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Disclosure of Third-Party Funding Documents in Patent Litigation: A Shift Toward Greater Transparency in Patent Ownership and Litigation Financing

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Third-party litigation financing (TPLF) is an arrangement by which plaintiffs finance litigation costs through a non-party, typically a private firm that obtains funds from other investors. The commercial goal for a funder is a share of any damage award or licensing revenue generated as a result of the lawsuit. In the patent litigation context, funding allows the named plaintiffs such as individual inventors, academics, and small, entrepreneurial businesses to hedge a significant portion of their risk while ensuring that they will be in a favorable position if the claim is successful, but in no worse position if the claim is unsuccessful.

The U.S. has emerged as the world's largest TPLF market.[1] TPLF in patent litigation has increased significantly with reports that almost a quarter of patent cases in the U.S. are now funded by third parties.[2] As a result, the district courts are addressing the question of a plaintiff's obligation, if any, to disclose the details of litigation funding arrangements. This article explores recent case law from different district courts and evaluates the arguments and decisions for and against the discovery of TPLF arrangements.

Discoverability of Third-Party Funding Arrangements

Documents concerning TPLF arrangements can contain relevant information about a plaintiff's case. For example, discovery regarding funding arrangements is relevant to standing, if the third-party funder controls settlement or participates in material litigation decisions.

There is a lack of uniform federal guidance on the discovery of TPLF arrangements. Neither Federal Rule of Civil Procedure 7.1—which provides for corporate disclosure statements—nor Federal Rule of Appellate Procedure 26.1—which requires nongovernmental parties to file a Corporate Disclosure statement—is broad enough to mandate the disclosure of TPLF documents. Some district court judges, for example, Chief Judge Connolly in the District of Delaware, have implemented standing orders requiring disclosure of the identity of litigation funders. The Standing Order issued by the District of Delaware's Chief Judge, requires parties to identify funders, whether funder approval is necessary for litigation or settlement decisions, and a "brief description of the nature of the financial interest of the Third-Party Funder(s)."[3] The standing order also notes that parties may be entitled to additional discovery/disclosure if the litigation funder has a sufficient interest upon showing that the Third-Party Funder has the authority to make material litigation decisions or settlement decisions.[4] Judge Connolly is not the only district court judge imposing such requirements on plaintiffs. Wisconsin was the first state to enact a litigation financing disclosure requirement.[5] Other courts have also implemented standing orders to address the disclosure of litigation funders.[6] In 2021, the U.S. District Court for the District of New Jersey adopted a local rule requiring disclosure of a funder's financial interest to assess the scope of litigation authority.[7]

I. District of Delaware—Quest for Real Parties in Interest

The Federal District Court of Delaware, a hub for patent infringement litigation, has recently taken center stage with disputes arising from the non-disclosure of TPLF documents. Chief Judge Connolly's standing order requires all "nongovernmental joint ventures, limited liability corporations, partnerships or limited liability partnerships" to include in corporate disclosure statements "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."[8] Arising from this requirement, are the following disputes which were recently addressed by the Federal Circuit.

In *Nimitz Tech. LLC v. CNET Media, Inc.*,[9] after ascertaining that several cases before him appeared to be interconnected despite having different plaintiffs, Chief Judge Connolly held a hearing with the individuals named as owners of each of the plaintiffs only to realize that the plaintiffs listed on the face of the complaints had little to do with the litigation.[10] Chief Judge Connolly issued an order 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. Nimitz filed a petition for a writ of mandamus with the Federal Circuit asking for a reversal of Judge Connolly's order and to "terminate [the court's] judicial inquisition of the Petitioner."[11] Chief Judge Connolly filed a memorandum in the appeals court defending his authority to issue the order.[12] The Federal Circuit denied Nimitz's petition to vacate the order and stated that "a direct challenge to [Chief Judge Connolly's] standing orders at this juncture would be premature.[13]

In re: Creekview IP LLC and *In re: Waverly Licensing* LLC,[14] the Federal Circuit, citing reasons similar to the reasons cited in *Nimitz,* denied two petitions for writ of mandamus. Judge Connolly had ordered the plaintiffs to appear in person to address his concerns that they are not complying with standing orders requiring disclosure of their litigation funding and ownership information. The Plaintiffs voluntarily dismissed the cases after the order was issued. However, the court did not close the case. The Plaintiffs then filed mandamus petitions arguing that the district court had no authority to continue its inquiry following the dismissal. The Plaintiffs argued that they have "an indisputable right to terminate the district court's inquiry" given the dismissal.[15] The Federal Circuit found the petition to be premature because neither party had yet "been found to violate those orders, and [they] will have alternative adequate means to raise such challenges if, and when, such violations are found to occur."[16] The Federal Circuit also noted that "there is no absolute prohibition on a district court's addressing collateral issues following a dismissal. Rather, '[i]t is well established that a federal court may consider collateral issues after an action is no longer pending.'"[17]

