



# Success in Patent Disputes: How to Work Effectively with Litigation Funders

Due to the substantial costs and risks inherent in patent litigation, it is a natural fit for litigation funding. Indeed, a typical patent litigation requires substantial expenditures on both technical and damages experts, often accompanied by additional expenses for testing, reverse engineering, or source code analysis. Thus, while early trends among those seeking funding for patent litigation were concentrated on smaller, entrepreneurial inventors and patent owners who found themselves pitted against larger, more well-resourced defendants, an increasing number of well-resourced patent owners, such as large companies and universities, are now availing themselves of litigation funding to support their patent litigation strategies. Regardless of a patentee's size or financial resources, partnering with a litigation funder is a smart move for any patentee seeking to offset some or all of their financial risk as they take on infringement litigation against well-resourced defendants.

# The Basics of Litigation Funding

Litigation funding, also known as “litigation finance” or “third party funding,” is an alternative means for a potential plaintiff to fund the costs of a legal dispute.

Rather than the patent owner paying for expenses out-of-pocket (which can cause significant strain) or a lawyer proceeding on full contingency (which many patent litigation firms do not accommodate), a commercial litigation funder finances the cost of the patent litigation in return for a share of any award, settlement, or licensing revenue.

This kind of funding is typically non-recourse

— if the claim is lost, the claimant is not liable to repay the funder’s investment.

Thus, in a typical funding arrangement, the litigation funder shoulders the majority of the financial risk.

Finally, patent-related funding is not only limited to litigation for patent infringement. In some instances, for companies with valuable IP and clear path to monetization, funding may be obtained to help prosecute patent applications or to fund a company’s on-going research and development.

## The Fit Between Patent Matters and Litigation Funding

Patent litigation can be hugely expensive, straining the budget of even the most well-resourced claimants. Moreover, due to the changing nature of the patent licensing market, it is increasingly difficult for any patent owner to receive fair value for his or her inventions without bringing litigation in conjunction with an active licensing strategy.

Infrequent litigants, such as individual inventors or small companies, may be surprised to learn that the costs associated with expert witnesses, discovery, and trial presentation for patent litigation in the US can cause a single patent case to cost upwards of \$2 million, excluding attorneys’ fees. Indeed, while costs associated with patent litigation in other global jurisdictions may be lower, some popular jurisdictions, such as Germany, restrict attorneys’ ability to work on contingency—which means patent litigators are unable to waive their fees in exchange for a payment based on the successful result of the infringement claim.

Consequently, even where a law firm may want to align its compensation with the success of the underlying case, a litigation funder is nevertheless a key player needed to enable filing a meritorious case without devastating the patent owner’s finances.

Traditionally, litigation funding has been a key tool for assisting small or individual patent owners facing a “David v. Goliath”-type battle in court. However, as the sophistication of litigation funders has increased, increasingly well-resourced parties, such as larger companies and universities, have found themselves working together. While these larger parties may not need to seek outside capital to support their litigation efforts, it is often a smart strategic move — a litigation funder can absorb the expense of a patent infringement litigation as it goes along and thereby remove pressure on the bottom line. Indeed, by involving funders to defray the cost of patent litigation, parties can free up their financial resources to support other

priorities, such as further research and development, or simply enable their limited litigation spend to go further without failing to pursue meritorious claims. Indeed, litigation funding is a tool for patentees to shift the monetary risk of enforcing their rights to a third party that works equally well for a cash-constrained individual or small business and a larger organization juggling financial priorities.

Litigation funding can also have substantial strategic benefits and lead to better settlement outcomes. A patent owner,

knowing that they have the resources to fight through trial and appeal, will be in a more advantageous position for settlement and will not be forced to accept a low offer merely on account of their capital constraints. Furthermore, the fact that a sophisticated litigation funder like Woodsford has backed a patent owner's position sends a powerful signal to the infringing defendant that a third party with substantial expertise believes strongly in the underlying claim to put their own capital at risk.

## How to Prepare Your Patent Litigation for Funding

Parties that are new to patent litigation are often unsure what steps to take before approaching a funder. Here are some important items that will likely be helpful to consider as you prepare your case. Of course, litigation financiers that have funded many patent litigations, such as Woodsford, are able to offer advice on this process, whether it be with introductions to talented litigation counsel or candid feedback on materials shared. Rather than a strict checklist, the following is intended to help patent owners think through important issues that come up when seeking funding for patent litigation.

### 1) Select Lawyers Who Can Win Your Case

The US, along with other global jurisdictions, has a strong tradition of fully contingent representations for patent infringement litigation. However, in other popular patent infringement jurisdictions, such as Germany and many civil law jurisdictions, contingent representations are not available. And, even in jurisdictions where it is ethically permissible for attorneys to make all of their compensation for a litigation matter contingent on success, certain attorneys and firms are unable to accept compensation only upon resolution

of the case. Thus, there are complicated financial factors to consider when selecting the correct counsel and jurisdiction for bringing patent infringement litigation.

