts to a proxy and/or where the sponsor is distrustful of the privateer.

This standing and subject matter jurisdiction issue arose recently in *Picture Frame Innovations, LLC v. Eastman Kodak Co.*⁸³ Picture Frame Innovations (“PFI”) had purchased a patent from Viviana Research LLC,⁸⁴ likely one of Intellectual Ventures shell companies.⁸⁵ The Niro, Scavone law firm represented PFI, thus ironically linking IV's vice chairman Peter Detkin with Ray Niro, the attorney for whom Detkin coined the well-known invective “patent troll.”⁸⁶

Standing issues could arise in a privateering case having a similar factual background to the *PFI* case. The outcome would depend on precisely how the sponsor and privateer worded their purchase agreement for the asserted patent. Kodak brought a motion early in the *PFI* case seeking to have the case dismissed on the grounds that PFI did not obtain sufficient rights from Viviana in order to bring the lawsuit.⁸⁷ Kodak argued that “The question for this Court to decide is whether IV (through Viviana) can succeed in its attempt to ‘outsource’ enforcement of patents

⁸² See, Cal. Civ. Proc. Code § 577 (2007) [“A judgment is the final determination of the rights of the parties in an action or proceeding.”]; see also, *Vallera v. Vallera*, 64 Cal. App. 2d 266, 270 (1944) [“There can be but one final judgment in an action, and that is one which in effect ends the suit in the court in which it was instituted, and finally determines the rights of the parties.”].)

⁸³ *Picture Frame Innovations*, *supra* note 251.

⁸⁴ See, USPTO assignment database, <http://assignments.uspto.gov/assignments/?db=pat> (search in “Assignor” field for “Viviana,” showing execution dates to PFI of June 8, 2009).

⁸⁵ See, Ewing, *supra* note 198.

⁸⁶ Zusha Elinson, *Intellectual Venture Takes Indirect Route to Court*, Recorder (Sept. 1, 2009), <http://www.law.com/jsp/law/LawArticleFriendly.jsp?id=1202433490140>.

⁸⁷ *Kodak motion for dismissal* (filed Aug. 16, 2010), *Picture Frame Innovations*, *supra* note 251.

against certain enumerated targets, all the while retaining substantial rights for itself...”⁸⁸ Kodak enumerated five patent rights retained by Viviana and asked the court to compare the sales document by which Viviana acquired the patent against the sales document by which Viviana sold the patent to PFI, concluding that PFI only obtained a “hunting license” from Viviana which did not confer standing.⁸⁹ PFI opposed Kodak’s motion,⁹⁰ and the case settled without the court having ruled on it.⁹¹ It is not presently known what role, if any, that the motion played in the parties’ settlement discussions.

Standing issues may arise from two separate grounds – constitutional standing and prudential standing. Constitutional standing cannot be cured after a plaintiff has filed its lawsuit. Standing to sue is a constitutional prerequisite to maintaining an action in federal court. To establish standing in accordance with Article III of the US Constitution, the plaintiff must show: (1) an injury in fact; (2) a causal connection between the defendant’s action and injury; and (3) that the injury can be redressed by the relief requested.⁹² To establish prudential standing, the plaintiff must show that: (1) the case rests on the plaintiff’s own legal rights and interests and not those of third parties; (2) the harm caused to the plaintiff does not involve an abstract question best left to the representative branches, and (3) the plaintiff’s complaint falls within the zone of interests to be protected or regulated by the statute or constitution guarantee in question.⁹³

A plaintiff has standing to sue for patent infringement only where it holds “all substantial rights” in the patent.⁹⁴ When a plaintiff lacking sufficient rights brings suit, that plaintiff lacks prudential standing to sue on his own, and the suit must be dismissed, or additional holders of rights under the patent must be joined as parties to the suit, e.g., as appropriate given the plaintiff’s status as either an exclusive or a nonexclusive licensee.⁹⁵ Where a plaintiff receives patent rights pursuant to an agreement, whether the agreement conveys standing on the transferee depends upon whether the parties intended the transferor to surrender all substantial rights in the patent.⁹⁶

The Federal Circuit has held that if a plaintiff lacks constitutional standing under Article III, the suit must be dismissed, and the jurisdictional defect cannot be cured by the addition of a

⁸⁸ *Id.* at 5.

⁸⁹ *Id.*

⁹⁰ *PFI opposition motion* (filed Nov. 5, 2009), *Picture Frame Innovations*, *supra* note 251.

⁹¹ The PFI case settled on undisclosed terms on Jan. 1, 2011, *Picture Frame Innovations*, *supra* note 251.

⁹² *See, Hein v. Freedom Religion Found, Inc.*, 127 S. Ct. 2553, 2555-2556 (2007); *Lujan v. Defenders of Wildlife*, 504 U.S. 555, 570 (1992)(Article III standing must be present at the time the party brings suit); *and see, Steel Co. v. Citizens for a Better Env’t*, 523 U.S. 83, 95 (1998)(Standing cannot be conferred by agreement of the parties).

⁹³ *Trump Hotels & Casino Resorts, Inc. v Mirage Resorts, Inc.*, 140 F.3d 478, 485 (3d Cir. 1998).

⁹⁴ *Alfred E. Mann Found’n v. Cochlear Corp.*, 604 F.3d 1354, 1360 (Fed. Cir. 2010) (It is well established that “a patent is, in effect, a bundle of rights, which may be divided and assigned, or retained in whole or in part.”)

⁹⁵ *Id.*

⁹⁶ *See, Vaupel Textilmaschinen KG v. Meccanica Euro-Italia SpA*, 944 F.2d 870, 874 (Fed. Cir. 1991).

party with standing.⁹⁷ Only the party that owns or controls all substantial rights in a patent can enforce rights controlled by that patent.⁹⁸ The transfer of the exclusive right to make, use, and sell products or services under the patent is vitally important to an assignment.⁹⁹ In those instances where the plaintiff has Article III (constitutional) standing but lacks prudential standing, then a later assignment of the patent may cure this standing defect.¹⁰⁰

The mere transfer of rights solely for enforcement purposes is not enough to create standing, according to the Federal Circuit.¹⁰¹ In addition, the right to sue is illusory and carries no weight where that right has been undercut by transferor's retained right to license the litigation targets.¹⁰² Thus, sponsors and privateers need to be careful in how they craft agreements, especially in outsourced licensing scenarios.

Federal Rule of Civil Procedure 12(b)(1)¹⁰³ authorizes a court to dismiss a complaint if the court lacks subject matter jurisdiction over the plaintiff's claim, or the plaintiff lacks standing to bring its claim. Motions brought under Rule 12(b)(1) may present either a facial or factual challenge to the court's subject matter jurisdiction. In reviewing a factual challenge to the court's subject matter jurisdiction, the court is not confined to the allegations of the complaint, and no presumption of truthfulness attaches to the plaintiff's allegations.¹⁰⁴ The court may consider evidence outside the pleadings, including affidavits, depositions, and testimony, to resolve any factual issues bearing on jurisdiction.¹⁰⁵ Pursuant to Rule 12(b)(3), subject matter jurisdiction may be challenged at any time during the course of a case and may be raised *sua sponte* by the court.¹⁰⁶ Once the court's subject matter jurisdiction over a complaint is challenged, the plaintiff "must bear the burden of persuasion" and establish that subject matter jurisdiction exists.¹⁰⁷ If the court has already rendered a judgment, Federal Rule 60(b)(3)

⁹⁷ See, *Schreiber Foods, Inc. v Beatrice Cheese, Inc.*, 402 F.3d 1198, 1203 (Fed. Cir. 2005) and see, *Paradise Creations, Inc. v. U V Sales, Inc.*, 315 F.3d 1304, 1309 (Fed. Cir. 2003); see, also *Gaia Techs., Inc. v. Reconversion Techs., Inc.*, 93 F.3d 774, 780 (Fed. Cir. 1996)(The subsequent purchase of an interest in the patent in suit does not confer Article III standing).

