

Defending Patent Litigation From NPEs



Current Issues and Winning Strategies

November 14, 2024

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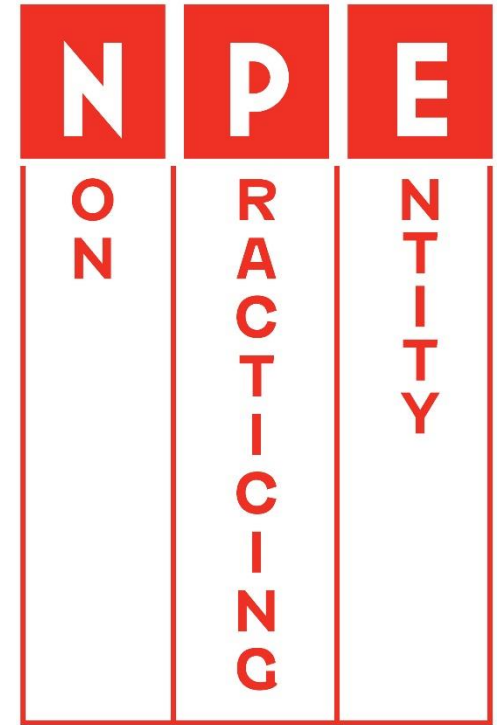
V. **Responding to Demand Letters**

What's in a name?

Brief History of NPE Activity in the US

They are called many things

1. Non-practicing entity (NPE)
2. Patent assertion entity (PAE)
3. Patent holding company (PHC)
4. Patent aggregator
5. Non-manufacturing patentee
6. Patent dealer
7. Patent marketer
8. Patent shark
9. Patent troll



And they take many forms and often generic-sounding names

- Acacia Technologies
- Intellectual Ventures
- Round Rock Research
- Wisconsin Alumni Research Foundation (WARF)
- Thomas Edison
- Onscreen Dynamics, LLC

NPE's have a long and vital history in U.S. patent law

Litigation and licensing by entities not practicing their own patents is not new

- Examples date back to the 1700s
- NPE litigation in the mid-to-late 1800s actually outstripped modern activity by some measures
- Techniques used at the time mirror today's practices
- Some contend these early waves of litigation were drivers of patent reform

Eli Whitney and the cotton gin

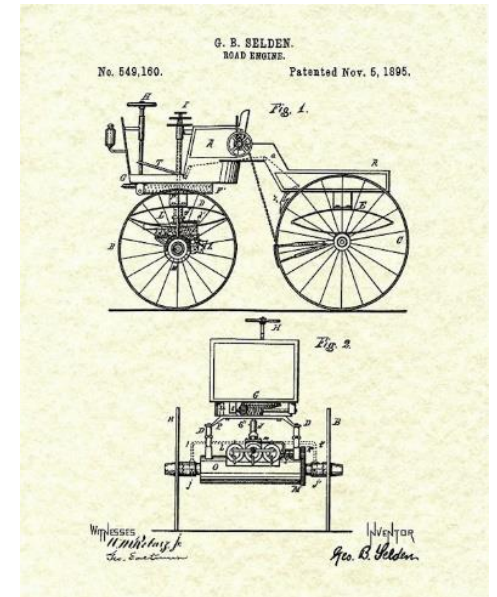
Eli Whitney's cotton gin is among the earliest examples of NPE activity, with mixed results

- Famous patent on the cotton gin issued March 14, 1794
- Mr. Whitney set out to commercialize his invention, but the company failed within three years
- Ease of copying and difficulty in enforcement led to rampant infringement
- Mr. Whitney turned to the courts, attempting to enforce his patent against plantation owners
- A cool – and slow – reception by the courts stymied his efforts

The road to true “trolling” begins

George Selden is commonly viewed as the first true “patent troll”

- Mr. Selden filed a patent application for a “road engine” in 1879
- Automotive technology was nascent at the time; Mr. Selden watched and waited while the market grew
- Using legal mechanisms, he was able to keep his patent in prosecution for 16 years and it was eventually issued on November 5, 1895, as U.S. Patent No. 549,160
- Mr. Selden partnered with William Whitney and began monetization efforts, promptly suing Alexander Winton for infringement



The road to true “trolling” begins

- Mr. Winton settled after a two-year trial and formed a consortium with other settling entities to compel licensing
- Henry Ford fought the case to judgment and won, obtaining a verdict that the patent was valid but not infringed
- The court expressly blessed Mr. Selden's delays in prosecution, but Congress addressed the practice in the years that followed

NOTICE
To Dealers, Importers, Agents, and
Users of our Gasoline Automobiles

WE will protect you against any prosecution for alleged infringements of patents. Regarding alleged infringement of the Selden patent, we beg to quote the well-known Patent Attorneys, Messrs. Parker & Burton: "The Selden patent is not a broad one, and if it was, it is anticipated. It does not cover a practicable machine, no practicable machine can be made from it, and never was, so far as we can ascertain. It relates to that form of carriage called a FORE CARRIAGE. None of that type have ever been in use; all have been failures." "No court in the United States has ever decided in favor of the patent on the merits of the case; all it has ever done was to record a prior agreement between the parties."

