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THIRD-PARTY PATENT LITIGATION FINANCING IN THE UNITED STATES: DO YOU KNOW WHO IS SITTING IN YOUR COURTROOM?[**]

Summary

The goal of this paper is to present the current landscape of third-party litigation financing in the United States—namely, patent disputes, as well as a brief insight into the litigation funding business. In the last ten years, patent litigation brought by patent trolls has increased, creating a significant problem. First, this paper explains the basic rules of federal civil procedure that relate to deciding which court will hear a patent case. Next, this paper discusses the Nimitz case before the United States District Court for the District of Delaware, which gained publicity due to the non-disclosure of certain facts by Nimitz's counsel to the court. Finally, the author recognizes problems raised after the Nimitz case in connection to third-party litigation financing.

Key words: *Patent Litigation. – Litigation Financing. – Patent Trolls. – United States. – Third-Party Funders.*

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I Introduction to Third-Party Litigation Financing

Third-Party Litigation Financing ("TPLF") is a huge business in the United States. Reports appraise that there was a 207 percent increase in overall litigation funding in the United States between 2012 and 2018—equating to an approximate value of $13.5 billion today. The litigation funding industry generates billions of dollars each year, and patent cases play a certain role in it. Patent litigation cases are high-dollar cases, with $2.8 billion of total damages being awarded across sixty-seven cases in 2022.[1] Those litigations are often lengthy and expensive. A recent survey estimated the median cost of litigation through appeal at $675,000 when less than $1 million is at stake and $4 million when at least $25 million is at stake.[2] For certain companies, like start-ups, this is a significant burden. However, even corporations with high net profits and revenues engage in TPLF for their cases to diversify risk(s).[3] Today, TPLF constitutes about thirty percent of all patent litigation—a conservative estimate.[4] While TPLF has its merits, there are also concerns about potential abuse and ethical issues.

TPLF is based on the doctrine of champerty. Champerty refers to a relationship that arises when third parties unrelated to a litigation provide material support to litigants in exchange for consideration contingent on the outcome of the litigation.[5] The most basic champerty scheme occurs when a third party provides material support to a party on the condition that the litigant share with the supporter any of the proceeds won from the litigation. The third-party funder must have no *bona fide* interest in the case—the sole benefit is pecuniary.[6] The purpose is to allow the plaintiff to bring a lawsuit when he would not otherwise have the resources to do so, which is

1 Lex Machina, Patent Litigation Report 2023, available at: *https://lexmachina.com/media/press/lex-machina-releases-2023-patent-litigation-report/*, 15. 4. 2023.

2 American Intellectual Property Law Association, Report of the Economic Survey (2021), available at: *https://www.aipla.org/detail/journal-issue/2021-report-of-the-economic-survey*, 15. 4. 2023.

3 The world's largest food distributor, Sysco Corp., engaged in litigation financing with London-based Burford Capital to raise $140 million for exchange of any winnings from its antitrust cases. *See* Hannah Albarazi, "When A Litigation Funder Is Accused Of Taking Over The Case", March 2023, available at: *https://www.law360.com/articles/1584860/when-a-litigation-funder-is-accused-of-taking-over-the-case*, 19. 4. 2023.

4 Jonathan Stroud, "Third-Party Litigation Funding: Disclosure to Courts, Congress, and the Executive", February 2023, available at: *https://patentlyo.com/patent/2023/02/litigation-disclosure-executive.html*, 16. 4. 2023.

5 *See* Cornell Law School Legal Information Institute, Champerty, available at: *https://www.law.cornell.edu/wex/champerty#:~:text=The%20most%20basic%20champerty%20scheme,the%20sole%20benefit%20is%20pecuniary*, 19. 4. 2023.

6 *Ibid.*

usual for so-called consumer funding nowadays. Consumer arrangements are between funders and individuals, which may be deemed contingency fee arrangements, which are commonly used in personal injury cases. There is also commercial funding, which is between funders and corporate litigants or law firms (usually small-to-mid-size law firms). The patent TPLF falls into the latter category of funding. A variation is when corporate litigants are incorporated by the funders for litigation, thus being divergent from "pure" commercial funding.

Even though champerty agreements were historically illegal (the early common law did not look at champerty in a propitious manner), such agreements are common today. However, states do not universally welcome the scheme.[7] Some states characterize it as a risky form of gambling, thus deeming it illegal because it is essentially speculation that violates state law.[8] Some authors argue that there is something immoral about betting on patent litigation and that it should be outlawed as a form of gambling.[9] In modern parlance, champerty encompasses TPLF. TPLF is allowed in states such as Arizona, Delaware, California, Texas, New Jersey, and Illinois. Alternatively, Alabama, Colorado, Kentucky, and Pennsylvania have restricted or outlawed TPLF.[10] Therefore, it is distinguishable that TPLF regimes vary between states—some of which offer better opportunities for litigation funding business.