II. Western District of Texas—Location of Litigation Funders/Investors for Venue Discovery

In *Mullen Indus. LLC v. Apple Inc*.,[18] Mullen refused to provide any discovery (written or testimonial) as to Mullen's funders and/or investors. Apple argued that (i) funders and investors could be important trial witnesses as to damages and (ii) if Mullen's investors or funders are located in California, this would support Apple's motion to transfer the case to California. Apple also argued that "[a]ny of Mullen's negotiations with third-parties about, for example, the price of investing in Mullen would not be privileged and may contain admissions about the low quality of Mullen's patents and their expected 'nuisance' value."[19] Mullen argued that ligation funders and/or litigation investors, to the extent they exist, are irrelevant to Apple's pending motion to transfer venue and, further, any discovery would invade attorney-client privilege, work product, and/or other applicable privileges or protections. The court, without explanation, granted Mullen's motion for relief from the defendant's discovery requests seeking the identity of plaintiff's litigation funders and investor and quashed the corresponding deposition notices.

III. Eastern District of Texas—Ownership Rights to Support Standing

In *Fleet Connect Sols. LLC v. Waste Connections US, Inc*.,[20] Defendant sought litigation funding agreements from the plaintiff arguing that "agreements are relevant because it is the 'patentee's burden to show the necessary ownership rights to support standing.'"[21] Defendant also contended that terms of any litigation funding agreements are relevant to expert bias, motivations of witnesses, and the "realistic[] apprais[al]" of the case.[22] The Court, denied Defendant's Motion to Compel holding that "in demanding such documents under the guise of determining ownership of the asserted patents, Defendant attempts to engage in a fishing expedition that serves only to shift the burden of establishing proof of standing to Plaintiff prior to any good-faith challenge to standing being put forward by Defendant."[23]

IV. Northern District of Illinois

To Determine the Value of the Patents-in-Suit: In *Gamon Plus, Inc. v. Campbell Soup Co*.,[24] Defendant sought discovery concerning any third party's financial interest. The Plaintiff refused to produce the documents on relevancy grounds and proposed that the Court conduct an *in-camera* review to confirm the irrelevance of the documents.[25] Defendant argued that the information is probative to Plaintiff's standing and more critically, to the value of the Patents-in-Suit, where there are no licenses under the Patents-in-Suit to the third parties, and thus seemingly no established policies concerning Plaintiffs' licensing practices.[26,27] The court agreed that "given patent cases' unique standing requirements and the potential for funding agreements to shed light on patents' value" such information is discoverable. The court further declined to conduct *in camera* review and instead ordered Gamon Plus to respond to the production request and if applicable, produce a privilege log.

Potential litigation funding (failed negotiations) and Plaintiff's Financial Resources: In *Kove IO, Inc. v. Amazon Web Servs., Inc*.,[28] Defendant had initially resolved a dispute related to production of TPLF agreements after withdrawing its motion but later served a Rule 30(b)(6) notice containing at least three topics that mention litigation funding. The Plaintiff requested a protective order from discovery related to litigation funding, including document requests, interrogatories, and witness questioning.[29] Defendants contested that these documents are relevant because "in patent litigation, where a plaintiff seeks to establish damages based on a reasonable royalty, litigation funding information helps show what a 'hypothetical negotiation' for a patent license would look like."[30]

The court did not find "the analogy between patent licensing and litigation funding to be as strong" as the Defendant argued. The court held that "a transaction in which a patent is sold or licensed is undoubtedly a real-world indicator of the patent's market value. But a litigation funding agreement is a step of abstraction removed from any 'real-world indicators' of value like the Georgia-Pacific factors. At best, a funding agreement embodies the patentholder's and funder's subjective calculations about the value they might prove the patent to possess in the context of litigation" (internal quotations omitted). The court also noted that since the Plaintiff never finalized a litigation funding agreement, it meant that no party had relied on any such valuation even for the purpose of funding any litigation. Interestingly, the defendants, citing the opinion in *Continental Circuits*, argued that the TPLF documents are relevant for rebutting Plaintiff's anticipated David-and-Goliath theme at trial.[31] To address this argument, the court disagreed that the "party's interest in refuting a 'theme'—as opposed to supporting a claim or defense—provides a proper basis for discovery under the Federal Rules of Civil Procedure and granted plaintiff's motion for a protective order.