We are the pioneers of the GASOLINE AUTOMOBILE. Our Mr. Ford made the first Gasoline Automobile in Detroit, and the third in the United States. His machine, built in 1893, two years prior to the issue of the Selden patents Nov. 5, 1895, is still in use. Our Mr. Ford also built the famous "999" Gasoline Automobile, which was driven by Barney Oldfield in New York on July 25th, 1903, a mile in 55 4-5 seconds, on a circular track, which is the world's record.

Mr. Ford, driving his own machine, beat Mr. Winton at Grosse Pointe track in 1901. We have always been winners.

Ford Motor Company
688-692 Mack Ave., Detroit, Mich.
Write for Catalogue

Goodyear wasn't just about tires



A later example, but noteworthy for its extreme tactics

- A group of lawyers and businessmen acquired rights to Goodyear patents concerning vulcanized rubber
- Targeted dentists who made rubber dentures, demanding license deals
- Tactics were underhanded, including sending spies into dental offices to conduct reconnaissance and identify potential infringers
- Over 2,000 lawsuits filed
- The litigation campaign came to an end after company treasurer Josiah Bacon was shot dead in San Francisco by a dentist accused of infringement

History
repeats itself

Similarities and differences between then and now

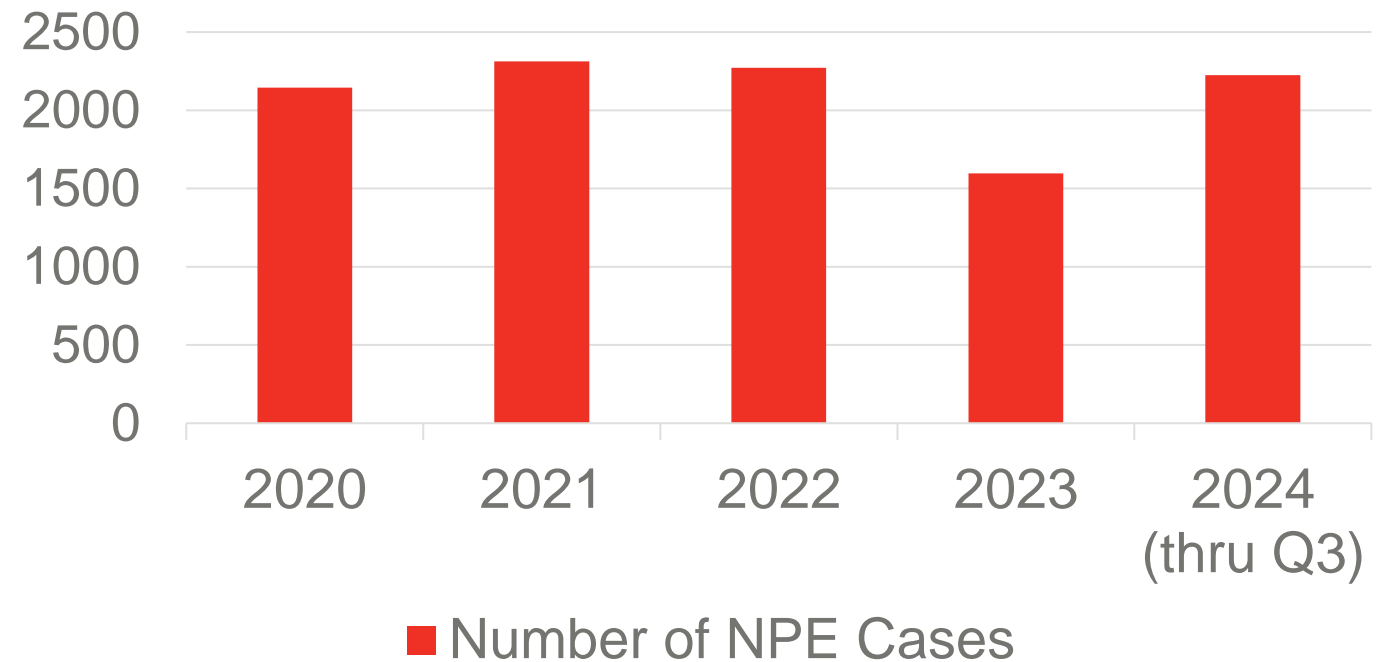
- In 1850, lawsuits per patent were as much as 10 times higher than in recent years
- One court saw over 1,000 cases filed in a single year
- Activity was concentrated in a handful of courts
- End users of products often targeted, especially farmers
- Delays in prosecution were condoned
- Patents could be extended, sometimes resulting in terms of up to 40 years

|| Recent Statistics

The number of NPE cases filed per year has dropped in recent years, but there has been an uptick in 2024