⁹⁸ *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1551 (Fed. Cir. 1995) (*en banc*); see generally, *Intellectual Property Development, Inc. v. TCI Cablevision of California, Inc.*, 248 F.3d 1333 (Fed. Cir. 2001).

⁹⁹ *Alfred E. Mann Foundation*, 604 F.3d at 1360 (citing *Propat International Corp. v. RPost, Inc.*, 473 F.3d 1187, 1191 (Fed. Cir. 2007)).

¹⁰⁰ *IPVenture, Inc. v. Prostar Computer, Inc. and Midern Computer, Inc.*, (Fed. Cir. 2007).

¹⁰¹ See, *Alfred E. Mann Foundation*, 604 F.3d at 1360; *AsymmetRx, Inc. v. Biocare Medical, LLC*, 582 F.3d 1314, 1319 (Fed. Cir. 2009).

¹⁰² See *Speedplay, Inc. v. Bebop, Inc.*, 211 F.3d 1245, 1251 (Fed. Cir. 2000) (holding that a licensee's right to grant royalty-free sublicenses to defendants sued by the licensor rendered illusory the licensor's right to sue).

¹⁰³ See, Federal Rules of Civil Procedure (2010), <http://www.law.cornell.edu/rules/frcp/Rule12.htm>.

¹⁰⁴ See, *Mortensen v. First Fed. Sav. and Loan*, 549 F.2d 884, 891 (3rd Cir. 1977).

¹⁰⁵ See, *Gotha v. United States*, 115 F.3d 176, 179 (3d Cir. 1997).

¹⁰⁶ FRCP, *supra* note 370.

¹⁰⁷ *Kehr Packages Inc. v. Fidelcor, Inc.*, 926 F.2d 1406 (3d Cir. 1991).

provides relief from judgment where there has been fraud, misrepresentation, or other misconduct.¹⁰⁸

2.5 Patent Misuse and Unclean Hands

The patent misuse and unclean hands doctrines may not provide much assistance to the average privateering target. Patent misuse is an affirmative defense for patent infringement and/or mitigation of infringement damages that may be used in instances where the plaintiff patent owner has engaged in a fairly short list of bad acts.¹⁰⁹ These bad acts include:

- Improper expansion of the patent's term or scope;
- Inequitable conduct in the procurement or enforcement of the patent; and
- Violation of the antitrust laws.

The Federal Circuit has characterized patent misuse as the patentee's act of "impermissibly broaden[ing] the 'physical or temporal scope' of the patent grant with anticompetitive effect."¹¹⁰ The patent misuse doctrine is closely tied to the equitable defense of "unclean hands." Equitable defenses tend to be available as defenses for equitable remedies,¹¹¹ although the US Supreme Court tied "unclean hands" to patent misuse nearly 100 years ago.¹¹²

The patent misuse doctrine that arose in the case law has been further circumscribed by statute. The U.S. Supreme Court has recognized that Congress enacted Section 271(d) of the Patent Act not to broaden the doctrine of patent misuse, but to confine its boundaries.¹¹³ Patent misuse under 35 U.S.C. § 271(d) states:

No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following:

- (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent;
- (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent;

¹⁰⁸ *Schreiber Foods, Inc. v. Beatrice Cheese, Inc.*, 305 F. Supp. 2d 939 (E.D. Wis. 2004) 939, 959-60, cited by *Schreiber Foods, Inc. v. Beatrice Cheese, Inc. et al.*, 402 F.3d 1198, 1202-04, (Fed. Cir. 2005).

¹⁰⁹ See e.g., *B.B. Chem. Co. v. Ellis*, 314 U.S. 495, 499 (1942).

¹¹⁰ *Windsurfing Int'l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1001 (Fed. Cir. 1986).

¹¹¹ Equitable remedies tend to be remedies other than the payment of damages, such as remedies that involve an injunction or require specific performance of an action.

¹¹² See, *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917) (holding unenforceable a restriction that a user of a patented film projector must use it to screen only such films as the patentee authorized); see, also *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942) (tie-in between patented salt dispenser machine and unpatented salt).

¹¹³ See *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 201 (1980).

- (3) sought to enforce his patent rights against infringement or contributory infringement;
- (4) refused to license or use any rights to the patent; or
- (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.¹¹⁴

The wording of Sec. 271(d) does not implicate activities like privateering as an exception; hence, patent misuse is still theoretically possible under the “expansion” and “antitrust” prongs discussed above. If the inequitable conduct prong arose in a privateering case, it would more likely pertain to acts performed by the original owner of the patent and not the privateer or its sponsor, as inequitable conduct tends to occur during patent prosecution and privateering involves only issued patents.

The Federal Circuit, recognizing the narrow scope of the patent misuse doctrine, has emphasized that the defense of patent misuse is not available to a presumptive infringer simply because a patentee engages in some kind of wrongful commercial conduct, even conduct that may have anticompetitive effects.¹¹⁵ So, even if privateering is “morally wrong” or an “economic danger,” patent misuse is unlikely to provide the target with a specific legal avenue to demonstrate that it was been harmed.

When found, patent misuse renders a patent unenforceable, but the period of unenforceability ends if the patent owner can demonstrate “purge” of the misuse – that the misuse has been abandoned and the consequences of the misuse fully dissipated.¹¹⁶ Patent misuse also has been found in certain circumstances in which conduct did not rise to the level of an antitrust violation.¹¹⁷ It generally has been held, however, that the challenged misuse must relate to the patent-in-suit.¹¹⁸

The Federal Circuit has further stated that “[t]he key inquiry [for patent misuse] is whether, by imposing conditions that derive their force from the patent, the patentee has

¹¹⁴ Subsection (d) amended Nov. 19, 1988, Public Law 100-703, sec. 201, 102 Stat. 4676.

¹¹⁵ *Princo Corp. v ITC*, 616 F.3d 1318, 1338 (Fed. Cir. 2010), citing *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1373 (Fed. Cir. 1998) (“Although the defense of patent misuse . . . evolved to protect against ‘wrongful’ use of patents, the catalog of practices labeled ‘patent misuse’ does not include a general notion of ‘wrongful’ use.”).

¹¹⁶ See e.g., *United States Gypsum Co. v. National Gypsum Co.*, 352 U.S. 457, 465. 472-73 (1957).

¹¹⁷ *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860. 872 (Fed. Cir. 1997) (noting that violation of the antitrust laws requires more exacting proof than suffices to demonstrate patent misuse.)

¹¹⁸ See, e.g., *Morton Salt*, 314 U.S. at 492-93; *Kolene Corp. v. Motor City Metal Treating*, 440 F.2d 77, 84 (6th Cir. 1971) (“The misuse must be of the patent in suit.”)

impermissibly broadened the scope of the patent grant with anticompetitive effect.”¹¹⁹ In a privateering case, the typical privateer will not have imposed any conditions on the target and will thus not have expanded the scope of the patent grant although arguably expanding the business uses of the patent grant.