V. Southern District of California—Work-Product Doctrine Applies to TPLF Agreements and Related Documents

In *Taction Tech., Inc. v. Apple Inc*.,[32] where the parties disputed the relevance of TPLF documents, the court found that litigation funding agreements and related documents can be directly relevant to the valuations placed on the patents prior to the present litigation.[33] However, the court narrowed the scope of discovery to address plaintiff's privilege objections by restricting it to documents that contain or reflect valuations of the asserted patents and excluding any documents related to negotiations or opinions regarding actual or potential financial or ownership interest and agreements or communications regarding actual or potential licenses or licensing strategy.[34]

Interestingly, apart from assessing the relevance, the court also evaluated the discovery related to TPLF for privilege under the attorney work product doctrine and substantial need and undue hardship. Defendant argued that the requested documents were not protected by privilege because the litigation funding documents were discoverable as facts related to a business transaction and its requests merely targeted business information, not communications related to legal advice. However, the court after conducting an *in camera* view of the TPLF documents, ruled that these documents were created by or for plaintiff in anticipation of litigation and therefore they qualify as work product.[35] The court also noted that many of the documents include express confidentiality provisions regarding the litigation funding agreements, the terms, and the information related to them and therefore, qualify as work product.[36] It is pertinent to note that with respect to the identity of litigation funders, litigation agreements, and documents related to patent valuation, the court did not consider the existence of these documents and the people/entities who are parties to them to be protected information under the work-product doctrine.[37] After it found that the requested documents are protected information under the work-product doctrine, the court analyzed whether the Defendant had established that an exception to the ordinary protection afforded to work product applied. Defendant argued that it had a substantial need for plaintiff's litigation funding documents as evidence of the value of the patents at issue. However, the court found that since the discovery had just begun and the plaintiff had agreed to produce other documents that are relevant to the valuations of the asserted patents, the argument is not persuasive. Moreover, the court found that the Defendant's argument regarding substantial need goes to the need for the identities of the funders, not necessarily the litigation funding documents. Since the court had already granted the motion regarding discovery with respect to identities of litigation funders and existence of the funding agreement, the court denied the motion to compel with respect to communications surrounding TPLF or the actual TPLF agreements with the plaintiff or the inventor.

VI. Conclusion

Apart from establishing statutory standing, there are other reasons to know the identity of the parties in a patent litigation. For instance, there can be a situation where a party conceals the identity of a related company when negotiating with a prospective licensee or fail to disclose individuals and entities that might share the licensing proceeds and the prospective licensee already has an existing license with the related entity. Moreover, in certain cases, if the case is being decided by the jury, the jury ought to know the financial resources and third-party funding of the plaintiff to avoid any bias owing to the plaintiff being an individual inventor or a small entity.[38]

The decisions discussed above suggest that for at least the purposes of patent litigation, the district courts are currently split on whether documents related to TPLF are relevant for the purpose of determining standing, value of patents-in-suit, and plaintiff's financial resources. Taking into account the treatment of third-party funding arrangements, particularly in patent litigation, by different district courts, parties should be prepared to at least disclose the identity of the funder or the existence of a litigation funding agreement. Depending on the venue and Defendant's argument, it is possible that specifically tailored discovery requests to seek relevant documents related to TPLF will be granted. The case law seems to suggest that at a minimum, an *in-camera* judicial review coupled with the production of redacted agreements and a privilege log that enables defense counsel to identify standing issues is likely to be granted. Moreover, for the Defendants, the likelihood of receiving a favorable order on discovery disputes regarding TPLF arrangements is much higher if the disputes are raised early on in the case.