II The Business of TPLF

A TPLF fund operates like any investment fund in the capital market. They have fund managers who are general partners who select lawsuits to invest in.[11] The asset in question is a lawsuit, rather than other traditional financial instruments or commodities. The funds are backed by limited partners who provide capital to the fund.[12] TPLF is structured as a complex

7 *Ibid.*

8 Today, in the industry of TPLF there is a high number of fund investment players. However, Ohio's Supreme Court held in 2003 that "a lawsuit is not an investment vehicle, and that intermeddler is not permitted to gorge upon the fruits of litigation." *Rancman v. Interim Settlement Funding Corp.*, 99 Ohio St.3d 121 (2003), 6.

9 Paul Taylor, "Disclosing High Roller Bankrolling in the Patent Litigation Casino: The Need to Regulate Third Party Litigation Financing", May 2022, available at: *https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4099537*, 16. 4. 2023, 4.

10 Korok Ray, "Third-Party Funding of Patent Litigation: Problems and Solutions", June 2022, available at: *https://ssrn.com/abstract=4125510*, 16. 4. 2023, 3.

11 *Ibid.*

12 *Ibid.*

private agreement.[13] The funder will offer non-recourse funding upfront to cover expenses in exchange for being first in line to recoup that funding from the funds awarded. They also take a hefty percentage—often sixty percent or more of whatever is remaining—although there are no rules governing how much the funder can ask for.[14] Sometimes all fees are paid upfront by the funder. Some pay a continuing level of a fee/contingency split with firms to split risk; some pay the original patent holder upfront; others make all recovery, for all parties in a waterfall, contingent upon settlement.[15] This access to capital markets, in which third parties fund the litigation and in exchange capture some of the upside, allows the plaintiff to shift the risk from himself to a less-risk-averse entity, which consists of a diversified pool of risk-neutral shareholders.[16]

Patent TPLF funds generally promise roughly 20 percent internal rates of return to funders year-over-year, or about a 2x to 2.5x return on investment over four or five-year investment cycles.[17] This fits into the most common funding structure, which applies a "Two and Twenty" rule. "Two" means 2% of assets under management and refers to the annual management fee charged by the hedge fund for managing assets. "Twenty" refers to the standard performance or incentive fee of 20% of profits made by the fund above a certain predefined benchmark.

To reiterate, one of the key notions of TPLF is that the third party does not have a non-financial stake in the litigation, so it cannot play any legal role in the lawsuit.[18] However, there are indicia that nearly all TPLFs require[d] oversight and consultation at all key decision points.[19] This practice can raise a claim of champerty or maintenance in the court, therefore funders are putting a lot of effort into the non-disclosure of such agreements. All abovementioned relates to the practice of the funders who should be considered traditional investors. Even though certain courts perceive traditional funders as "gamblers in a patent casino" said quote is more appropriate for the entities that engage in litigation, and financing in general, by exploiting problems with the patent systems.

13 J. Stroud, internet source without page number.

14 *Ibid*.

15 *Ibid*.

16 K. Ray, 3.

17 J. Stroud, internet source without page number.

18 K. Ray, 3.

19 J. Stroud, internet source without page number.

III Non-Practicing Entities, Patent Trolls, and TPLF

The patent system is designed to encourage innovation by giving inventors the exclusive right to their technologies for a limited period of time.[20] In the classic model, patent litigation is brought by a company that invented something and sells it in the marketplace against competitors that copy the new technology.[21]

Complex patent landscapes have given rise to some firms that are solely in the business of patent litigation and licensing. These firms are known variously as "nonpracticing entities", "patent assertion entities", or "patent trolls".[22] Notably, the terms are not interchangeable.

A nonpracticing entity ("NPE") is a person or company that acquires patents with no intent to use, further develop, produce, or market the patented invention.[23] Patent assertion entities are typically for-profit firms whose business is asserting patents; any patent assertion entity is also (by definition) a non-practicing entity.[24] Therefore, traditional TPLF funds fall into this category and should be distinguishable from "patent trolls". Patent trolls (pejoratively) are considered nonpracticing entities which focus on aggressively or opportunistically enforcing the patent against alleged infringers.[25] Their primary business is collecting money from others that allegedly infringe their patents.

Trolls are a significant feature of the patent system. The patent troll market has grown substantially, engaging in the purchase of patents from small entrants (i.e., secondary patent market) and asserting them in court.[26] Patent trolls are not a unitary phenomenon. There are at least three different troll business models, and those models have different effects on the patent system.[27]

The first model consists of "lottery-ticket" trolls, which is a company that owns a patent and hopes to strike big in court.[28] This model is, for the

20 Mark A. Lemley, A. Douglas Melamed, "Missing The Forest For The Trolls", *Columbia Law Review*, Vol. 113, Nr. 8/2013, 2121.

21 *Ibid*.