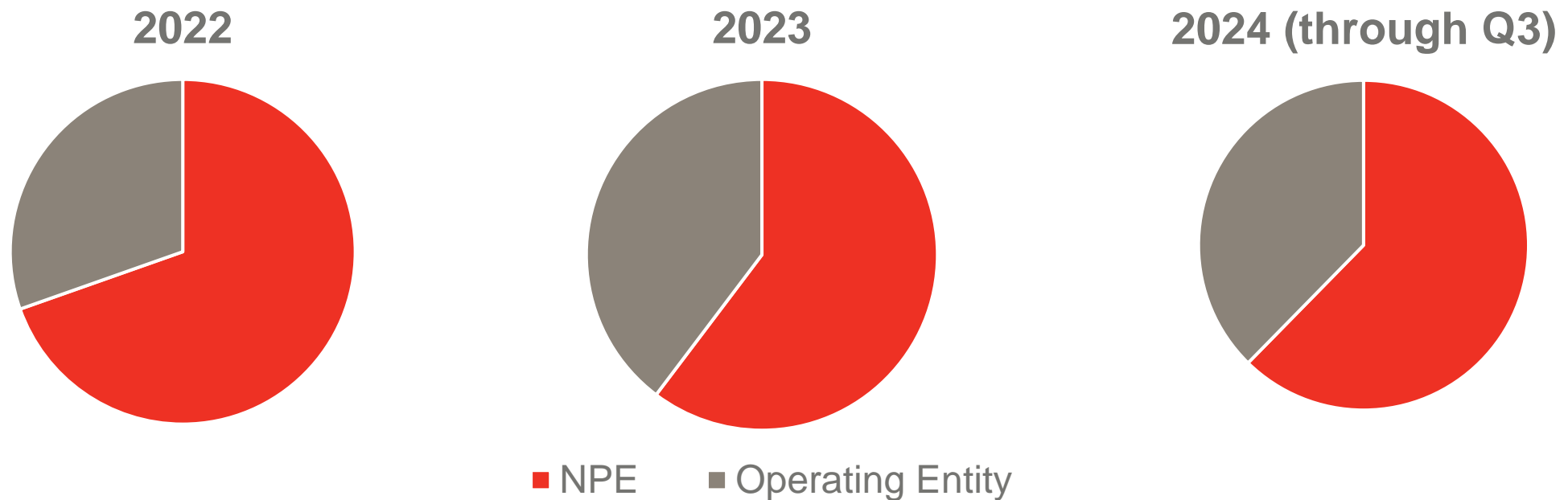
- IP Edge cut back its patent case filings in early 2023
- However, NPE filings are up 22% through Q3 of 2024
- Filings are up 27% in Q3 over prior year

Number of NPE Cases Filed Per Year



The percentage of cases filed by NPEs as compared to operating entities dropped in 2023

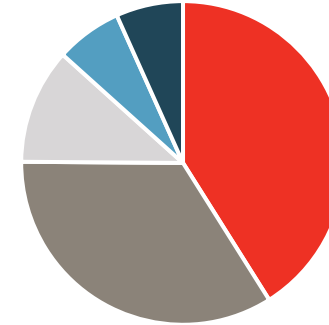
- IP Edge stopped filing cases in December 2022 (it previously accounted for around 25% of all NPE litigation each year)



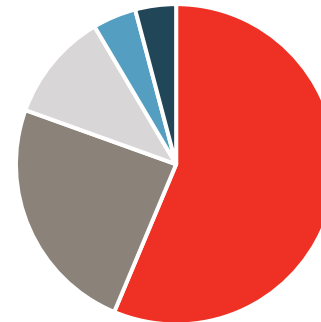
The top districts for NPE litigation:

- Eastern District of Texas
- Western District of Texas
- District of Delaware
- Central District of California
- Northern District of California
- Southern District of New York

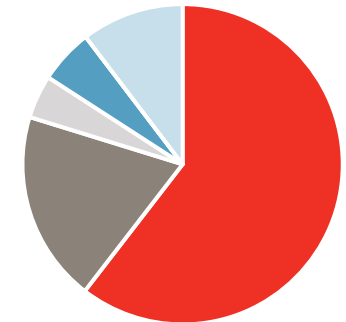
2023



2024 (Q1)