2.6 Duty of Disclosure & Inequitable Conduct

New patent owners sometimes file broadening reissue applications for newly acquired patents.¹²⁰ In such instances, the new owner assumes the duty of disclosure to provide the USPTO with pertinent information, especially information related to prior art.¹²¹ Likewise, during litigation, it is fairly common for patents to enter into reexamination, and in reexamination, the new owner will likewise assume the duty of disclosure.¹²² While this duty implicates more owners than just privateers and sponsors, it could theoretically provide a line of defense due to inequitable conduct in cases where the target learns that the sponsor itself has knowledge of pertinent prior art (*e.g.*, is itself a large patent holder.)

Where the owner has not satisfied the duty of disclosure, then the patent may become unenforceable due to inequitable conduct.¹²³ The inequitable conduct analysis comprises two steps: (1) a determination of whether the conduct meets a threshold level of materiality and intent to mislead and (2) a weighing of the materiality and intent in light of all of the circumstances to determine whether the applicant's conduct is so culpable to render the patent unenforceable.¹²⁴

2.7 Antitrust

A patentee may exploit his patent but may not use it to acquire a monopoly not embraced in the patent grant.¹²⁵ The line dividing lawful patent conduct and antitrust violations and patent misuse has varied over the years with changes in statutes, judicial opinions, and concepts of what is equitably proper.¹²⁶ Much of recent patent and antitrust jurisprudence relates to patent misuse as well.^{127,128}

¹¹⁹ *C.R. Bard, Inc. v. M3 Sys.*, 157 F.3d 1340, 1372 (Fed. Cir. 1998); *see also, Monsanto Co. v. McFarling*, 363 F.3d 1336, 1341 (Fed. Cir. 2004).

¹²⁰ *See, Ewing*, *supra* note 198.

¹²¹ All patent applicants have an affirmative duty to prosecute patents in the PTO with candor and good faith. *See*, 27 CFR 5 1.56(a).

¹²² *See*, 37 CFR 1.555 Information material to patentability in ex parte reexamination and *inter partes* reexamination proceedings, http://www.uspto.gov/web/offices/pac/mpep/documents/appxr_1_555.htm.

¹²³ Inequitable conduct occurs when a patentee breaches his or her duty to the PTO of “candor, good faith, and honesty.” *Molins PLC v. Textron, Inc.*, 48 F.3d 1 172, 1 178 (Fed. Cir. 1995). *See, also Therasense, Inc. v. Becton, Dickinson & Co.*, ___ F3d ___ (Fed. Cir. 2011) (en banc).

¹²⁴ *See, Purdue Pharma L.P. v. Boehringer Ingelheim GMBH*, 237 F.3d 1359,1366 (Fed. Cir. 2001).

¹²⁵ *Transparent-Wrap Mach. Corp. v. Stokes & Smith Co.*, 329 U.S. 637, 643 (1947).

¹²⁶ *See e.g., Illinois Tool Works v. Independent Ink, Inc.*, 126 S. Ct. 1281 (2006).

¹²⁷ *Id.* at 1289-90. (“Although the patent misuse doctrine and our antitrust jurisprudence became intertwined in *International Salt*, subsequent events initiated their entwining.”).

Antitrust jurisprudence typically relates to what one company can do with its own patents rather than its motivation of third parties to use their patents in ways that might be anticompetitive between the motivating party and a third party. IP privateering necessarily involves third-party IPRs, rather than one's own IPRs, with the possible exception of privateering as outsourced licensing. In any event, it would seem reasonably clear that one would be unlikely to motivate a third party to do something with one's patents that one could not do on its own without invoking antitrust issues.

If a patent owner initiates litigation seeking to enforce a patent that is known by the patentee to be invalid, such action can be an unlawful attempt to monopolize under Sec. Two of the Sherman Act.¹²⁹ This is, of course, true for all plaintiffs and hiding a patent under a privateering arrangement should not change the analysis, although it might make for an interesting factual situation where the sponsor knew of a patent's invalidity but the privateer did not know of the invalidity and vice versa.

Along similar lines, there is an exception to the general antitrust immunity conferred by the *Noerr-Pennington* doctrine that relates to sham litigation activities.¹³⁰ Under this sham exception activities "ostensibly directed toward influencing governmental action" do not qualify for *Noerr* immunity where they are "a mere sham to cover . . . an attempt to interfere directly with the business relationships of a competitor."¹³¹ The Supreme Court added that a litigation cannot be deprived of immunity as a sham unless it is "objectively baseless."¹³²

An assumption, however, in this analysis of IP privateering is that sponsors and privateers will act to avoid all potential liability from privateering and not act recklessly in the litigations that they bring. Similarly, the sponsor and privateer would seemingly avoid liability under present law in nearly all cases so long as the patent litigations that they brought had some objective basis.

Targets may seek to find a cause of action analogous to that of Article 101 of the European Commission which finds potential anticompetitive effects in:

[A]ll agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between Member States and

¹²⁸ *U.S. Philips Corp. v. Princo Corp.*, 173 Fed. Appx. 832 (Fed. Cir. 2006) (reversing grant of summary judgment to patentee of no patent misuse on the grounds that the district court erred in treating 35 U.S.C. § 271(d)(5) as a definition of patent misuse that precludes a finding of patent misuse unless the tied patents involved multiple products).

¹²⁹ 15 U.S.C. Chapter 1, Sec 2; http://www.law.cornell.edu/uscode/215/usc_sec_15_00000002----000-.html.

¹³⁰ *Eastern R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961).

¹³¹ See, *Professional Real Estate Investors*, *supra* note 300 at 49.

¹³² *Id.*

which have as their object or effect the prevention, restriction or distortion of competition within the common market....¹³³

This article will not explore whether privateering *per se* constitutes a sufficient competitive “distortion” under Art. 81, but one suspects that it would depend upon (1) how fully the Commission understood the sponsor’s privateering plan and (2) how extensive the effect of such plan was, especially when viewed from a consumer point of view. Under such an analysis, the factual situations for some privateering scenarios would still likely elude sanction although many of them would likely be proscribed.

Sec. 1 of the Sherman Act is worded somewhat similarly to Article 101, stating:

Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal. Every person who shall make any contract or engage in any combination or conspiracy hereby declared to be illegal shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine....¹³⁴

But one difference between the Sherman Act and Article 101 is that the Sherman Act implies that a party’s “illegal” actions have provoked an anticompetitive result whereas Article 101 seems less concerned, on its face, about whether the underlying act was legal or illegal.

The *Kobe*¹³⁵ line of cases provides a small group of antitrust cases that may be helpful to the privateering target and come somewhat closer to Article 101. In *Kobe*’s patent infringement case, the plaintiff had purchased some 70+ key patents in the hydraulic oil pump technology.¹³⁶ The court found that one could not possibly make a competitive product without infringing one of the patents, and the defendant had been found to infringe several of the patents.¹³⁷ Thus, the patent litigation was in no way a sham. The court stated that while there was nothing inherently wrong with purchasing a patent and enforcing it against an infringer, the intent and underlying purpose of accumulating such a large number of patents amounted to a violation of antitrust laws and patent misuse.¹³⁸

While providing a narrow exception to the *Noerr-Pennington* litigation immunity, the *Kobe* cases could benefit privateering targets. These cases could possibly be most easily applied to the

¹³³ Treaty establishing the European Community (Nice consolidated version) - Part Three: Community policies - Title VI: Common rules on competition, taxation and approximation of laws - Chapter 1: Rules on competition - Section 1: Rules applying to undertakings - Article 101 <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:12002E081:EN:HTML>.

