

CLIENT ALERT

# Patent Ownership and Litigation Financing: A New Era Begins in Delaware?

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## AUTHORS

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On December 8, 2022, the Federal Circuit refused a writ of mandamus challenging a controversial order by Chief Judge Connolly of the Delaware District Court seeking broad disclosures relating to patent ownership and litigation financing. Together with Chief Judge Connolly's standing orders on corporate disclosure and third-party funding, these decisions could have widespread implications for parties involved in patent litigation, corporations and individuals who have a financial stake in patent litigation, entities formed to hold intellectual property assets, and many others.

After reviewing an 80-page memorandum that Chief Judge Connolly filed in the Federal Circuit, the appeals court denied the petition by Nimitz Technologies LLC ("Nimitz") to vacate Chief Judge Connolly's order to disclose documents related to third-party interests.<sup>1</sup> Chief Judge Connolly's controversial order follows a series of unorthodox standing orders that he issued in April of this year, which are part of a larger debate about transparency in patent ownership and litigation financing that could impact many actors in the patent world.

## Background

### *Chief Judge Connolly's New Court Takes a Hard Line in Delaware*

After serving as a federal prosecutor, Chief Judge Colm Connolly joined the federal bench in 2018 and took over as Chief U.S. District Court Judge for Delaware in mid-2021. Delaware is one of the busiest patent litigation venues in the United

<sup>1</sup> In re Nimitz Technologies LLC, 2023-103, Order (Fed. Cir. Dec. 8, 2022).

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States. Many patent suits are filed by non-practicing entities (“NPEs”), some of which are colloquially known as “patent trolls.”

One example of an NPE that is a prolific filer in Chief Judge Connolly’s court is IP Edge, a patent monetization firm. In 2021, IP Edge sued approximately 50 defendants per month.<sup>2</sup> However, the involvement of IP Edge or another NPE is often not immediately clear on the face of a lawsuit, as NPEs have often formed new corporate entities to name as plaintiffs prior to filing suit.

This alleged lack of transparency may have influenced Chief Judge Connolly to issue a set of new standing orders on April 18, 2022. One order requires parties to disclose any non-party person or entity that is providing any litigation funding on a non-recourse basis in exchange for “a financial interest that is contingent upon the results of the litigation” or “a non-monetary result that is not in the nature of a personal loan, bank loan, or insurance.”<sup>3</sup> Another order issued under the authority of Federal Rule of Civil Procedure 7.1 requires disclosure of every owner and member of the parties, “proceeding up the chain of ownership until the name of every individual and corporation with a direct or indirect interest in the party has been identified.”<sup>4</sup>

### *Third-Party Disclosure Order Issued by Chief Judge Connolly*

After discovering that several cases before him appeared to be interconnected despite having different LLC plaintiffs on the face of the complaints, Chief Judge Connolly held a probing hearing with the individuals named as owners of each of the LLC plaintiffs.<sup>5</sup> During the hearing, it was discovered that the LLC owners, who were ordinary individuals, had very little involvement with the filing of the patent cases, or litigation decisions concerning those lawsuits. Instead, litigation decisions were made by lawyers and Mavexar, a consulting firm.<sup>6</sup> Mavexar approached the individuals and offered them a passive income “opportunity.”<sup>7</sup> It appeared that IP Edge assigned each patent to be litigated to an LLC owned by an individual for no money, but the LLC retained Mavexar as a litigation consultant and the LLC owners would retain only a small percentage of litigation proceeds.

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<sup>2</sup> ‘IP Edge Sued Around 50 Defendants Every Month in 2021,’ RPX Corporation, <https://www.rpxcorp.com/data-byte/ip-edge-sued-around-50-defendants-every-month-in-2021/> (March 16, 2022).

<sup>3</sup> United States District Court for the District of Delaware, Standing Order Regarding Third-Party Litigation Funding Arrangements (D. Del. Apr. 18, 2022).

<sup>4</sup> United States District Court for the District of Delaware, Standing Order Regarding Disclosure Statements Required by Federal Rule of Civil Procedure 7.1 (D. Del. Apr. 18, 2022).

<sup>5</sup> Nimitz Tech. LLC v. CNET Media, Inc., No. 21-1247-CFC, Memo. Order (D. Del. Nov. 30, 2022) (Connolly, J.).

<sup>6</sup> Andrew Strickler, “Del. Judge’s Tough Stance on Disclosures Roils Patent Bar,” Law360, Dec. 2, 2022, <https://www.law360.com/articles/1554050>.

<sup>7</sup> Id. at 41, 51.