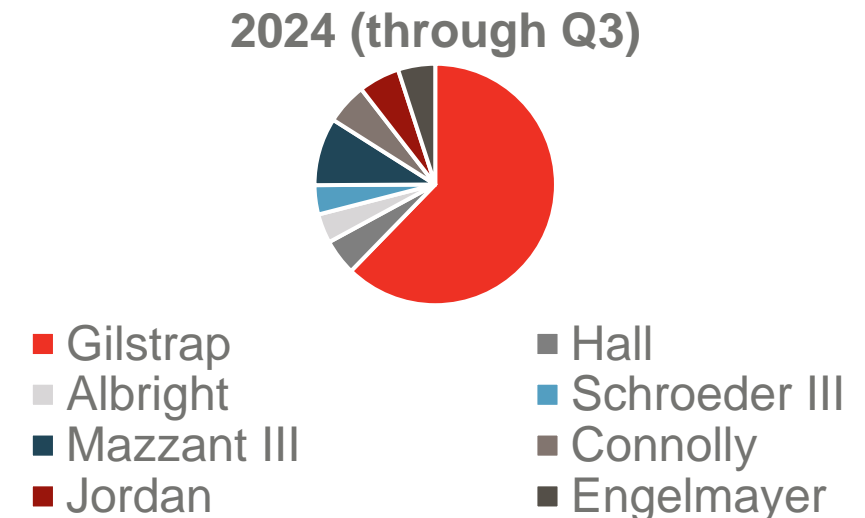
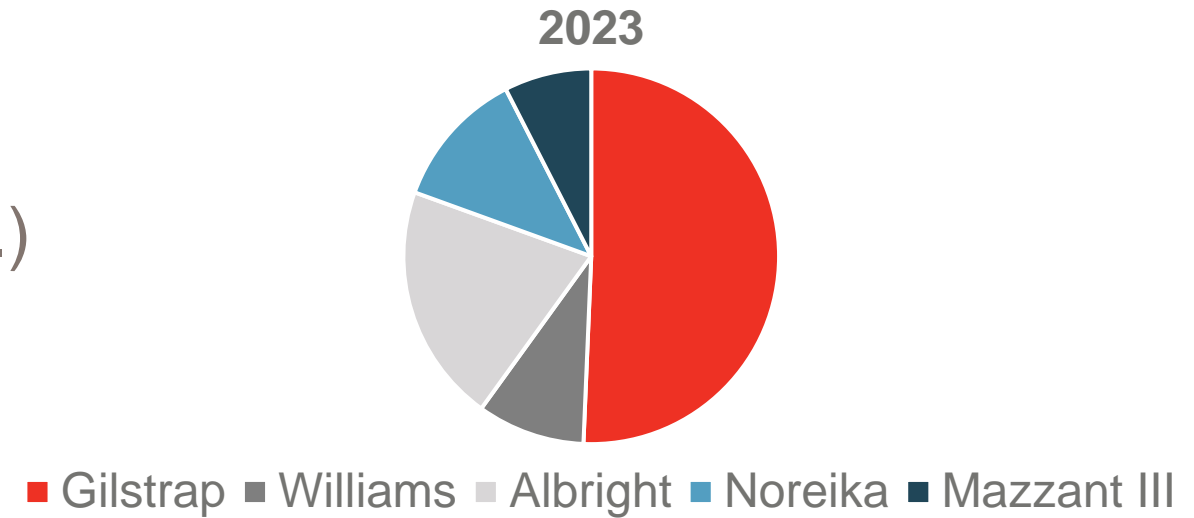


2024 (Q2)

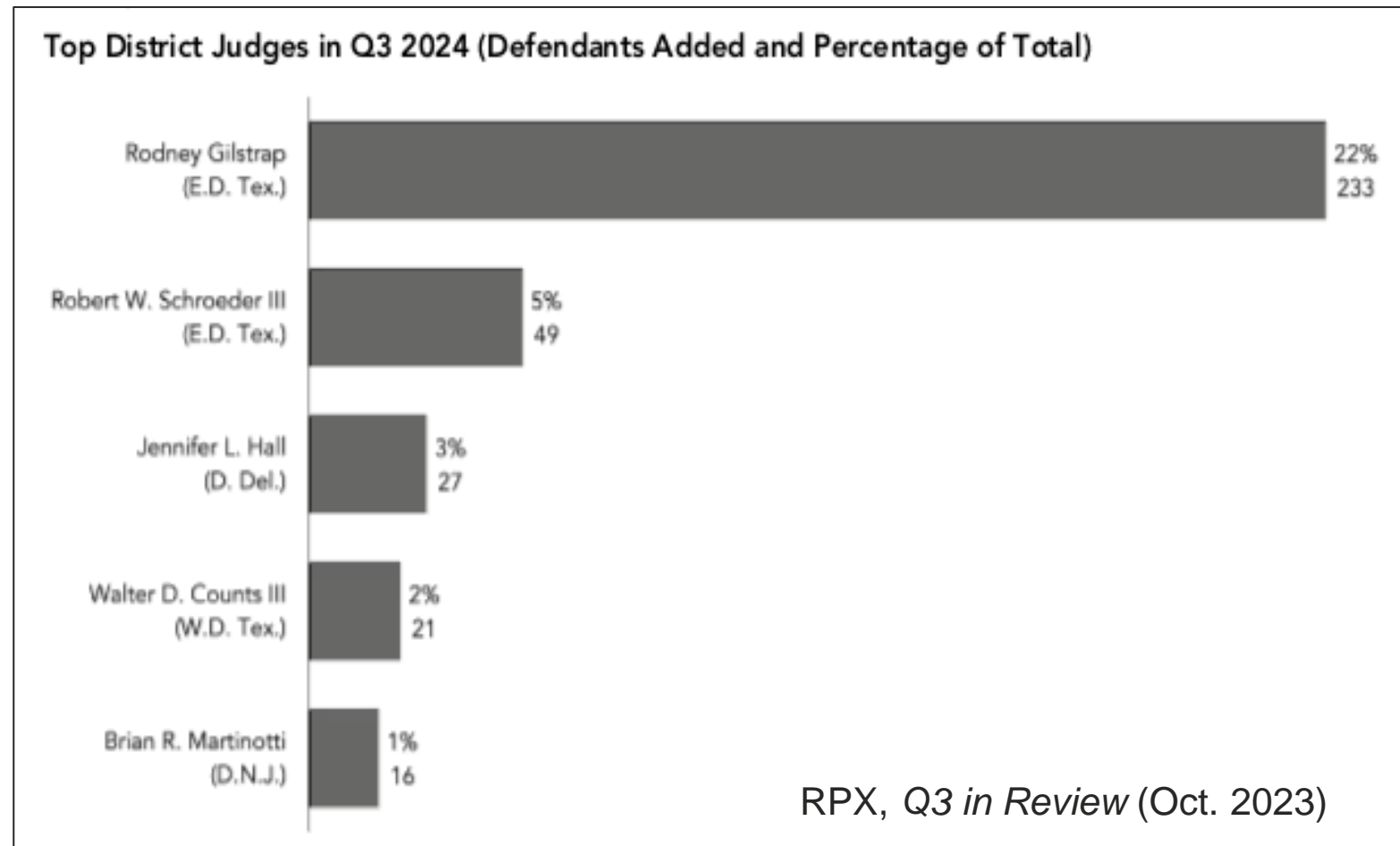


Top judges for NPE litigation:

- Hon. Rodney Gilstrap (E.D. Tex.)
- Hon. Robert W. Schroeder III (E.D. Tex.)
- Hon. Amos L. Mazzant III (E.D. Tex.)
- Hon. Sean D. Jordan (E.D. Tex.)
- **Hon. Alan D. Albright (W.D. Tex.)**
- Hon. Maryellen Noreika (D. Del.)
- Hon. Gregory B. Williams (D. Del.)
- Hon. Jennifer L. Hall (D. Del.)
- Hon. Colm F. Connolly (D. Del.)
- Hon. Paul A. Engelmayer (S.D.N.Y.)



- Judge Albright is a former patent litigator who successfully lobbied for cases
- Case assignment rules ensured W.D.Tex. cases filed in the Waco division were assigned to him (the only judge in the division)
- But in 2022, rule changes made case assignments random
- Rule change has had its desired effect

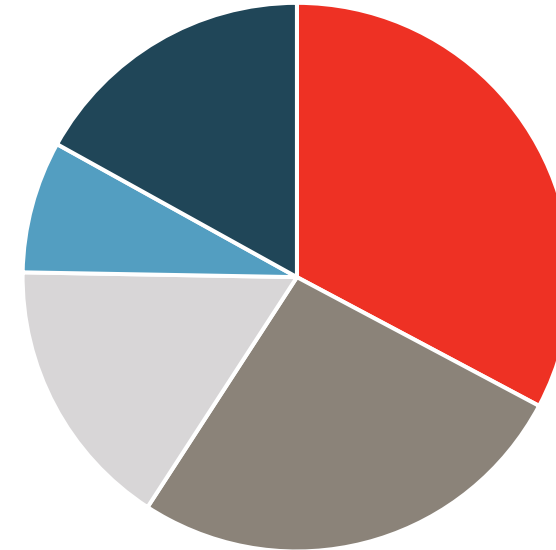


Statistics: Which sector has the most NPE litigation?

Top Market Sectors for NPE litigation:

- E-Commerce and Software
- Networking
- Financial Services
- Consumer Electronics and PCs
- Mobile Communications and Devices

2024 (Q3)



- E-Commerce and Software
- Networking
- Consumer Electronics and PCs
- Mobile Communications and Devices
- Financial Services

Without understanding the context behind the numbers, statistics can paint an incomplete picture

- Majority of NPE filings stem from limited number of companies filing thousands of lawsuits
 - 35 plaintiffs filed one quarter of all cases in 2012
 - Data from 2023-24 shows impact of certain NPEs not bringing suits (e.g., IP Edge)
- Statistics do not account for information regarding the underlying patents, validity of the claims asserted and the motivations of the parties involved

Without understanding the context behind the numbers, statistics can paint an incomplete picture

- Ambiguity in defining what constitutes an NPE can lead to inconsistencies in how data is categorized and analyzed
- Shifts in legal standards, court decisions, regulatory policies and market dynamics can result in NPE litigation trends changing over time
 - The surge in suits after 2012 was due, at least in part, to the America Invents Act (AIA) requirement that separate defendants be sued in separate cases
 - Reluctance to license in recent years has led to more cases being filed

Courts and Congress respond to increased filings

- AIA
 - No more mass lawsuits
 - PTAB post-grant procedures
- *eBay v. MercExchange* ends automatic injunctions
 - But RESTORE Act seeks to reinstate them
- *Bilski*, *Alice* and progeny narrow patentable scope
- TC Heartland limits forum shopping



III Third-Party Litigation Funding

What is it?

Third-party investment in a lawsuit in exchange for a share of the proceeds.

The funder may pay some (or all) of the legal fees and costs of the funded party.

Why is this
issue
important?
Funding as a
Plaintiff Force
Multiplier

- Nanoco's lawsuit against a major electronics manufacturer was a funded litigation.
- Funding was provided for:
 - Patent litigation in the U.S., Germany and China
 - Defense of five inter partes review proceedings
- Case settled the day before trial for a **\$150 million payment** in January 2023
- Later in 2023, the funder acquired 25% of an IP litigation investment portfolio from Omni Bridgeway

Why else is this issue important?

124 companies sign Lawyers for Civil Justice (LCJ) letter requesting Advisory Committee on Civil Rules to act at the Committee's October 2024 meeting

- One analogy: insurance disclosure requirements
- Safeguards in the Federal Rules of Civil Procedure (FRCP) avoided?
 - Federal Rule of Civil Procedure 17(a)(1)
 - » “[a]n action must be prosecuted in the name of the real party in interest.”
 - Federal Rule of Civil Procedure 26(b)(1)
 - » “the resources of the parties” as a factor relevant to whether discovery is proportional to the needs of the case.