¹³⁴ 15 USC, *supra* note 396.

¹³⁵ *Kobe, Inc. v. Dempsey Pump Co.*, 198 F.2d 416, 423-425, 426-427 (10th Cir.), *cert. denied* 344 U.S. 837 (1952).

¹³⁶ *Id.*

¹³⁷ *Id.*

¹³⁸ *Id.*

outsourced licensing scenarios – although in those scenarios, the sponsor has not typically acquired a group of patents for the purpose of being anticompetitive; rather the patents already exist and the sponsor wants to exploit them against a specific target. An interesting question would be how readily the *Kobe* line of cases could be applied to a company like Intellectual Ventures that set out to amass one of the largest patent portfolios in the US and then collect revenue from licensing the portfolio.¹³⁹ Whether *Kobe* would apply beyond the outsourced licensing form of privateering remains somewhat doubtful, but could possibly be applied by a court that found that the sponsor’s activities were objectionable and should be sanctioned.

2.8 Insider Trading and Market Manipulation

Privateering sponsors, especially investor sponsors, will likely need to structure their operations to avoid potential liability based on securities laws and regulations. As with many forms of privateering, certain sponsors may have legal and/or fiduciary duties based on their positions in other entities that will not arise for sponsors who stand in different positions.

Insider trading relates to the trading of a corporation’s stock or other securities (*e.g.*, bonds or stock options) by individuals with potential access to non-public information about the company.¹⁴⁰ Insider trading frequently refers to a practice in which an insider or a related party trades in the market using material non-public information obtained during the performance of the insider’s duties at a corporation, or otherwise in breach of a fiduciary duty or where the non-public information was misappropriated from the company.¹⁴¹ Insider trading is prohibited by the Securities Exchange Act of 1934,¹⁴² and generally requires that anyone in possession of insider information must either disclose the information or refrain from trading.¹⁴³

The SEC acknowledges that insider trading is a difficult crime to prove.¹⁴⁴ The underlying act of buying or selling securities is a perfectly legal activity. It is only what is in the mind of the trader that can make this legal activity a prohibited act of insider trading.¹⁴⁵ Direct evidence of insider trading is rare. Insider trading is typically detected by examining inherently innocuous events and drawing reasonable inferences based on their timing and surrounding circumstances to lead to the conclusion that the defendant bought or sold stock with the benefit of inside information wrongfully obtained.¹⁴⁶

¹³⁹ See, Ewing, *supra* note 198.

¹⁴⁰ *Chiarella v. United States*, 445 U.S. 222, 227 (1980) (“That the relationship between a corporate insider and the stockholders of his corporation gives rise to a disclosure obligation is not a novel twist of the law.”).

¹⁴¹ Thomas C. Newkirk, *Speech by SEC Staff: Insider Trading – A U.S. Perspective (1998)* at 2 (available at: <http://www.sec.gov/news/speech/speecharchive/1998/spch221.htm>).

¹⁴² SEC Act of 1934, <http://www.sec.gov/about/laws/sea34.pdf>.

¹⁴³ *SEC v. Texas Gulf Sulphur Co.*, 258 F. Supp. 262 (SDNY 1966).

¹⁴⁴ *Newkirk*, *supra* note 408 at 11.

¹⁴⁵ *Id.*

¹⁴⁶ *Id.*

The investor privateering scenarios discussed in the companion article could potentially involve the use of insider information, especially the privateering scenarios where the sponsor bases his knowledge about target selection using information that is otherwise confidential. However, many forms of privateering do not require the use of insider information, as most forms of privateering do not concern securities trading and are not conducted by traders and brokers.

Greater potential liability for privateering sponsors arises from market manipulation under Sections 9(a)(2) and 10(b) and of the Securities Exchange Act of 1934 and Rule 10b-5.¹⁴⁷ Market manipulation describes a deliberate attempt to interfere with the free and fair operation of the market by creating artificial, false or misleading appearances with respect to the price of, or market for, a security, commodity or currency.¹⁴⁸ Whether a *bona fide* patent infringement litigation could be considered as market manipulative as tactics such as “pump and dump,” “painting the tape,”¹⁴⁹ and a “bear raid”¹⁵⁰ remains somewhat unclear. There is likely a point at which it would be difficult for a sponsor to avoid liability, especially if the sponsor owed a fiduciary duty to a third party impacted by the privateering effort.

The general anti-manipulation provision of Section 9(a)(2) outlaws “every device used to persuade the public that activity in a security is the reflection of a genuine demand instead of a mirage.”¹⁵¹ Even a small price change suffices.¹⁵² A motive to manipulate, when joined with the requisite series of transactions, *prima facie* establishes the manipulative purpose and shifts to the accused the burden of going forward with the evidence.¹⁵³ Unlike Sec. 10(b), Sec. 9(a) expands the scope of potential liability beyond persons with a fiduciary duty such as corporate officers, advisors, and stock brokers.

Market manipulation obviously harms the market by tampering with the flow of genuine market information.¹⁵⁴ In a market without manipulators, information seekers unambiguously improve market efficiency by pushing prices up to the level indicated by the informed party’s information but overall market efficiency becomes less certain in the presence of manipulation.

¹⁴⁷ Securities Exchange Act Of 1934, as Amended Through P.L. 111-257, Approved October 5, 2010, <http://www.sec.gov/about/laws/sea34.pdf> and SEC Rule 10b-5, codified at 17 C.F.R. § 240.10b-5, http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&tpl=/ecfrbrowse/Title17/17cfr240_main_02.tpl.

¹⁴⁸ Market manipulation is punishable under Rule 10b-5; *see, e.g., SEC v. George Georgiou*, Civil Action No. 09-CV-616 (MMB) (E.D. Pa. 2009), <http://www.sec.gov/litigation/litreleases/2009/lr20899.htm>.

¹⁴⁹ Runs: “When a group of traders create activity or rumors in order to drive the price of a security up.” An example is the Guinness share-trading fraud of the 1980s. In the US, this activity is usually referred to as “painting the tape.” *Painting The Tape*, <http://www.investopedia.com/terms/p/paintingthetape.asp>.

¹⁵⁰ Bear Raid: “Attempting to push the price of a stock down by heavy selling or short selling,” <http://www.answers.com/topic/bear-raid?cat=biz-fin>.

¹⁵¹ *Crane Co. v. Westinghouse Air Brake Co.*, 419 F.2d 787, 794 (2d Cir. 1969), cert. denied, 400 U.S. 822 (1970).

¹⁵² *U.S. v. Stein*, 456 F.2d 844, 846 (2nd Cir. 1972), cert. denied, 408 U.S. 922(1972); *Kidder Peabody & Co.*, 18 SEC 559, 571 (1945) (1/2 point on a \$50 stock).

¹⁵³ *Alabama Farm Bureau Mut. Casualty Co., Inc. v. American Fidelity Life Ins. Co.*, 606 F.2d 602, 616 (5th Cir. 1979), cert. denied, 449 U.S. 820(1980).

¹⁵⁴ Rajesh K. Aggarwal and Guojun Wu, *Stock Market Manipulation — Theory and Evidence*, (March 11, 2003).