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Due to what he considered a lack of transparency, Chief Judge Connolly issued an unorthodox order on November 10, 2022 requiring Nimitz to disclose information related to third-party interests, including engagement letters, assets and bank account information, and correspondence between plaintiffs' attorneys, Mavexar, and IP Edge.<sup>8</sup>

### *The Federal Circuit Sides with Chief Judge Connolly*

Nimitz appealed to the Federal Circuit, and the Federal Circuit stayed Chief Judge Connolly's order "pending further action."<sup>9</sup> Not long after, Chief Judge Connolly made the seemingly unprecedented move of filing an 80-page memorandum in the appeals court defending his authority to issue the order.

On December 8, 2022, the Federal Circuit upheld Chief Judge Connolly's order, denying Nimitz's petition to vacate it.<sup>10</sup> The appeals court's decision pointed to Chief Judge Connolly's memorandum in which he stated that the purpose of the order was to probe into the following issues: "(1) Did counsel comply with the Rules of Professional Conduct? (2) Did counsel and Nimitz comply with the orders of this Court? (3) Are there real parties in interest other than Nimitz, such as Mavexar and IP Edge, that have been hidden from the Court and the defendants? (4) Have those real parties in interest perpetrated a fraud on the court by fraudulently conveying to a shell LLC the #328 patent and filing a fictitious patent assignment with the PTO designed to shield those parties from the potential liability they would otherwise face in asserting the #328 patent in litigation?"<sup>11</sup>

Further, the Federal Circuit wrote that "a direct challenge to [Chief Judge Connolly's] standing orders at this juncture would be premature."<sup>12</sup> Nevertheless, two companies allegedly controlled by IP Edge—Creekview IP LLC and Waverly Licensing LLC—directly attacked the legitimacy of the standing orders on December 13 in petitions for writs of mandamus to the Federal Circuit.<sup>13</sup> Consequently, Chief Judge Connolly postponed a hearing for another case involving litigation funding questions until after the appeals court rules on Creekview and Waverly's petitions.<sup>14</sup>

### **What does this mean for the future of financial interests in patent litigation?**

Chief Judge Connolly's orders and the Federal Circuit's decision occur against a wider backdrop of issues that affect more than just Nimitz, Mavexar, and IP Edge. Other litigants should be prepared to answer similar questions about third-party

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<sup>8</sup> Nimitz Tech. LLC v. CNET Media, Inc., et al., No. 21-1247-CFC, Memo. Order (D. Del. Nov. 10, 2022) (Connolly, J.).

<sup>9</sup> In re Nimitz Technologies LLC, 2023-103, at 2 (Fed. Cir. Nov. 17, 2022) (on petition for writ of mandamus to the United States District Court for the District of Delaware in Nos. 1:21-cv-01247-CFC, 1:21-cv-01362-CFC, 1:21-cv-01855-CFC, and 1:22-cv-00413-CFC).

<sup>10</sup> In re Nimitz Technologies LLC, 2023-103, Order (Fed. Cir. Dec. 8, 2022).

<sup>11</sup> Id. at 4.

<sup>12</sup> In re Nimitz Technologies LLC, 2023-103, Order (Fed. Cir. Dec. 8, 2022) at 5.

<sup>13</sup> "IP Edge-Linked Companies Decry Intel's Defense of Judge's Probe," Bloomberg Law, Dec. 14, 2022, <https://news.bloomberglaw.com/ip-law/ip-edge-linked-companies-decry-intels-defense-of-judges-probe>.

<sup>14</sup> Id.

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funding sources and all individuals or corporations with an interest in the parties and the litigation. Notably, Chief Judge Connolly has persisted in his investigations of third parties even after cases were voluntarily withdrawn.<sup>15</sup> Perhaps drawing from his experience as a federal prosecutor, his relentless pursuit of third parties sends a strong message that compliance with his orders will be aggressively enforced.

Some people believe that Chief Judge Connolly may also be acting in response to another problem—the Delaware district court’s over-burdened docket.<sup>16</sup> Chief Judge Connolly stated at an October event that the number of patent cases in Delaware was “through the roof.”<sup>17</sup> By markedly increasing the risk of filing for parties with third-party connections they prefer not to reveal, Chief Judge Connolly’s actions may deter some plaintiffs from filing and in turn reduce the court’s crushing caseload.