Why else is this issue important?

Understanding litigation finance and its impact enables:

- For parties, a realistic appraisal of the case for settlement and litigation strategy.
 - Whether your plaintiff is funded will have an impact on their behavior and incentives.
 - Understand who is making and influencing decisions in your case.
 - Has the case been vetted? Burford Capital, for example, reportedly funds only 4% of requests for funding.
- For courts, transparency and enforcement of rules and ethical requirements.

How significant is this issue?

Commercial litigation funding is growing rapidly:

- Assets under management at third-party litigation funders totaled \$15.2 billion in 2023.
- Burford Capital reported \$1.1 billion in revenue in 2023.
- CAGR rate 8.9%.
- Projected revenue was \$6.6 billion in 2024 and \$27.7 billion by 2037.

How significant is this issue?

The intellectual property litigation business segment is large:

- **\$812 million** in funding in 2021 for patent cases
- **~30%** of patent cases funded
- **19%** of new commitments for 2023 are for patent matters — the largest category of funded matters

Are litigation funding agreements discoverable?

Yes

D.N.J. Local Civil Rule 7.1.1
(June 2021) – All parties must disclose TPLF arrangements.

Yes

Chief Judge Connolly (D. Del.)
(April 2022) – Standing Order Regarding Third-Party Litigation Funding Arrangements requires disclosure.

Yes

“the potential for class counsel to face conflicts of interest and for the third-party funders to exercise improper control over the litigation,”
Burkhart v. Genworth Fin., Inc.,
No. 2018-0691-NAC, 2024 WL 3888109, at *1 (Del. Ch. Aug. 21, 2024) (compelling production of class action funding agreement)

Are litigation funding agreements discoverable?

Case-by-Case

“There is no consensus within this district, or elsewhere, as to the discoverability of these materials. . . . [] Further, whether the broad category of litigation funding documents is discoverable . . . **may vary from case to case.**” *Cirba Inc. v. VMWare, Inc.*, No. CV 19-742-LPS, 2021 WL 7209447, at *2 (D. Del. Dec. 14, 2021) (Hon. Judge Stark, court-appointed special master) (requiring disclosure of patent-valuation documents)

No

Judge Gilstrap of the Eastern District of Texas and Judge Albright of the Western District of Texas have precluded parties from introducing evidence, testimony or arguments regarding legal financing.

What about state law disclosure requirements?

Louisiana SB 355 (August 2024)

Regulation of litigation funding by a third party that is a foreign person, state or wealth fund.

- TPLF agreements discoverable
- Prohibit funders from influencing certain litigation and settlement decisions
- Disclosure requirements to attorney general

Montana SB 269 (May 2024)

- TPLF agreement disclosure required in civil cases
- Litigation funds jointly liable for costs
- 25% cap on funder recovery

What about state law disclosure requirements?

Indiana (March 2024)

- Foreign funding prohibited
- Sharing of protective order information with funder is prohibited
- Funding agreements are subject to discovery

West Virginia (March 2024)

- TPFL agreement disclosure required in civil cases
- 18% fee cap if client is a natural person

Similar bills have also been introduced in New York and other states.

Federal legislation

H.R. 9922 - Litigation Transparency Act of 2024

Introduced in the House of Representatives on October 4, 2024, by Rep. Darrell Issa (R-CA)

H.R. 9922 would require that each party:

- Identify persons who have a right to receive payment contingent on the outcome
- Provide a copy of any funding agreement

Third-Party Litigation Funding (TPLF)

Publicly available information – UCC filings

Utah Department of Commerce
Division of Corporations and Commercial Code
UCC/CFS SEARCH

LIEN SEARCH RESULTS

Initial Financing Statement	Lien Type	IFS Filing Type	Debtor Name	Debtor Address	Debtor Type	Filing Date/Time	Lapse Date/Time	Lien Status
1838	UCC Lien	UCC-1-Initial Financing Statement			Organization	9/11/2018 10:32:00 AM	9/13/2023 8:00:32 AM	Lapsed
799-9	UCC Lien	UCC-1-Initial Financing Statement			Organization	3/6/2020 9:35:39 AM	3/6/2025 9:35:39 AM	Active
226-5	UCC Lien	UCC-1-Initial Financing Statement			Organization	4/2/2020 10:00:00 AM	4/2/2025 10:00:00 AM	Active
509-5	UCC Lien	UCC-1-Initial Financing Statement			Organization	6/12/2020 12:50:14 PM	6/12/2025 12:50:14 PM	Active
137-1	UCC Lien	UCC-1-Initial Financing Statement			Organization	7/7/2020 12:17:34 PM	7/7/2025 12:17:34 PM	Active
922-6	UCC Lien	UCC-1-Initial Financing Statement			Organization	10/9/2020 4:56:04 PM	10/9/2025 4:56:04 PM	Active
493-1	UCC Lien	UCC-1-Initial Financing Statement			Organization	5/17/2021 2:06:14 PM	5/17/2026 2:06:14 PM	Active
164-1	UCC Lien	UCC-1-Initial Financing Statement			Organization	6/3/2021 1:51:00 PM	6/3/2026 1:51:00 PM	Active
874-7	UCC Lien	UCC-1-Initial Financing Statement			Organization	10/15/2021 3:09:00 PM	10/15/2026 3:09:00 PM	Active
259-0	UCC Lien	UCC-1-Initial Financing Statement			Organization	10/18/2021 2:18:00 PM	10/18/2026 2:18:00 PM	Active