The situation becomes more clearly detrimental to market efficiency as competition for shares increases.¹⁵⁵

Many of the market manipulation cases relate to either direct manipulation of the market or actions caused to manipulate the market coupled with a statement about the market. Undertaking an action such as filing a patent infringement case under the belief that it will affect the price for a given stock and then buying or selling the stock based on that belief seems to be a few degrees away from direct market manipulation – and the privateering sponsor does not need to make a statement, although publicity about a litigation could arguably constitute a statement.

In *Basic Inc. v. Levinson*, the US Supreme Court adopted a standard for materiality of misstatements in the SEC Rule 10b-5 context by holding “materiality depends on the significance the reasonable investor would place on the withheld or misrepresented information.”¹⁵⁶ In *Basic*, the Court rejected a proposed bright-line rule for determining the materiality of a specific piece of information.¹⁵⁷ In its place, the Court called for a fact-specific case-by-case inquiry.¹⁵⁸

In the typical market manipulation case, either corporate officers have deliberately taken actions in the marketplace that differ from their public statements¹⁵⁹ or a stock broker or corporate insider has made similar market misstatements.¹⁶⁰ In one of the few patent-related market manipulation cases, a corporation’s officers were excused from liability because they demonstrated that they had genuinely believed in the strength of the company’s patents and had defended them vigorously.¹⁶¹

The Supreme Court has pointed out that not every instance of financial unfairness constitutes fraudulent activity under Sec. 10 (b).¹⁶² In *Chiarella*, the Court found no liability for a printer under Sec. 10(b) because he was not a corporate insider and he had received no confidential information from the target company – and the “market information” that he relied on to trade in the market did not concern the earning power or operations of a target company but only its plans to acquire another company.¹⁶³

In *Chiarella*, the Court also noted that the case lacked the printer’s “duty to disclose” because no duty arose from the printer’s relationship with the sellers of the target company’s securities because the printer had no prior dealings with them. The Court noted that the printer

¹⁵⁵ *Id.*

¹⁵⁶ 485 U.S. 224, 240 (1988).

¹⁵⁷ *See Id.* at 236.

¹⁵⁸ *See Id.* at 239.

¹⁵⁹ *See, SEC v. Texas Gulf Sulphur Co.*, 258 F. Supp. 262 (SDNY 1966).

¹⁶⁰ *See, SEC v. Tambone*, 597 F.3d 436 (1st Cir. 2010).

¹⁶¹ *See, Gompper v. Visx, Inc.*, 298 F.3d 893 (9th Cir. 2002).

¹⁶² *Chiarella v. United States*, 445 U.S. 222, 232-233 (1980), *citing Santa Fe Industries, Inc. v. Green*, 430 U. S. 462, 474-477 (1977).

¹⁶³ *Id.* at 231.

“was not their agent, he was not a fiduciary, he was not a person in whom the sellers had placed their trust and confidence. He was, in fact, a complete stranger who dealt with the sellers only through impersonal market transactions.”¹⁶⁴ The Court concluded that to find the printer guilty would essentially create a general duty between all market participants to forgo actions based on material, nonpublic information.¹⁶⁵ Thus, it would seem that in many privateering scenarios, even some investor privateering scenarios, that the sponsor would likely not incur any potential liability under many possible scenarios.

2.9 Tortious Interference & Conspiracy

Keeping with the nautical theme of privateering Off the coast of Cameroon about 200 years ago, a group of local residents paddled their canoe out to the *Bannister*, an English ship that had been loaded with goods for trade.¹⁶⁶ As the canoe paddled back to shore, presumably to bring back others to trade with the ship, the canoe was struck by cannon fire from another ship, the *Othello*, killing at least one of the men onboard the canoe. Capt. McGawley, commander of the *Othello*, was determined that the locals would not trade with anyone else until they had settled a debt that he believed they owed him. When the *Bannister* returned to England, its owners sued McGawley for tortious interference with their prospective business in Cameroon.¹⁶⁷ In rendering his decision, Chief Justice Kenyon noted that McGawley had no right to take the law into his own hands and therefore he owed a debt to the *Bannister* and its owners for driving away their business with deadly cannon fire.¹⁶⁸ But Justice Kenyon added that there would have been no case had the *Othello* driven the prospective customers away by accident or by legal means.¹⁶⁹

Over time, the rule of *Tarleton v. M’Gawley* has become known as tortious interference with business relationships. This tort might represent the best hope for targets who have uncovered a privateering effort by a competitive rival. Unfortunately, without first getting the court to agree to sanctions for litigation conduct (the equivalent of firing a cannon), then the target’s task may be impossibly difficult.

Tortious interference is a common law tort that occurs when one intentionally damages another’s contractual or business relationships. One branch of the tort comprises impairing an existing contractual relationship and the other branch comprises interfering with business

¹⁶⁴ *Id.* at 232-233.

¹⁶⁵ *Id.* at 233.

¹⁶⁶ *Tarleton v. McGawley*, 170 Eng. Rep. 153 (K.B. 1793), cited in *OBG Limited v. Allan, Douglas v. Hello! Limited and Mainstream Properties Limited v. Young* ([2007] UKHL 21 at Para. 8)(In unlawful means the defendant must have intended to cause damage to the claimant as a means of enhancing his own economic position. Because damage to economic expectations is sufficient to found a claim, there need not have been any intention to cause a breach of contract or interfere with contractual rights.).

¹⁶⁷ *Id.*

¹⁶⁸ *Id.*

¹⁶⁹ *Id.*

relationships, generally. *Tarleton* dealt with this later branch of the tort since the *Bannister* had no contract with the locals who were fired upon by the *Othello*.

Tortious interference with business relationships occurs where one party prevents another party from successfully establishing or maintaining business relationships.¹⁷⁰ Thus, the first party's conduct intentionally causes the injured party not to enter into a business relationship with a third party that otherwise would likely have occurred.¹⁷¹

Although the specific elements required to prove a claim of tortious interference vary from one jurisdiction to another, the elements typically include the following:¹⁷²

1. The existence of a contractual relationship or beneficial business relationship between two parties;
2. Knowledge of that relationship by a third party;
3. Intent of the third party to induce a party to the relationship to breach the relationship;
4. Lack of any privilege on the part of the third party to induce such a breach;
5. Breach of the relationship; and
6. Damage to the party against whom the breach occurs.¹⁷³

Consider, for example, the case of two companies competing for a supply contract with a larger company where one of the two competitors sponsors a privateer to make the other company look bad before the potential customer. All the elements of the tort are satisfied – save for the lack of privilege element. The sponsor should retain the privilege to sue the target for patent infringement in all circumstances – so long as the sponsor's infringement case is not frivolous. If the case is frivolous, then the privilege may be lost.

The intent element of this tort has often been difficult for plaintiffs to prove in many types of cases.¹⁷⁴ The tortious actor needs to have the purpose to cause the result, and if he does not have this purpose, his conduct does not subject him to liability under this tort even if it has the unintended effect of deterring the third person from dealing with the plaintiff.¹⁷⁵ It is not enough that the actor intended to perform the acts which caused the result - he or she must have intended to cause the result itself.¹⁷⁶ For privateering cases, one could imagine this element, however, not

¹⁷⁰ *Id.*, quoting from *Buckaloo v. Johnson*, 14 Cal.3d, 815, 827 (1975).

¹⁷¹ Such conduct is termed tortious interference with prospective business relations, expectations, or advantage or with prospective economic advantage.