However, some people argue that Chief Judge Connolly’s solution to the problems he faces goes too far. Nimitz’s counsel, for example, accused him of overstepping boundaries and acting as an “investigator, prosecutor, and fact-finder.”<sup>18</sup> Nimitz contends that Chief Judge Connolly’s order would have the undesirable consequence of revealing highly confidential business information.<sup>19</sup> However, at least in the case of Nimitz, the Federal Circuit countered that such information could be protected from the public eye by remaining under seal.<sup>20</sup>

Others see benefit in Chief Judge Connolly’s unprecedented actions,<sup>21</sup> with some tech industry companies and groups filing amicus briefs in support of his information requests.<sup>22</sup> For example, Intel Corporation explained, “Investment firms funding NPEs acquire huge bundles of patents with the intent to bring many lawsuits, betting that even if many turn out to be frivolous, they will still make a large profit overall. This practice has resulted in increased litigation that lacks merit, but still forces technology companies to expend vast sums of money to defend themselves. At the same time, these cases tend to be more difficult to settle, because the shell companies are effectively immune from countersuits or ordinary commercial constraints.”<sup>23</sup>

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<sup>15</sup> Ryan Davis, “Del. Judge Sets Hearings About Patent Funding Info Concerns,” Law360, Sept. 14, 2022, <https://www.law360.com/articles/1530382>.

<sup>16</sup> Andrew Strickler, “Del. Judge’s Tough Stance on Disclosures Roils Patent Bar,” Law360, Dec. 2, 2022, <https://www.law360.com/articles/1554050>.

<sup>17</sup> Dani Kass, “Del. Chief Judge Says Patent Docket Is Getting Out Of Hand,” Law360, Oct. 20, 2022, <https://www.law360.com/articles/1541896>.

<sup>18</sup> In re Nimitz Tech. LLC, 2023-103, at 6 (Fed. Cir. Nov. 15, 2022) (on petition for writ of mandamus to the United States District Court for the District of Delaware in Nos. 1:21-cv-01247-CFC, 1:21-cv-01362-CFC, 1:21-cv-01855-CFC, and 1:22-cv-00413-CFC).

<sup>19</sup> Id. at 19–20.

<sup>20</sup> In re Nimitz Technologies LLC, 2023-103, Order (Fed. Cir. Dec. 8, 2022) at 5.

<sup>21</sup> Strickler, “Del. Judge’s Tough Stance on Disclosures Roils Patent Bar,” Law360, Dec. 2, 2022.

<sup>22</sup> “Intel, Tech Firms Back Connolly Patent Litigation Funding Probes,” Bloomberg Law, Dec. 1, 2022, <https://news.bloomberglaw.com/ip-law/intel-tech-firms-back-connolly-patent-litigation-funding-probes>.

<sup>23</sup> Unopposed Motion of Intel Corporation to File a Brief as Amicus Curiae Supporting Respondents at 15, In re Nimitz Technologies LLC, No. 2023-103 (Fed. Cir. Nov. 30, 2022).

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Chief Judge Connolly's orders occur in the context of a broader debate about the public's right to know the true owner of a patent. The Senate Judiciary Committee is considering the passage of S.2774, the Pride in Patent Ownership Act ("PPOA"), which requires up-to-date patent ownership information to be publicly available and searchable in a USPTO-maintained database.<sup>24</sup>

Proponents of the PPOA believe that it will promote transparency of true patent ownership, thus deterring "bad actors" from holding patents.<sup>25</sup> Critics argue that U.S. inventors, startups, and universities will be inadvertently harmed by the PPOA. By keeping a public ledger of developing technologies, it could give infringers "a plethora of new litigation tactics to harass all patent holders."<sup>26</sup> Infringers could "track developing technologies and attack them through frivolous challenges at the USPTO."<sup>27</sup>

Interestingly, Chief Judge Connolly identified as one benefit of his November 10 order to Nimitz the promotion of the public interest in knowing who is using the court system.<sup>28</sup> But by choosing to keep Nimitz's disclosures under seal, this benefit to the public may be unrealized. Thus, the best way to promote public transparency and uphold the integrity of the judicial system without inadvertently harming current or potential patent litigants remains an open question.

### Conclusion

The recent decisions by the Federal Circuit and Chief Judge Connolly could have significant implications for parties involved in patent litigation, as well as corporations and individuals with a financial stake in litigated patents. These actions signal a potential shift towards greater transparency in patent ownership and litigation financing. This, in turn, may have a wider impact on actors in the patent world, including NPEs and those who hold assets that may be used to purchase or sell patents in the future. It remains to be seen how these developments will play out and what further effects they will have on the intellectual property landscape.

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<sup>24</sup> Eileen McDermott, "Senate Judiciary Set to Consider Pride in Patent Ownership Bill Amid Opposition," IPWatchdog, December 7, 2022, <https://ipwatchdog.com/2022/12/07/senate-judiciary-set-consider-pride-patent-ownership-bill-amid-opposition/>.

<sup>25</sup> Id.

<sup>26</sup> Id.

<sup>27</sup> Id.

<sup>28</sup> Nimitz Tech. LLC v. CNET Media, Inc., et al., No. 21-1247-CFC, Memo. Order at 5 (D. Del. Nov. 10, 2022) (Connolly, J.).

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## Patent Ownership and Litigation Financing: A New Era Begins in Delaware?

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