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Publicly available information – patent assignment records

Assignment 2				
Reel/frame	Execution date	Date recorded	Properties	Pages
0001	Oct 15, 2021	Oct 20, 2021	49	18
Conveyance SECURITY INTEREST (SEE DOCUMENT FOR DETAILS).				
Assignors		Correspondent		
[REDACTED]		[REDACTED] WASHINGTON, DC 20004		
Assignee				
[REDACTED] PHOENIX, ARIZONA 85003				

Assignment 1				
Reel/frame	Execution date	Date recorded	Properties	Pages
0313	Oct 15, 2021	Oct 15, 2021	49	18
Conveyance SECURITY INTEREST (SEE DOCUMENT FOR DETAILS).				
Assignors		Correspondent		
[REDACTED]		[REDACTED] WASHINGTON, DC 20036		
Assignee				
[REDACTED] SAN FRANCISCO, CALIFORNIA 94111				

Patent assignment document with same date as UCC filing

This searchable database contains all recorded Patent Assignment information open to the public from August 1980 to the present.

When the USPTO receives relevant information for its assignment database, the USPTO puts the information in the record and does not verify the validity of the information. Recordation is ministerial function--the USPTO neither makes a determination of the legality of the transaction nor the right of the submitting party to take the action.

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How will this issue impact my case?

Is the settlement posture affected by financing?

- The impact of “leveling the playing field” — one study found:
 - 36% decrease in the probability of settlement
 - 140% increase in duration
 - 60% increase in claim payment

Will the patent owner be incentivized to push for trial?

Is a funded NPE acting as a liability shield?

IV The jury finds...

General Access Solutions Ltd. v. Verizon Wireless

- Eastern District of Texas
- \$847 million verdict handed down in June 2024
- Judge Gilstrap granted Verizon's motion for a new trial
 - Judge Gilstrap found that the jury's verdict was “against the great weight of the evidence to such a material degree that a new trial is necessary”
 - Ordered new trial on validity, infringement and damages scheduled for December 2024
 - Denied motion to stay trial pending PTAB's final written opinions on the patents-in-suit, expected by January 2025



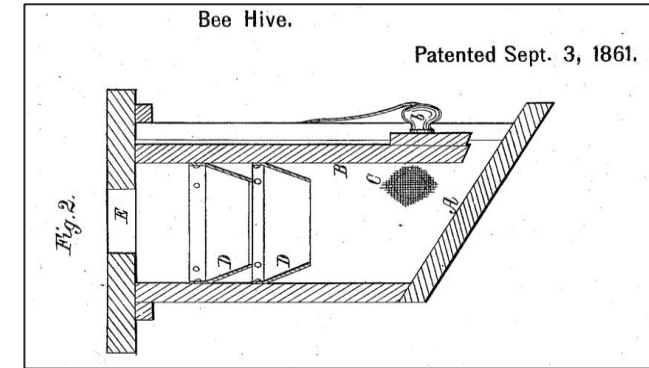
G+ Communications v. Samsung Electronics Co., Ltd.

- Eastern District of Texas
- Standard essential patents relating to the 5G standard
- Initial jury verdict of \$62.5 million in January 2024
- Damages retrial after Judge Gilstrap found error in damages cases (“guaranteed ‘train wreck’”)
- Second jury verdict of \$142 million in April 2024
- Post-trial motions currently pending



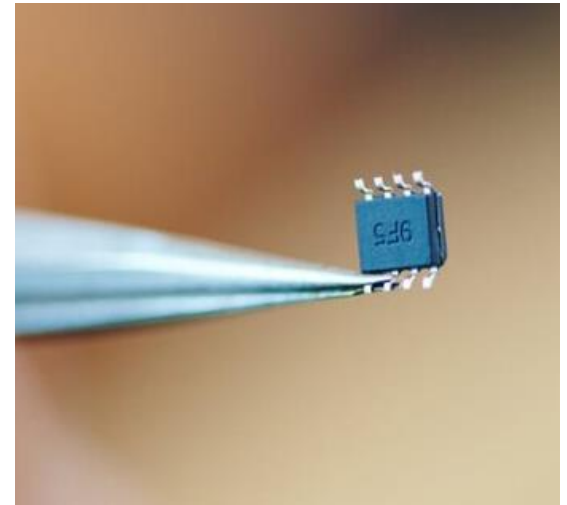
Personalized Media Communications, LLC v. Apple, Inc.