22 Jonathan S. Masur, Lisa Larrimore Ouellette, *Patent Law: Cases, Problems, and Materials*, 2nd Edition, 2022, 37.

23 Bryan A. Garner (ed.), "Nonpracticing entity", *Black's Law Dictionary*, 11th edition, St. Paul, 2019.

24 J. S. Masur, 37.

25 B. A. Garner.

26 K. Ray, 8.

27 M. A. Lemley, A. D. Melamed, 2120.

28 *Ibid*.

purposes of this paper, irrelevant since the model of functioning in the Nimitz case (*see infra* sec. 5) differentiates from the "lottery-ticket" model as well as the "patent aggregators". Patent aggregators collect many patents, after which they demand royalties to license the portfolio and threaten to sue those that do not pay.[29]

The Nimitz case demonstrates a variation of "bottom-feeder" trolls. Bottom-feeders are trolls who are interested in quick, low-value settlements for a variety of patents. They rely on the high cost of patent litigation to induce the parties they sue to settle for small amounts of money rather than pay millions to their lawyers.[30] The model can be lucrative because patent holders can sue many defendants on the same patent, forcing multiple settlements, and because there are lots of patents acquired for very little money as long as quality is unimportant.[31]

The bottom-feeder trolls should be considered funders in TPLF, since the newer strategy practiced in recent years shows that they are offering funding to third persons, instead of litigating on their own and under their name. This raises some questions regarding the trustworthiness, candor toward the tribunal and opposing party, and equality between the funder and party that engages in the litigation.

IV Patent Cases Jurisdiction and Venue

One criterion for third-party funders, and trolls to some extent, in deciding whether to fund a certain case is where the case would be tried. United States federal district courts are conferred exclusive *subject matter jurisdiction* over patent law cases based upon the following language: "The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights, and trademarks".[32] Furthermore, courts must have *personal jurisdiction* over the defendant to hear a case that can be general or specific. To decide whether it has *personal jurisdiction* over the case, the Federal Circuit applies a three-part test: "(1) whether the defendant purposefully directed activities at residents of the forum; (2) whether the claim arises out of or relates to those activities; and (3) whether the assertion of personal jurisdiction is reasonable and fair."[33]

29 *Ibid.*

30 75 percent of cases in the Federal District Court were likely to be settled in a period from 2020–2022. Lex Machina, Patent Litigation Report 2023.

31 M. A. Lemley, A. D. Melamed, 2121.

32 28 U.S.C. Code § 1338(a).

33 *Nuance Communications v. Abbyy Software House*, 626 F.3d 1222, 1231 (Fed. Cir. 2010).

Further, patent lawsuits must be brought in an appropriate venue: "Any civil action for patent infringement may be brought in the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business."[34] This section was interpreted broadly until 2017 and the landmark decision of the Supreme Court in *TC Heartland v. Kraft Foods.* In this case, the Court held: "for purposes of § 1400(b) a domestic corporation 'resides' only in its State of incorporation."[35] Additionally, *TC Heartland* points out that the defendant may be sued in the state where it has a regular place of business. In this case, the Supreme Court reversed the practice of lower courts (i.e., the Federal Circuit) that effectively allowed patent holders to sue for infringement in any federal court in the country. This prior practice was a kind of paradise for the plaintiffs and patent trolls. Some districts gained a reputation for their' court procedures and jury pools to favor plaintiffs. Potential plaintiffs ventured into forum shopping and judge shopping. Forum shopping is the practice of choosing the most favorable jurisdiction or court in which a claim might be heard.[36] Judge shopping is the practice of filing several lawsuits asserting the same claims—in a court or a district with multiple judges—with the hope of having one of the lawsuits assigned to a favorable judge and of voluntarily dismissing the others.[37] The Eastern District of Texas is significant concerning these occurrences.[38] Defendants in this district faced high rewarded damages and the court was accused of being sympathetic to patent plaintiffs. This went so far away that tech giant *Apple* shuttered its only two retail stores in the Eastern District of Texas to avoid being sued in a district where the company has been hit with massive patent verdicts.[39]

Even though *TC Heartland* addressed the jurisdiction question in a certain manner, as Lemley stated: "[I] don't think TC Heartland spells the end of lawsuits in the Eastern District of Texas, but it will definitely cause a number of cases to move elsewhere. The cases that stay there will be cases

34 28. U.S. Code § 1400(b).

35 *TC Heartland v. Kraft Foods*, 581 U.S. 258 (2017).

36 Bryan A. Garner (ed.), "Forum-shopping", *Black's Law Dictionary*, 11th edition, St. Paul, 2019.

37 Bryan A. Garner (ed.), "Judge-shopping", *Black's Law Dictionary*, 11th edition, St. Paul, 2019.

38 Some companies spent millions of dollars in contribution to the local community (i.e., potential jurors). For instance, Samsung, Korean tech giant, sponsored scholarships and a winter ice skating rink in front of the courthouse in Marshall, Texas.

39 Ryan Davis, "Apple Shuts Down Stores in EDTX, But Will Other Cos. Follow?", February 2019, available at: *https://www.law360.com/articles/1131879*, 17. 4. 2023, 1.

against large retailers who have stores in every district."[40] This is exactly what followed.

After *TC Heartland*, many patent infringement cases moved from the Eastern District of Texas to the Western District of Texas and the District of Delaware. In 2022, the districts with the most filed patent cases were the Western District of Texas with 867, the District of Delaware with 667, and the Eastern District of Texas with 472.[41] There is a clear decrease in the number of cases filed before the Eastern District of Texas—a direct result of the Supreme Court's decision in *TC Heartland*.