¹⁷² *Builders Corporation of America v. U.S.* 148 F.Supp. 482, 484, (N.D.Cal.'57) fn. 1, rev'd. on other grounds (9th Cir.'58) 259 F.2d 766, see also *Pacific Gas & Electric Co. v. Bear Stearns & Co.* (1990) 50 Cal.3d 1118, 1126.).

¹⁷³ *Buckaloo v. Johnson*, 14 Cal.3d 815, 827 (1975).

¹⁷⁴ *Pacific Gas & Electric Co.*, *supra* note 439 at 1127 (quoting Justice Tobriner that the actionable wrong lies in the inducement to break the contract or to sever the relationship, not in the kind of contract or relationship so disrupted.).

¹⁷⁵ Rest., Torts, section 766.

¹⁷⁶ *Seaman's Direct Buying Service, Inc. v. Standard Oil Co.*, 36 Cal.3d 752, 766 (1984).

being terribly difficult to prove against a sponsor, although it might be impossible to prove it against certain privateering arrangements.

To prove tortious interference, the injured party must also prove that there is a reasonable probability that the lost economic advantage would have been realized but for the tortfeasor's interference.¹⁷⁷ For some privateering cases, this element may also provide an extra layer of defense for the sponsor.

Interestingly, there is an important limitation to the use of tortious interference as a remedy for the disruption of contractual relationships – a party to an existing contract cannot, as a matter of law, commit or conspire to commit a tortious interference with the contract.¹⁷⁸ The tort can only be asserted against strangers to the relationship.¹⁷⁹ Tortious damages are not typically available in contract cases, and courts have explained that allowing one party to bring tortious interference against another party to a contract would introduce a class of damages not contemplated under the contract laws.¹⁸⁰ Of course, the injured party could still sue over breach of contract, although punitive damages will likely not be available. Thus, tortious interference will likely not be available to targets in many of the scenarios discussed above.

As a sign of how difficult it can be to succeed with a tortious interference case, consider the plight of a small patent intermediary named iLeverage.¹⁸¹ In 2010, Allied Security Trust (AST), a patent defense aggregator somewhat similar to RPX, decided to sell some patents that had been licensed to its members.¹⁸² AST asked a company called iLeverage to conduct a private auction for the patents.¹⁸³ iLeverage sent auction solicitations to several companies, including Limelight, a content-delivery company that has been locked in a \$45-million infringement litigation with much larger Akamai.¹⁸⁴ In response, Limelight asked AST for a license to a patent mentioned in iLeverage's solicitation and was denied. In March 2010, Limelight then sued AST for declaratory judgment on the grounds that a lawsuit was imminent.¹⁸⁵ After a few weeks, AST and Limelight settled their dispute with Limelight receiving a license to the patent. In the meantime, the patent auction had been cancelled. In January 2011, iLeverage sued Limelight for

¹⁷⁷ *Youst v. Longo* (1987) 43 Cal.3d 64, 71.

¹⁷⁸ *Applied Equipment Corp. v. Litton Saudi Arabia Ltd.*, (1994) 7 Cal.4th 503, 514. (“[C]onsistent with its underlying policy of protecting the expectations of contracting parties against frustration by outsiders who have no legitimate social or economic interest in the contractual relationship, the tort cause of action for interference with a contract does not lie against a party to the contract.”).

¹⁷⁹ *Id.*

¹⁸⁰ *Dryden v. Tri-Valley Growers* (1977) 65 Cal.App.3d 990, 999, emphasis added; *see also, Shoemaker v. Myers* (1990) 52 Cal.3d 1, 24.

¹⁸¹ *iLeverage, Inc. v Limelight Networks*, CGC-11-507095, (SF Sup. Ct. 2011).

¹⁸² *Id.*

¹⁸³ *Id.*

¹⁸⁴ Joff Wild, *Suit alleges Limelight got licence from AST after filing a “frivolous and baseless” DJ Action*, IAM Blog, April 19, 2011; <http://www.iam-magazine.com/blog/Detail.aspx?g=b0f84c21-a2fa-4eef-8a6d-e3fbb779b3ac>.

¹⁸⁵ *Id.*

tortious interference with contract and tortious interference with a business relationship. Limelight responded with a motion that iLeverage’s complaint be stricken under California’s anti-SLAPP legislation.¹⁸⁶ In April 2011, the California court agreed with Limelight that its earlier lawsuit against AST had been privileged,¹⁸⁷ struck iLeverage’s complaint and assessed attorneys’ fees against iLeverage for bringing the complaint.

A civil conspiracy, or collusion, comprises an agreement between two or more parties to deprive another party of legal rights or deceive the party to obtain an illegal objective. Any voluntary agreement and some overt act by one conspirator to further the plan are the main elements necessary to prove a conspiracy. Even when no crime is involved, a civil action for conspiracy may be brought by the persons who were damaged. But conspiracy is not an independent tort and must be tied to a duty that at least one party already owes to another.¹⁸⁸ In the privateering realm, because the privateer has no duty not to sue the target for patent infringement, then the fact that the sponsor and the privateer have agreed upon a course of action creates no tortious activity – so long as the patent infringement lawsuit is well founded.

Conspiracies require an agreement between two or more persons to break the law at some time in the future or to achieve a lawful aim by unlawful means.¹⁸⁹ Conspiracies in violation of the securities laws, such as the Securities Act of 1933 and the Securities Exchange Act of 1934, form another area of potential liability for both the sponsor and the privateer.¹⁹⁰ Both the SEC and the Department of Justice may bring legal actions for conspiracies to violate the securities laws.

A few lower courts in California have applied conspiracy theory to find that one contracting party could impose liability on another for the tortious interference with that contract,¹⁹¹ but the California Supreme Court rejected this approach in *Applied Equipment Corp. v. Litton Saudi Arabia Ltd.*¹⁹² The Court found that application of conspiracy to contracts “illogically” expanded the doctrine of civil conspiracy by imposing tort liability for an alleged wrong. The Court noted, “One contracting party owes no general tort duty to another not to interfere with performance of the contract; its duty is simply to perform the contract according to its terms.” Thus, privateering against a party with whom the sponsor has a contractual relationship does not

¹⁸⁶ Order of April 4, 2011 Granting Defendant’s Motion to Strike the Suite, *iLeverage, Inc.*, *supra* note 448. Note: Some 20 states have laws to prohibit what are known as “strategic lawsuits against public participation” or SLAPP. The goal of a SLAPP lawsuit is to use legal tools such as libel and slander to stop members of the public from expressing their opinions at public meetings.

¹⁸⁷ Non-frivolous litigations are generally protected under the free speech provisions of the First Amendment; among other things *See, Professional Real Estate Investors*, *supra* note 300.

¹⁸⁸ *Applied Equipment Corp.*, *supra* note 445 at 514.

¹⁸⁹ *See, e.g., Blacks Law Dictionary* 245 (6th Ed. 1990).

¹⁹⁰ Securities Act Of 1933, as Amended Through P.L. 111-229, Approved August 11, 2010, <http://www.sec.gov/about/laws/sa33.pdf> and Securities Exchange Act, *supra* note 414.

¹⁹¹ *Wise v. Southern Pacific Co.* (1963) 223 Cal.App.2d 50, 71-72.

¹⁹² *Applied Equipment Corp.* *supra* note 445.

give rise to any special duty and could possibly even be used by a sponsor to lower its potential liability by arguing that the privateering activities were simply a form of contract breach.

