

IP; Issues

Should your company enlist patent privateers?

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At first glance, they seem like patent trolls. They don't make anything. Their sole business is to license their patents and sue those who resist purchasing licenses.

So-called "patent privateers," however, are a new and different breed. Because unlike patent trolls, patent privateers share their revenues with others—the companies whose patents they purchased.

Thanks to that difference, these modern privateers are becoming quite popular in the business community. A growing number of businesses that own patents—including [Nokia](#), [Ericsson](#), [Microsoft](#), Walker Digital and BT (British Telecommunications)—are outsourcing their patent enforcement and licensing efforts to privateers. "Just about every large company that has patents is thinking about doing this," says Ron Epstein, CEO of Epicenter IP, a consultancy that helps businesses monetize their patents.

Businesses of all sizes could benefit from outsourcing their patent enforcement and licensing. By using a privateer, an innovative company (IC) can monetize its unused patents with lower costs and less risk. But there is a trade-off. The IC gets only part of the revenue from its patents. Moreover, the IC might not like how, and against whom, the privateer enforces the patents.

Outside Experts

Some companies don't need privateers. Firms such as [IBM](#), [Qualcomm](#) and [Texas Instruments](#) have developed the capacity to run successful licensing programs in-house.

Such businesses, however, are in the minority. "Very few companies have developed, or indeed are interested in developing, the core competencies needed to be successful in the patent monetization business," Epstein says.

That's because running a licensing and enforcement program is a distinct business operation, requiring significant investment, effort and expertise. "Companies are good at making and selling products, but patent licenses are a very different product," Epstein says. "If you run a semiconductor business, what do you know about patent licensing? Nothing."

Hiring IP consultants and outside counsel can provide a business with licensing expertise and litigation muscle, but the fees can be high. Moreover, these experts cannot help a business overcome one of the main obstacles to an in-house licensing program: internal opposition.

Internal Opposition

Such opposition can arise, for instance, when in-house licensing executives go after some obvious targets—their company's suppliers and customers. Such licensing efforts usually upset suppliers and customers, which in turn upset the company's sales, marketing and manufacturing divisions. In the end, not

surprisingly, the company's top executives typically decide that maintaining good relations with customers and suppliers is more important than the patent licensing program.

Outside experts cannot remove another major impediment to in-house licensing efforts: the risk of countersuits. When a business sues for patent infringement, the defendant is likely to respond with its own allegations of infringement. This defense tactic is not only routine, but also often quite effective in forcing a plaintiff to back down.

This tactic can be particularly forceful when the plaintiff is larger than the defendant and has much greater revenue. Under such circumstances, the plaintiff's infringement claim is likely to garner much lower damages than a similar counterclaim asserted against the wealthier plaintiff. The plaintiff thus risks a net loss if the litigation is pursued to its conclusion, creating a powerful incentive for the plaintiff to settle. Indeed, the mere risk of countersuits can dissuade patentees from asserting their rights.

Ups and Downs

Patent privateers allow businesses to avoid these obstacles to patent licensing. Instead of expending significant resources in an attempt to develop expertise in patent licensing and enforcement, an IC simply can sell selected patents to an experienced privateer. The privateer will assume the costs and risks of a licensing campaign.

Internal discord at the IC won't hinder the licensing campaign because the campaign is out of the IC's hands. Moreover, if the privateer targets the IC's suppliers and customers, those targets are likely to vent their anger at the privateer, not the IC that sold the patents. "Privateers enable [ICs] to assert rights while steering clear of the negative connotations and press involved with bringing patent lawsuits," notes Matthew Rappaport, managing director of patent analytics company IP Checkups.

Similarly, privateers help insulate ICs against targets' counter-assertions of patent infringement. Any countersuits against an IC won't put pressure on the privateer to stop its enforcement efforts, so the privateer's targets have far less incentive to file these suits.

But there's a downside to the IC's inability to control the licensing campaign. The IC "may not agree with strategic calls by the [privateer], creating some friction," says Daniel McDonald, a partner in **Merchant & Gould**. For instance, the IC's customers might be lucrative targets for the privateer, but inappropriate targets from the IC's point of view. Even if customers don't blame the IC for the patent licensing campaign, the campaign may cause them to shift to products produced by the IC's rivals, creating significant damage to the IC's bottom line.

Another big downside to using a privateer is that the IC obtains only a portion of the patents' licensing revenue. Different privateers offer different terms, but it is not uncommon for privateers to keep 50 percent or more of licensing revenues. However, even if an IC gets only 10 percent of the licensing revenues, such a deal may be worthwhile because it enables the IC to garner additional income without significant costs or risks.

"In the future, more and more companies will turn to privateers," Rappaport says. "It lowers companies' risk and puts the burden of enforcement on others. I don't see why this [trend] would stop."

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