The Western District of Texas is flooded with patent infringement lawsuits because the city of Austin is situated there. Austin has nearly one million inhabitants and major U.S. business operations. Therefore, the second portion of 28 U.S.C. § 1400(b) applies, and lawsuits may be brought before the federal court in the Western District of Texas. For instance, Judge Albright from the Western District of Texas (Vaco division) heard an astonishing 2,404 patent cases from 2020–2022, which is the highest number of patent cases over a three-year period.[42] Moreover, Judge Albright created the so-called *rocket-docket* that promotes accelerated trial schedules and quick settlements.[43] Judge Albright also elected to eliminate discoveries after the Markman hearings.[44] Notably, in most of the cases tried in the Western District of Texas, defendants are large, established technology companies and plaintiffs are shell entities created explicitly to enforce and litigate patents.

The answer to why Delaware has such a high number of cases is simple. According to reports, 66.8% of all Fortune 500 companies are incorporated in Delaware.[45] Further, in 2021, Delaware had more entities incorporated in the state (1,825,050)[46] than citizens (1,004,807).[47] Delaware is popular among

40 Larry Downes, "The U.S. Supreme Court is Reining in Patent Trolls, Which is a Win for Innovation", *Harvard Business Review*, June 2017, available at: *https://hbr.org/2017/06/the-u-s-supreme-court-is-reining-in-patent-trolls-which-is-a-win-for-innovation*, 17. 4. 2023.

41 Lex Machina, Patent Litigation Report 2023.

42 *Ibid*.

43 Judge Albright's Standing Order Governing Proceedings (OGP) 4.1 – Patent Cases (April 14, 2022) at 3, Appendix A.

44 A hearing at which the court receives evidence and argument concerning the construction to be given to terms in a patent claim at issue. *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 984–85 (Fed. Cir. 1995) (en banc), aff'd, 517 U.S. 370.

45 Secretary of State, Delaware Division of Corporations: 2021 Annual Report, 2022, available at: *https://corpfiles.delaware.gov/Annual-Reports/Division-of-Corporations-2021-Annual-Report.pdf*, 17. 4. 2023, 1.

46 *Ibid*.

47 United States Census Bureau, Growth in U.S. Population Shows Early Indication of Recovery Amid COVID-19 Pandemic, December 2022, available at: *https://www.census.gov/*

business entities due to its General Corporation Law, which represents the most advanced and flexible business formation statute in the United States, as well as the wide-known Court of Chancery—the most efficient and knowledgeable corporation court in the country.

Therefore, Delaware became one of the largest stages for patent cases in the United States. Delaware patent casino (i.e., court) was a fortunate and easy-win venue for NPEs and patent troll players, however, this recently changed because of one judge.

V Rules Governing TPLF in Delaware

As mentioned, TPLF could raise certain ethical and frivolous conduct implications. To mitigate this, certain rules are applicable, but the TPLF industry is not specifically regulated under United States federal law. There is also no nationwide requirement to disclose litigation funding agreements to courts or opposing parties in federal litigation, however, some courts have required disclosures of funding arrangements in some instances—for example, the United States District Court for the District of Delaware. Additionally, certain local rules regarding professional conduct prohibit potential unlawful engagements.

One of these rules is rule 83.5 of Local Rules of Civil Practice of the United States District Court for the District of Delaware ("Local Rule 83.5"), which stipulates that association with Delaware counsel is required in the case that counsel had been admitted *pro hac vice*[48] in the case. This is the reason why counsel associates with local counsel in Delaware when representing the clients. There are also certain strategic reasons when choosing which counsel to associate with for litigation in Delaware, but those fall outside the scope of this paper.

Chief Judge Connolly issued the remarkable 80-page memorandum order on November 10, 2022, which directed Nimitz Technologies and its counsel to produce certain records to the court ("Memorandum Order").[49] In this Memorandum Order, the judge established a connection between Nimitz Technologies LLC, other shell companies that had appeared in his courtroom, and third-party funders.

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newsroom/press-releases/2022/2022-population-estimates.html, 17. 4. 2023, 6.

48 Pro hac vice is a temporary admission of an out-of-jurisdiction lawyer to practice before a court in a specified case or set of cases. *See* Bryan A. Garner (ed.), "Pro hac vice", *Black's Law Dictionary*, 11th edition, St. Paul, 2019.

49 *Nimitz Technologies LLC v. Bloomberg L.P.*, Civ. No 22–413-CFC, Document 23.

To promote transparency, Chief Judge Connolly first issued on April 18, 2022, the standing order regarding third-party funding arrangements (the "Third-Party Funding Disclosure Statement").