Chapter 3

Equipping the Privateer

3.1 Privateering Infrastructure

No IP market intermediaries presently appear to offer privateering services as such. Of course, many of the tasks needed to prepare a privateering operation also pertain to regular service offerings of existing IP intermediaries. Privateering could be engaged as easily as contacting a licensing organization and telling them that the client would like to invest in the litigation of a patent having X, Y and Z characteristics. The sponsor could even provide a list of targets for such a patent. The sponsor's investment could even take the form of a general investment in the licensing organization itself rather than an investment in a specific IPR assertion. This would give the sponsor additional protection against discovery, and an investment in a larger organization would also provide further insulation against any potential legal liability. Of course, the facilitator's reputation would be built on its discretion.

As discussed in the companion paper,¹⁹³ IP privateering is facilitated by a ready supply of issued and active patents. The patent oversupply, to the extent that it exists, has likely occurred because of the coincidence of several factors. One part of the oversupply has come from the accelerating IP competition that has led to an increase in patent filings. But the legal standards for patentability are fixed.¹⁹⁴ Thus, increased application filings would not necessarily contribute to a corresponding increase in patent grants. In any event, the discussion below illustrates how a sponsor may utilize the abundant supply of patents to his advantage.

3.2 Finding Suitable IPRs For a Privateering Operation

Fortunately for the would-be sponsor, a patent marketplace has arisen in recent years that vastly simplifies obtaining a patent while also preserving one's anonymity.¹⁹⁵ Thousands of patents have changed hands in recent years¹⁹⁶ as defunct companies, independent inventors, corporations, and others have sold IP assets to third parties.¹⁹⁷ Also fortunate for the would-be sponsor is that a lack of ownership transparency in the marketplace provides anonymity in many

¹⁹³ See, **Article 1**.

¹⁹⁴ See, e.g., the US Patent Act, 35 USC at Sections 102-103. These conditions for patentability have been essentially the same for more than 200 years.

¹⁹⁵ Chien, *supra* note 41 at 310.

¹⁹⁶ For example, Intellectual Ventures ("IV"), founded in 2000, has alone acquired tens of thousands of patents. See, *supra* note 203.

¹⁹⁷ Chien, *supra* note 41 at 313.

cases and at least provides confidentiality in most cases, allowing companies to transact with just about any party with little fear of public exposure.¹⁹⁸

The perfect patent for many privateering operations would be one in which the patent's claims not only read on a key aspect of the target's business but also read on a key aspect of the target's business in a manner that implicates the target's managers. Thus, the privateer's litigation would be more likely to disrupt the target's management and effectively make the litigation more costly for the defendant. Disrupting the target's managers amplifies the impact of the privateer's litigation and brings further indirect rewards to the sponsor. In short, the perfect privateering patent is one that delivers a "headshot" to the target's management.

The sponsor can employ a range of special purpose entities (SPEs) for the privateering option, although a limited liability company is often the most appropriate SPE. If absolute stealth was called upon, then the sponsor could consider approaching a law firm or another intermediary and having the intermediary approach the owners of various candidate patents to gauge their appetite for selling the patent and/or joining the patent into the SPE. In the stealthiest case, the existing patent owner could agree to representation by the law firm, likely on a contingency basis,¹⁹⁹ with a contribution of the patent by the owner to the SPE and costs provided by anonymous "investors." Various unrelated investors could even provide funds for the costs of the litigation and possibly become owners of the SPE. This approach also provides a mechanism for controlling the patent owner. The investors would not necessarily be controlled by the privateering sponsor but could be aligned with the privateering sponsor, *e.g.*, they could be investors in the privateering sponsor. Thus, they would share a common interest with the sponsor but would have no written obligations that would necessarily jump out in discovery or clearly reveal the overall plan.

The privateer does not need to know the identity of the sponsor.²⁰⁰ The privateer might even be encouraged to believe that his patent had extraordinary merit that had been recognized by IP specialists who would help him achieve the recognition and rewards that he was due. The only parties who would even know the name of the sponsor would be some of the investors, but there could potentially be no contractual obligations between any of these parties and the sponsor. The arrangement might possibly be discoverable under the criminal conspiracy laws – if privateering were a crime, but would likely be undiscoverable under the civil laws since the arrangement comprises no legal or equitable cause of action.

So long as the privateer's litigation satisfied Rule 11, then there is little that the target could do against the sponsor legally.²⁰¹ The target either wins or loses the litigation. In many privateering scenarios, the sponsor does not need the privateer to actually win the litigation. In

¹⁹⁸ *Id.* at 319-320.

¹⁹⁹ Note that contingency fee arrangements are not allowed in many countries.

²⁰⁰ See, the *Lans* case.

²⁰¹ See, Chapter 2.

many cases simply bringing the litigation will satisfy the sponsor's objectives while in others a modest settlement will satisfy the sponsor's objectives.

Assume the worst case scenario for the privateer – the target not only wins the case but also wins Rule 11 sanctions against the privateer. In many circumstances, the amount awarded by the court would likely be trivial by the sponsor's standards.²⁰² Assume that the SPE had insufficient funds to pay the sanctions. The sponsor could supply one of the investors and/or the law firm with the funds to pay the sanctions. If the privateer did not know the identity of the sponsor, and the lawyers in the case were not sanctioned, then the sponsor would even be free to simply walk away from the case.

The worst case scenario for the sponsor would be one in which not only were Rule 11 sanctions awarded by the court against the privateer but where the target had also discovered the identity of the sponsor – only after all this had happened would it be possible for the target to seek legal sanctions against the sponsor – and even then, the target would need more than just suspicions in order to bring a colorable case against the sponsor. Various legal formalisms can likely be employed to protect the sponsor.²⁰³ The simple fact that the sponsor is merely an investor in the entity owning the asserted patent will likely provide ample prophylactic in most situations. If privateering becomes sufficiently widespread, then it is certainly possible that some sponsor could become dangerously sloppy – but for the moment, it has not proven difficult for sponsors to insulate themselves from the potential pitfalls of their privateers' litigations.

3.3 The Ease of Locating Suitable IPRs For a Privateering Operation

The following example illustrates just how easy it can be to find not one but many patents on a given technical subject. The entire example was constructed in just a few minutes, could be done by any patent attorney, and does not require any communications with the present owner of the patent.

Assume a privateering sponsor wants to find a patent it can apply against a manufacturer of mobile phone handset displays. The patent need not be one that falls under a telecom standard²⁰⁴ (e.g., an ETSI standard). The target patent should preferably have no FRAND²⁰⁵ obligations under a standards body. Searching the USPTO's public patent database on March 1, 2011 revealed some 41 issued patents whose claims recite "mobile," "phone," "handset," and

²⁰² *Id.*

²⁰³ *Id.*

²⁰⁴ The European Telecommunications Standards Institute (ETSI) is an independent standardization organization in telecommunications with worldwide influence. ETSI has been successful in standardizing various systems, such as GSM. <http://www.etsi.org/WebSite/homepage.aspx>.

²⁰⁵ "Fair reasonable and non-discriminatory" are the typical terms required of IPRs associated with a standards body.

“display.”²⁰⁶ This search was limited strictly to claims having these specific terms and did not consider synonyms.²⁰⁷ One could then apply further searches on the claims and specification to narrow this list further to better satisfy a given sponsor’s request. Of course, a review of these patents’ specific technical focus might reveal inventions beyond merely an improved mobile phone handset display, such as using a mobile phone handset display having these features to accomplish for some particular purpose.