- Eastern District of Texas
- Patents relating to digital rights management
- \$308.5 million jury verdict in March 2021
 - One of the first live post-pandemic trials
- Judge Gilstrap held a bench trial post-verdict on Apple’s equitable counterclaims, finding the patents unenforceable due to prosecution laches
 - “[NPE’s] actions were a conscious and egregious misuse of the statutory patent system.”
 - Delayed issuance of patents to extend term by submitting irrelevant prior art
- Split Federal Circuit panel affirmed lower court’s opinion
- Supreme Court denied petition for certiorari in 2023



VLSI Technology LLC v. Intel Corp.

- Western District of Texas (etc.)
- Microchip patents
- \$2.18 billion jury verdict in March 2021 for two patents
 - Reversed on appeal, with the Federal Circuit faulting damages model for one patent and finding the other not infringed
 - New damages trial TBD
 - Patents invalidated at PTAB; appeal pending
- \$0 jury verdict in April 2021 for two additional patents
- \$949 million jury verdict in November 2022 for a fifth patent
 - Post-trial motions pending, including argument that the verdict suffers from the same damages flaw as the first jury award



Smartflash LLC v. Apple Inc.

- \$532.9 million verdict in 2015, with request to treble to \$1.6 billion
- Eastern District of Texas
- Downloading digital content

TECH · APPLE

How Apple lost \$533 million to an 8th-grade dropout patent troll

Company with no product wins \$533M verdict vs. Apple, says it's no "patent troll"

If upheld, verdict would be largest yet for a patent assertion company.

TECH · APPLE · PATENTS · PATENT TROLLS

Inventor Patrick Racz Reveals Death Threats Over \$500m iTunes 'Patent Troll' Case

Exclusive: The 'Patent Troll' Who Won \$500m From Apple Speaks At Last

*Smartflash
LLC v.
Apple Inc.*

- Judge Gilstrap entered a series of post-trial rulings:
 - Granted judgment as a matter of law on no willfulness
 - Ordered new trial on damages for jury instruction flaw
 - » Jury instructions included the entire market value rule despite that it was inapplicable to the damages theories
 - Later granted Apple's request to stay the damages retrial and allowed Apple to appeal the infringement and validity issues to the Federal Circuit
- Federal Circuit found the patents invalid under Alice

V Responding to a Demand Letter

Why do NPEs Send Demand Letters?

- Open a line of communication to negotiate a license.
- Provide notice so that damages can accrue — 35 U.S.C. § 287(a).
- Establish potential willful infringement — 35 U.S.C. § 284.
- Confirm facts and perform pre-suit “discovery” on targets.

What is Typically Included?

- Patent numbers.
- Specific claims infringed.
- Specific products or systems infringed.
- Charge of infringement.
- Opening license offer.
- Draft complaint.
- Infringement contentions.

What Objective Does the NPE Have?

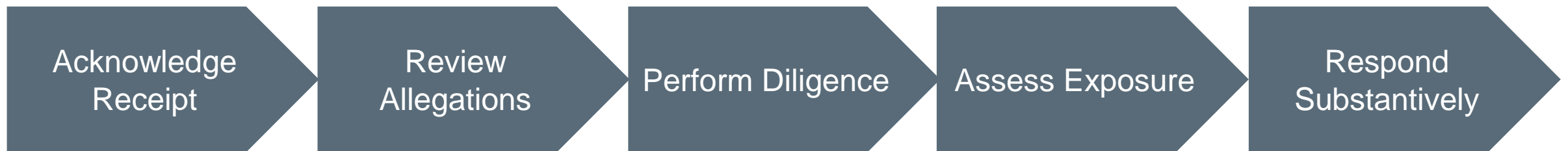
- Nuisance value settlement vs. something much more.

Common Indicators:

- Life cycle of licensing campaign — beginning vs. end.
- Litigation history of the NPE.
- Type of counsel retained.
- Litigation funding.

Strategic Considerations:

- Research NPE and counsel.
- Connect with stakeholders inside and outside of company.
- Retain outside counsel if warranted.
- Assess strength of claims and potential exposure.
- Joint defense group.



Common Responses	Considerations
Do Nothing	Riskiest approach; ignoring demand could anger NPE and make it vindictive, also implies that company does not respect IP rights of others; could invite a lawsuit.
Acknowledge and Ask For More Time	Allows more time to consider allegations, perform research, investigate internally, assess indemnity obligations and obtain outside counsel.
Respond Substantively On Merits	Persuade NPE that there is a serious non-infringement and/or invalidity issue, factual misunderstanding or other issue with demand letter.
Negotiate License	Engage in further discussions regarding the license fee, scope and structure.
Challenge Patents at PTAB	Seek to invalidate the patents at the PTAB; puts NPE on the defensive.
File Lawsuit (DJ)	Most aggressive approach; commits company to litigation and possible counter-claims.

Crafting the Response:

- Address the underlying allegations of infringement.
- Address potential invalidity issues.
- Other factors that might be deterrents:
 - Bona fide willingness to fight; retention of outside counsel.
 - Low volume or revenue product or system.
 - Small company or target.

How Much Should You Settle For?

- Number of patents; entire patent portfolio vs. part.
- Strength of infringement case.
- Payment plans, lump sum vs. royalty.
- Position in licensing queue.
- Most favored nations clause.
- Alternative cost of litigating claims.
- Buying peace from NPE and counsel.
- Impact the ongoing threat will have on business.



Skadden, Arps, Slate, Meagher & Flom LLP and Affiliates