In pertinent part, the Third-Party Funding Disclosure Statement recites:

> . . . [W]here a party has made arrangements to receive from a person or entity that is not a party (a "Third-Party Funder") funding for some or all of the party's attorney fees and/or expenses to litigate this action on a non-recourse basis in exchange for (1) a financial interest that is contingent upon the results of the litigation or (2) a non-monetary result that is not in the nature of a personal loan, bank loan, or insurance:
>
> 1. Within the later of 45 days of this Order or 30 days of the filing of an initial pleading or transfer of the matter to this District, including the removal of a state action, the party receiving such funding shall file a statement (separate from any pleading) containing the following information:
>   a. The identity, address, and, if a legal entity, place of formation of the Third-Party Funder(s);
>   b. Whether any Third-Party Funder's approval is necessary for litigation or settlement decisions in the action, and if the answer is in the affirmative, the nature of the terms and conditions relating to that approval; and
>   c. A brief description of the nature of the financial interest of the Third-Party Funder(s).

As stated by Judge Connolly, his confidence about the appropriateness of this order is supplementally justified on the survey showing that "[s]ix U.S. Courts of Appeals have local rules which require identifying litigation funders" and that "of the 94 federal district courts in the United States, 24—or roughly 25% of all U.S District Courts—require disclosure of the identity of litigation funders in a civil case."[50] The Third-Party Funding Arrangements Order applies to each case that is heard by Chief Judge Connolly.

Next, Federal Rule of Civil Procedure 7.1 requires any "nongovernmental corporate party" to file "with its first appearance, pleading, petition, motion, response, or other request addressed to the court" "a disclosure statement that: (1) identifies any parent corporation and any publicly held corporation owning 10% or more of its stock; or 2) states that there is no such corporation." (Rule 7.1).[51]

50 *Ibid.*, 7.

51 Fed. R. Civ. P. 7.1.

Based on this, Judge Connolly issued another standing order regarding disclosure statements required by Rule 7.1 ("Disclosure Order"). The order required any "party [that] is a nongovernmental joint venture, limited liability corporation, partnership, or limited liability partnership, ... [to] include in its disclosure statement filed pursuant to Federal Rule of Civil Procedure 7.1 the name of every owner, member, and partner of the party, 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."[52]

Each of these requirements regarding third-party funding disclosures embodies the crux of the cases related to Nimitz Technologies LLC ("Nimitz Technologies").

VI Candor Toward Tribunal—What is That?

1. *Nimitz* case

Nimitz Technologies filed a total of 11 cases in Delaware between August 30, 2021, and March 30, 2022. Four of these patent cases were assigned to Chief Judge Connolly. The patent asserted in each case was U.S. Patent No. 7,848,328 ('328) claiming a method of broadcast content encapsulation. The other seven cases filed were voluntarily dismissed by Nimitz between December 2021 and April 2022. The attorney of record in each case was Mr. Pazuniak.[53]

The remaining cases before Judge Connolly were *Nimitz Technologies LLC v. CNET Media, Inc.*, Civ. No. 21–1247, *Nimitz Technologies LLC v. Buzzfeed, Inc.*, Civ. No. 21–1362, *Nimitz Technologies LLC v. Imagine Learning, Inc.*, Civ. No. 21–1855 and *Nimitz Technologies LLC v. Bloomberg L.P.*, Civ. No. 22–413 (collectively referred to as "*Nimitz*" encompassing other seven settled cases).

To understand the events in *Nimitz*, we must take a brief look at another case before the United States District Court for the District of Delaware heard by Judge Connolly and his findings. On July 13, 2022, an oral argument on a filed motion to dismiss was held in *Longbeam Technologies LLC v. Amazon.com, Inc.*, Civ. No. 21–1559 ("*Amazon*"). At first glance, Judge Connolly did not have any reason to believe that this case was related to *Nimitz*.[54]

52 Colm Connolly, "Standing Order Regarding Disclosure Statements Required By Federal Rule of Civil Procedure 7.1", April 2022, available at: *https://www.ded.uscourts.gov/sites/ded/files/Standing%20Order%20Regarding%20Disclosure%20Statements.pdf*, 17. 4. 2023, 1.

53 *Nimitz Technologies LLC v. Bloomberg L.P.*, Civ. No 22–413-CFC, Document 23.

54 *Ibid.*, 10.

Since Longbeam Technologies LLC ("Longbeam") failed to comply with the disclosure requirements under Rule 7.1, Chief Judge Connolly pointed that fact out to its counsels. What caught the attention of the judge during a hearing is that neither Longbeam's counsel, nor Amazon's counsels, were informed who are the members of Longbeam.[55]

Longbeam filed an Amended Rule 7.1 disclosure statement representing that "its sole owner and only member is Sharon Bullion." Company asserted in its Amended Third-Party Funding Disclosure Statement that "Longbeam ha[d] not entered into any funding arrangement or agreement for the payment of attorneys' fees in this case other than, to the extent applicable, its retainer agreement with outside counsel of record, Daignault Lyer LLP."[56] Amazon objected to both statements. Moreover, Amazon brought to the surface several things which later turned out to be important for *Nimitz*: (1) Longbeam is an extension of IP Edge by its own administrative filings and public reporting; (2) Longbeam's correspondence address is an "@ip-edge.com" email address; and (3) IP Edge has an "established practice of the naming of individuals, seemingly with no prior connection to monetization, as managers or members of its various LLCs' to avoid disclosure of its real interests, in defiance of the purpose of this Court's standing disclosure orders." [57] Notably, the asserted patent in this case was assigned to Longbeam three days before filing the lawsuit and the documents filed with the Patent and Trademark Office ("PTO") listed linhd@ip-edge.com as the assignee's email address.