The privateering sponsor may want to weed out of the list patents that are owned by large operating companies, as those will typically be the most difficult IPRs to obtain on short notice and at a reasonable price – unless the large company has already decided to offer up the patents in the IP marketplace. Filtering the large operating companies from the list above leads to some 15 patents.²⁰⁸ Of these, 15 patents, some 10 of them are owned by small companies and some 5 of them are owned by individuals. Each of the 5 patents owned by individuals (nearly one-eighth of the total) would constitute a raw set of candidates for a privateering operation.

The privateering sponsor could then review the file histories for these patents, prepare preliminary claim charts, and conduct further diligence regarding the inventors. File histories for patents issued from the mid-2000s onward can be downloaded in seconds from the USPTO²⁰⁹ free of charge and even earlier for patents issued by the EPO;²¹⁰ older patent file histories can be ordered from the patent office at relatively minimal cost. Preliminary claim charts can be prepared using the patent, its file history, and a review of the prospective infringer’s product and service offerings alone. Thus, a privateering sponsor can review just about any potential patent to the point of knowing if a credible case could be launched against a given target – all before ever contacting the IPR’s owner. In fact, the patent’s owner can only shed light on some very specific issues related to invalidity and ownership, such as whether a sales or public disclosure bar arose prior to the filing of the application, whether there is an omitted inventor, or whether there is an unrecorded sale to another party or another ownership issue. Each of these issues relates to the patent’s potential impairment, generally, and has little to do with the patent’s applicability to a specific target.

The list above was located quickly (within 15 minutes) using nothing but publicly available tools from the USPTO’s databases – the issued patent database,²¹¹ the patent prosecution

²⁰⁶ The interested reader can repeat this experiment by going to the USPTO’s advanced patent database, available at <http://patft.uspto.gov/netahtml/PTO/search-adv.htm> and entering the search term “ACLM/mobile and ACLM/phone and ACLM/handset and ACLM/display”.

²⁰⁷ Similarly, changing “mobile phone” to just “mobile” or to “phone” increased the number of patents retrieved to 151 and 134, respectively.

²⁰⁸ The owners of the patent list above can then be searched in the USPTO’s assignment database at <http://assignments.uspto.gov/assignments/?db=pat>.

²⁰⁹ File histories can be obtained on-line from the USPTO’s PAIR database at <http://portal.uspto.gov/external/portal/pair>.

²¹⁰ Patent file histories may be found on the European Patent Register at: <https://register.epo.org/espacenet/advancedSearch?lng=en>

²¹¹ See, <http://patft.uspto.gov/>.

database,²¹² and the assignment database.²¹³ The interested reader is encouraged to visit these free databases maintained by the US Patent & Trademark Office²¹⁴ and search them for not just one specific term but for the occurrence of several terms in the same patent document, especially its claims. This exercise will give some depth to the notion of what having nearly 8 million issued and 1.9 million active US patents actually means.²¹⁵

The panoply of readily accessible subscription-based tools could provide an even more sophisticated list of privateering candidates at fairly minimal cost.²¹⁶ Among other things, a variety of services offer topographic mapping tools that illustrate the extent of patent coverage in various technical areas. Many patent analysis tools were developed in Japan early in the pro-patent era.²¹⁷ While these tools may have originally been developed more to manage portfolios in-house, to perform patent clearances, and other benign activities, the same tools have ready application as means for locating IPRs to use against others.

Figure 2 below illustrates a patent map generated across a wide range of antenna patents in seconds using a fairly sophisticated mapping tool.²¹⁸ Tools such as these allow would-be sponsors to rapidly locate suitable privateering candidates well before contacting the present owner to discuss a possible sale. For example, using this antenna map, a sponsor could locate patents by competitors in the antenna space and then locate close patents owned by third parties. Further investigation of these close third-party patents could provide an alternative means for locating candidate privateering patents under the assumption that the competitor's products would be as close to the to the third-party patents as the competitor's patents were close. How close the competitor products were to the third-party patents would comprise a second step, and a step that could be completely performed without requiring any contact with the present owners of these patents. Having eventually developed a list of top candidates, the sponsor could then begin contacting patent owners to entice them into selling their patents and/or becoming privateers.

²¹² See, <http://portal.uspto.gov/external/portal/pair>.

²¹³ See, <http://assignments.uspto.gov/assignments/?db=pat>.

²¹⁴ Or the European Patent Office.

²¹⁵ See, *supra* note 281.

²¹⁶ For example, Thomson Reuters maintains a number of searching programs such as Aureka, http://aureka.micropat.com/7w/html/7w_default.asp.

²¹⁷ See, Granstrand, *supra* note 4.

²¹⁸ *Id.*



Figure Two. Patent Map

Chapter 4

Conclusions

Innovations in IPR exploitation led companies and investors to develop IP privateering as a tool for achieving larger competitive goals. The sponsor's benefits do not typically arise directly from the third party's case against a target but arise consequentially from the changed competitive environment brought about by the third party's IPR assertion.

Indirect exploitation of IPRs via intermediaries²¹⁹ does not *per se* give rise to a specific legal cause of action against the sponsor. In fact, the sponsor's potential legal liability rarely exceeds that of the third-party privateer who carries out the sponsor's assertion plan. If the privateer avoids liability, so does the sponsor in most instances. Potential sponsor legal liability may give 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. In some situations, the target may bring antitrust and/or market manipulation claims directly against the sponsor regardless of the merit of the privateer's case. For most sponsors, however, their greatest potential liability rests on adverse business consequences, particularly from public exposure of

²¹⁹ As explained above, these intermediaries can perform more than a mere "outsourced" litigation function. The intermediary's bringing of litigation against a target changes the competitive landscape between the target and the sponsor to the sponsor's advantage such that the sponsor often benefits whether or not the litigation succeeds.

the sponsor's involvement. Indeed, a sponsor's goals for a privateering operation are often defeated by public exposure. For example, IP privateering only thwarts the "mutually assured destruction" paradigm of defensive patenting so long as the operating company sponsor's identity remains hidden. Consequently, the sponsor typically makes every effort to hide its involvement in a privateering operation.

Privateering scenarios can be shaped to fit many competitive scenarios. Privateering may be used by operating companies to change the technology adoption rate between an upstart technology and an incumbent technology, to outsource the licensing of a larger collection of IPRs, to change some aspect of the legal infrastructure, and/or to generally build influence. Privateering 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 to temporarily discount shares and/or to facilitate short selling, to change a company's value during investment, and to recoup research costs. Outsourcing patent litigation, one branch of privateering, allows companies to shape their competitive environments and in some instances monetize their IP rights at extremely low cost. There are presently few existing reasons under US law why the complete ownership structure behind a given patent-holding entity must be publicly exposed. Ownership intransparency coupled with the nearly complete transparency related to patent documents themselves greatly simplifies the process of equipping a privateering operation.

Privateering raises further questions about the oversupply of active and available patents in the so-called pro-patent era and the ease with which they can be acquired and asserted. Although privateering *per se* gives rise to no legal or equitable cause of action, whether the practice should be encouraged is another matter. Privateering raises questions about the social utility of IPRs, particularly patents. Even when existing legal causes of action may theoretically come to the aid of the privateering target, the target may still have daunting discovery issues related to finding the sponsor. In market manipulation cases, the target may be unlikely to have the relevant trading data or be able to match it with a party connected to the privateering effort. Consequently, there may be a role for the Antitrust Division of the US Dept. of Justice and for the SEC in monitoring particular forms of privateering behavior and responding accordingly.