1. US litigation funding and social inflation (December 2021), *https://www.swissre.com/dam/jcr:7435a896-5f4b-463b-a1e6-7d4ec17db556/swiss-re-institute-expertise-publication-us-litigation-funding-and-social-inflation-december2021.pdf* (last accessed Feb. 16, 2022).
2. Unified Patents has identified that from 2015 to 2021, third parties have funded 24 % of patent cases that were filed in the U.S. *See* Korak Ray, Time to Disclose Third-Party Funding of Patent Litigation, February 6, 2023, *https://www.realclearpolicy.com/articles/2023/02/06/time_to_disclose_third-party_funding_of_patent_litigation_879783.html*. *See also* Ryan Davis, Patent Suits Mostly Stayed Level In 2022, Yet Appeals Fell, February 15, 2023, *https://www.law360.com/ip/articles/1573847?nl_pk=73edb7d8-7dd7-4a87-a123-d6b5403cf075&utm_source=newsletter&utm_medium=email&utm_campaign=ip&utm_content=2023-02-15&read_more=1&nlsidx=0&nlaidx=1* (noting that patent litigation is totally independent from the stock market and investors have been attracted to funding patent cases because it is sort of a constant return, no matter what happens in the larger economy (internal quotations omitted)).
3. United States District Court for the District of Delaware, Standing Order Regarding Third-Party Litigation Funding Arrangements (D. Del. Apr. 18, 2022).
4. *Id*. at 2.
5. 2017 Wisconsin Act 235 requires parties to provide "any agreement" under which a third party has a right to compensation from the proceeds of a civil action, settlement, or judgment.
6. For example, the Northern District of California adopted a standing order in 2017 requiring parties to disclose the existence of third-party litigation financing in any proposed class, collective, or representative action. Standing Order for all Judges of the Northern District of California, Contents of the Joint Case Management Statement (adopted January 23, 2017), paragraph 18, *https://www.cand.uscourts.gov/wp-content/uploads/judges/StandingOrder_All_Judges_1.17.23.pdf*.
7. New Jersey's rule goes a step further, requiring all parties to further disclose the scope of the funder's rights to approve of litigation decisions or settlement decisions; and a brief description of the funder's financial interest in the litigation. *See* Rule 7.1.1(a)(1)-(3) at *https://www.njd.uscourts.gov/sites/njd/files/Order7.1.1%28signed%29.pdf?ref=firm-market-news*.
8. 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).
9. *Nimitz Tech. LLC v. CNET Media, Inc.*, No. 21-1247-CFC, Memo. Order (D. Del. Nov. 30, 2022) (Connolly, J).
10. The district court had ordered Plaintiff Nimitz Technologies LLC (Nimitz) to certify it had complied with the standing orders. Because Nimitz failed to timely respond, it resulted in the court issuing an order "to show cause why it should not be held in contempt." Nimitz then filed an updated disclosure statement naming Mark Hall as the sole owner and member of Nimitz, along with representing to the court that Nimitz had not entered into any arrangement with a Third-Party Funder. After founding an exhibit that indicated that Mr. Hall had a connection with IP Edge LLC, the court ordered Mr. Hall and Nimitz's counsel to explain the connection.
11. *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).
12. Chief Judge Connolly's memorandum 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?" *Id*. at 4.
13. *Id*. at 5 (finding that Nimitz did not show "that mandamus is its only recourse to protect privileged materials" or, in light of the district court's concerns,

that Nimitz had “a clear right to preclude in camera inspection under these circumstances”).
14. *In re: Creekview IP LLC and In re: Waverly Licensing LLC*, Fed. Cir., Nos. 2023-108 and 2023-109, 1/4/23.
15. *In re Creekview IP LLC*, No. 2023-108, 2023 WL 29130, at *1 (Fed. Cir. Jan. 4, 2023).
16. *Id.*
17. *Id.* at *2 (internal citations omitted).
18. *Mullen Indus. LLC v. Apple Inc.*, No. 6:22-CV-00145-ADA, 2022 U.S. Dist. LEXIS 183652 (W.D. Tex. Sep. 30, 2022).
19. *Id.* at 1.
20. *Fleet Connect Sols. LLC v. Waste Connections US, Inc.*, No. 2:21-CV-00365-JRG, 2022 U.S. Dist. LEXIS 129216, at *6 (E.D. Tex. June 29, 2022).
21. *Id.* (internal citation omitted).
22. *Id.* at *7.
23. *Id.* at *7–*8.
24. *Gamon Plus, Inc. v. Campbell Soup Co.*, No. 1:15-cv-08940, 2022 U.S. Dist. LEXIS 236014, at *6 (N.D. Ill. May 26, 2022).
25. *Id.* at *6–*7.
26. *Id.* at *7.
27. *Id.* at *8 (internal citation omitted).
28. *Kove IO, Inc. v. Amazon Web Servs., Inc.*, No. 18 C 8175, at 19 (N.D. Ill. Jan. 25, 2022).
29. *Id.*
30. *Id.* at 20.
31. *Id.* at 20.
32. *Taction Tech., Inc. v. Apple Inc.*, No. 21-cv-00812-TWR-JLB (S.D. Cal. Mar. 16, 2022).
33. *Id.* at 8.
34. *Id.* at 9–10.
35. Additionally, in *Impact Engine, Inc. v. Google LLC*, No. 19-CV-1301-CAB-DEB, at 3 (S.D. Cal. Nov. 10, 2021), the same court also opined that “[d]isclosure to a person with interest common to that of the attorney or the client is not inconsistent with the intent to invoke the protection of the work product doctrine” and therefore the work product protection is not waived because it was shared with another person or entity.
36. *Id.* at 12.
37. *Id.* at 13.
38. However, in *Impact Engine, Inc. v. Google LLC*, No. 19-CV-1301-CAB-DEB (S.D. Cal. Nov. 10, 2021), Google argued that litigation funding agreements and related documents were relevant to plaintiff’s positions on liability, validity, and damages, but also to the themes expressed in plaintiff’s complaint—some of which may be argued in front of a jury during trial. Google argued that Impact Engine will likely give a jury the impression “that a damages award will make Impact Engine whole and go to Impact Engine and its employees” even though Impact Engine admits there is a litigation funder who will likely share the proceeds. The court did not find Google’s argument to be persuasive.