Amazon continued to present the published article (published by RPX Corporation) that identified Mark Hall, Sally Pugal, and Lori LaPray as the managing members of different LLCs that had been assigned IP-Edge-related patents.[58] Each of the LLCs was "formed just prior" to transfers of patents to the LLCs, after which each LLC "launched a litigation campaign over its received assets."[59]

In its response to Amazon's objection, Longbeam did not rebut the allegation that he was "an extension of IP Edge" which engaged in patent litigation campaign(s).

IP Edge is a well-known patent monetization entity. IP EDGE is the most active NPE in the United States as measured by cases filed in 2020 and 2021. Based in Texas, and per publicly available information, it has 241 known

55 *Ibid*, 11.

56 Civ. No. 21–1559, D.I. 31 at 1.

57 *Ibid.*, 1–2.

58 Civ. No. 21–1559, D.I. 34–1 at 28.

59 *Ibid*.

related entities. This could be one prong that IP Edge is using shell LLCs to operate its TPLF business and to assert patents to achieve financial benefit(s).

It is noteworthy to state, that after Chief Judge Connolly issued two standing orders, the counsel of plaintiffs in certain patent cases filed motions to withdraw. This brings us to another relevant case in the same court.

2. *Missed Call* Case

An attorney who is highly active in Delaware patent litigation is Mr. Jimmy Chong from Chong Law Firm.[60] Mr. Chong's firm brought 795 patent infringement lawsuits (representing plaintiffs) in the period 2020–2022.[61] On August 25, Judge Connolly started to work on Mr. Chong's motions to withdraw as counsel for Missed Call, LLC in three patent cases: *Missed Call, LLC v. Freshworks, Inc.*, Civ. No. 22–739; *Missed Call, LLC v. Talkdesk, Inc.*, Civ. No. 22–740; and *Missed Call, LLC v. Twilioinc.*, Civ. No. 22–742. (collectively "*Missed Call*"). Like *Longbeam,* Judge Connolly had no reason to believe that the *Missed Call* cases were related in any way to the Nimitz cases.[62]

In summary, Mr. Chong motioned to withdraw from the *Missed Call* cases since he was "unable to effectively communicate with the client in a manner consistent with good attorney-client relations." The representation would be continued by out-of-state counsel, William P. Ramey, which imposed immediate issues. Under Local Rule 83.5, Mr. Ramey could not represent the plaintiff without an appearance of Delaware counsel since he had been admitted *pro hac vice* to the court.[63]

Notwithstanding the abovementioned, Mr. Chong has filed motions to withdraw in 15 patent cases in which he acted as Delaware counsel for an LLC that was also represented by Mr. Ramey. Six cases were assigned to Judge Connolly and in none of the six cases, the plaintiff failed to comply with the Disclosure Order and Third-Party Funding Disclosure Statement.[64]

On September 1, 2022, a hearing was set on the withdrawal motion in *Missed Call.* Both Mr. Chong and Mr. Ramey were required to attend the hearing in person, however, Mr. Ramey disregarded this duty.[65] Mr.

60 Before 2019, Mr. Chong was unknown in the patent world. Whatsoever, website of The Chong Law Firm markets themselves as a Pennsylvania and Delaware personal injury, wrongful death, and medical practice practitioners, without mentioning patent litigation practice.

61 Lex Machina, Patent Litigation Report 2023.

62 *Nimitz Technologies LLC v. Bloomberg L.P.*, 15.

63 *Ibid.*, 16.

64 *Ibid.*

65 *Ibid.*, 18.

Chong confirmed that Missed Call and other LLCs that he and Mr. Ramey represented failed to comply with the Disclosure Order. Additionally, as the owner of Missed Call, Mr. Chong identified Carlos Gorrichategui.[66] However, in a disclosure that followed the next day, Neuvo LLC, solely owned by Hernan Perec, was cited as the owner of Missed Call.[67]

Conducting additional research, the judge found in other cases where Mr. Chong was representing plaintiffs, that Lamplight was owned by Sally Pugal, Mellaconic by Hau Bui, and Backertop by Lori LaPray. Do these names sound familiar? Moreover, Chief Judge Connolly found that these cases all had some type of connection to IP Edge, even though none had disclosed third-party arrangements, with more than one of the identified patent owners using linhd@ip-edge.com.[68] This was the same email address listed in the documents for the assignment of Longbeam's patent asserted in *Amazon*.

Following this, an evidentiary hearing in the *Nimitz*, Mellaconic and Lamplight cases was scheduled for November 4, 2022, in which all LLC owners were directed to be present. What brought attention to the judge was a letter Mr. Chong filed on October 31, in which he stated: "On October 21, I was first advised by Ms. Pugal's representative that she has a health-related issue which now may prevent her from attending the hearing with the Court here in Delaware."[69] Ms. Pugal did not attend the November 4 hearing. Chief Judge Connolly was curious about who Ms. Pugal's representative is and with whom Mr. Chong signed the retention letter, as well as how he advised Lamplight on obtaining independent legal counsel in connection with the execution of the retainer agreement. Mr. Chong stated that he never talked to Ms. Pugal regarding Lamplight's litigation and that all communication and discussions were conducted with the consulting company Mavexar.[70]

At this point, the judge had certain concerns if Mr. Chong complied with the Rules of Professional Conduct[71] and whether Mavexar was the real party in interest in Lamplight's cases. Similar concerns were raised after representations made by Mr. Pazuniak in *Nimitz* that he was contacted by Linh Dietz, an agent for Nimitz Technologies.[72] All the communication

66 *Ibid.*, 22.

67 *Ibid.*

68 Dani Kass, "Del. Judge Lists Red Flags To Justify Funding Probe", December 2022, available at: *https://www.law360.com/articles/1554211/del-judge-lists-red-flags-to-justify-funding-probe*, 17. 4. 2023, 3.

69 *Nimitz Technologies LLC v. Bloomberg L.P.*, 28.

70 *Ibid.*, 29–31.

71 *See* American Bar Association, *Model Rules of Professional Conduct (2022)*, available at: *https://www.americanbar.org/groups/professional_responsibility/publications/model_rules_of_professional_conduct/rule_1_4_communications/*, 17. 4. 2023, r. l.4(b), 1.2.

72 *Nimitz Technologies LLC v. Bloomberg L.P.*, 34.

regarding representation was facilitated with Mrs. Dietz, and even the retainer agreement was forwarded to Linh Dietz, to forward to Mark Hall as the principal of Nimitz Technologies and the sole, hundred percent, owner of the entity. Moreover, Mr. Pazuniak was informed of the agreement between Mavexar and Nimitz Technologies. This revealed a connection between Mavexar and IP Edge. According to its public information report filed with the Texas Secretary of State, two of Mavexar's three members were Gautham Bodepudi and Sanjay Pant, who were the managing partners of IP Edge.[73]

As the owner of Nimitz Technologies, Mr. Hall witnessed that: (1) "he was presented an opportunity by Mavexar" which was brought to him by Linh Dietz over the phone; (2) he acquired ownership of the "328 patent with 'no money exchanged hands from his end'"; (3) he would hold monetary liability if the case did not proceed well; (4) for assuming this liability, he would recover ten percent of the proceeds; (5) there was no communication with IP Edge directly, except through Linh Ditz's email address; and (6) he did not have any involvement in the litigation decisions, nor knowledge of any settlement.[74]

Hau Bui, the owner of Mellaconic, and operator of a food truck and of what he described as a "fried chicken joint" represented similar facts as Mr. Hall.[75] The only difference was that his share of the litigation or settlements was even less—five percent of the revenue generated. Except for the percentage, *modus operandi* was the same. Chief Judge Connolly stated that it was Mavexar "[w]ho pays for the lawyers to go out and sue people."[76] According to the presented consulting agreement in Mellaconic case, it was Mavexar that advanced "all costs and expenses relating to the monetization of the patents."[77] Chief Judge Connolly expressed his concerns with this apparent gamesmanship:

> [B]y structuring this litigation the way you have with Mavexar, you've basically put a plaintiff in this court asserting a patent, and the plaintiff has no assets. So, you've immunized, effectively, the plaintiff from the consequences of a frivolous lawsuit, for instance. Mavexar, who's *driving the train*, isn't formally a party, here, so you've insulated it, assuming nobody wanted to look into this.[78]

73 D. Kass, 3.

74 *Nimitz Technologies LLC v. Bloomberg L.P.*, 40–49.

75 *Ibid.*, 49.

76 *Ibid.*, 61.

77 Aakash Patel, "Nimitz Patent Fight Offers Peek Behind NPE Liability Curtain", February 2023, available at: *https://www.law360.com/articles/1574889*, 17. 4. 2023, 4.

78 *Ibid.*

The judge ordered Nimitz to produce documents relating to Mavexar and IP Edge's involvement in the litigation. Nimitz failed to do so, however simultaneously with omitting the judge's request filed a petition for a writ of mandamus requesting that the United States Court of Appeals for the Federal Circuit vacate the court's document production order and direct the district court to terminate its inquisition into Nimitz. The Federal Circuit denied Nimitz Technologies' petition, noting that Nimitz was not entitled to the "drastic and extraordinary remedy" of the writ of mandamus.[79] It found Nimitz's privilege-based arguments unpersuasive because Nimitz Technologies was not required to make any of the documents public and was not otherwise prohibited from asserting privilege.[80] Nimitz's petition for rehearing was denied by the Federal Circuit.

Long-awaited answers imposed by Chief Judge Connolly were provided to the court on April 6, 2023. Mr. Pazuniak stated in its filing that he was providing "retention letters and/or agreements" between Nimitz and Pazuniak's firm, as well as "communications and correspondence" involving Nimitz's owner Mark Hall, a non-lawyer Nimitz representative named Linh Dietz—described by Chief Judge Connolly as "a logical candidate for the linhd@ip-edge.com email"—as well as a lawyer for other IP Edge companies named Papool Chaudhari of Chaudhari Law PLLC, and a consulting firm that IP Edge uses called Mavexar."

3. *Nimitz* Off-Shot

Nimitz raises serious questions and ambiguity regarding TPLF disclosure requirements. The first question is who the owner is, i.e., who controls the litigation. Owners of the LLCs were not aware of all case-related matters, and they had no legal interest. Their only interest—was to make money (i.e., a small amount of money considering the percentage of the funds that they would receive). Patent litigation is often highly complex litigation, containing difficult claim language and technological and legal terms that are not easy to understand meaning the owners (like Mr. Bui). Even when they were presented with the prepared case documentation, they would approve and execute them without any in-depth analysis. They were sent to the court like "clay pigeons". This fact is even more astounding considering Delaware Superior Court's decision in *Charge Injection Technologies, Inc. v. E.I. DuPont de Nemours & Company* from 2016. The court held that to properly structure litigation finance agreements to avoid claims of champerty and maintenance:

79 Order Denying Petition for Writ of Mandamus at 4, *In re Nimitz Techs. LLC*, No. 2023–103 (Fed. Cir. Dec. 8, 2022.

80 *Ibid.*, 5.

(1) the agreement should not assign ownership of the claims to the financier; (2) the financier should not have any rights to direct or control the litigation; and (3) the plaintiff should retain the unfettered right to settle the litigation at any time and for any amount.[81] In *Nimitz*, it seems that the sole owners of shell LLCs were simple observers in litigation even though they were parties in interest—by the letter of law. This confronts the provision of federal law that stipulates: "an action must be prosecuted in the name of the real party in interest."[82] Obviously, owners did not have any control over the litigation, nor knowledge of all case-related matters in their "own" dispute.

Second, the imposed burden of fee payments, if the plaintiff loses the case, is impermissible. This contradicts one of the basic TPLF principles that plaintiffs do not have to repay the funding if their lawsuit is not successful. The takeaway from the witnesses' testimony in *Missed Call* and Nimitz is that they would need to pay all litigation costs and fees if the lawsuit failed. However, as Chief Judge Connolly observed, these plaintiffs had no assets. This raises the question of whether the principle of equal consideration in the agreement was breached, as well as the principle of equity. The answer to this question will be given upon the analysis of documentation presented to the court by Mr. Pazuniak on April 6, 2023.

Third, the counsel's non-compliance with the judge's two standing orders, as well as lack of direct communication with the "clients" raises ethical and professional misconduct concerns. Candor towards tribunal is one of the rules prescribed by the lawyer's professional code of conduct. If the court enters an order, parties ought to comply promptly, which was not the case in *Nimitz*. Furthermore, the appellate court explicitly affirmed that Chief Judge Connolly's orders were appropriate. Moreover, the defendants do not know who they fight against. The court should also know who has an interest in the case so they can determine if there is a conflict of interest. How can the public have confidence in the court system when the courts do not know who is (actually) sitting in the courtroom?

Fourth, there is a lack of transparency in the TPLF sphere, and it seems that the line between TPLF and patent trolls fades. Patent trolls developed a new model for their business operations and "patent monetization," which is their "core business". The solution to distinguish traditional TPLF funders and patent trolls and to bring more transparency to the TPLF landscape is simple. Congress should enact a federal rule that requires all TPLF agreements to be disclosed to the court and opposing party. The said supplements should be made to the rules of the civil procedure since they govern all litigation,

81 *Charge Injection Technologies, Inc. v. E.I. DuPont de Nemours & Company*, No. CV N07C-12–134-JRJ, 2016 WL 937400 (Del. Super. Ct. Mar. 9, 2016).

82 Fed. R. Civ. P. 17(a)(1).

including patent litigation. By this, it would be avoided that counsels invoke the client-attorney privilege and secrecy of the documents to not disclose all TPLF related-matters. Accordingly, there would be no uncertainties, and counsels and courts would be in a better position to determine all parties' interests and who they are.

VII Conclusion

TPLF is not illegal. However, the conduct of certain entities regarding TPLF suggests that the industry operates questionably. Patent trolls are hiding behind other entities and people; however, the current patent system does not possess a means of solving this problem. As some authors argue, patent trolls are not single-handedly the problem—rather, they are a symptom of larger problems within the patent system. Treating the symptom will not solve the problems. Until the new legislation regarding TPLF come into force, we will surely continue to see cases like *Nimitz* in a variety of courtrooms and jurisdictions. Some entities will need to look for their luck in other places. It should not be surprising that *Nimitz* finishes in the Supreme Court. This case will have a huge impact on the TPLF industry and the way how they structure TPLF agreements. TPLF funders and patent trolls will again put all their efforts into not disclosing the facts that relate to their *modus operandi*. Finally, Chief Judge Connolly will surely not allow smooth withdrawals from *Nimitz*. He is going to persistently use all the remedies at his disposal to determine who is sitting in his courtroom, and other judges and courts should follow in his footsteps.

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