Additionally, in patent litigation it is extremely important for counsel representing the patent owner to be well versed in the technology of the patents to be asserted. Thus, finding the correct counsel to advance such inherently technical matters in highly specialized cases is paramount. Indeed, high quality litigation funders such as Woodsford prioritize ensuring that any patent litigations they support are guided through litigation by appropriately qualified attorneys on both legal and technical fronts.



Therefore, a very important early step in enforcing patent rights is for the patent owner to select and hire the best patent litigation counsel for their matter. Initially, some smaller patent owners may be inclined to turn to the attorneys that assisted with prosecution of their patents. While prosecuting attorneys are often an excellent source of recommendations and introductions to patent litigators, there are drawbacks to selecting one's patent prosecution counsel to handle litigation of the resulting patents. In particular, in the US as well as in other jurisdictions, there exist many situations in which hiring the same attorneys for patent prosecution and litigation creates complications for the preservation of attorney client privilege. Such issues are avoided if the patent owner hires different firms for these different types of work.

It is equally critical to make sure that the patent litigation team hired has sufficient technical expertise to properly handle the case. Just as scientists and engineers are extremely specialized into particular fields and sub-fields, patent litigators tend to have areas of scientific and engineering specialty where they most frequently practice. Often patent litigators have technical degrees in the technology areas where they practice most. When selecting counsel, patent owners should review the qualifications of and, if desired, interview the members of the prospective litigation team. While not every lawyer on the team needs to be a specialist in the relevant technology, it is highly advantageous for some members of

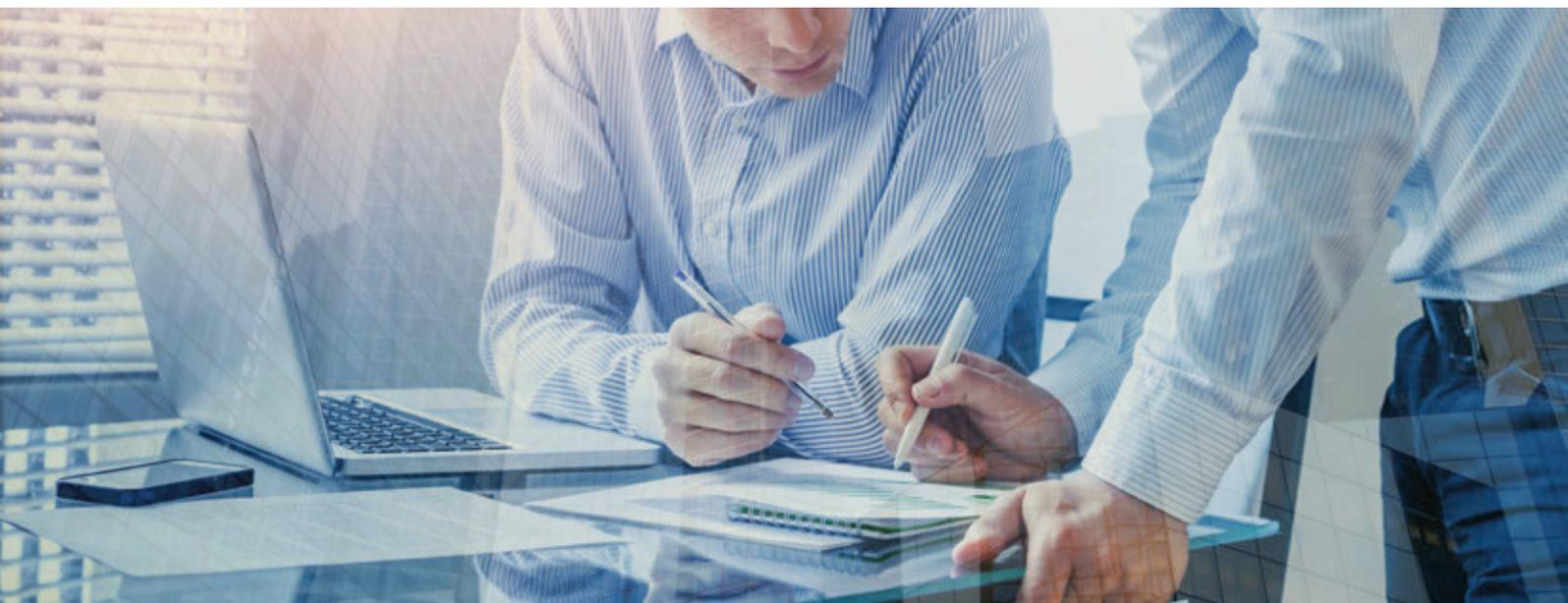
the litigation team to “speak the language” of the patent.

Finding the best counsel to handle patent litigations in different technology areas can be challenging. However, Woodsford has knowledge of strong patent litigators practicing in many jurisdictions and technology specializations around the world. The team at Woodsford is happy to recommend patent litigators to patent owners seeking to find someone with the right expertise and ability to assist with a matter that seeks funding support for litigation costs and/or fees.

## 2) Develop a Detailed Infringement Analysis

Once you have appropriate counsel to work with, it is key to collaborate with your attorneys to prepare an analysis of the extent of infringement. This activity typically requires taking a careful review of your patent and the application process that lead to your patent (the patent's “file history” or “prosecution history”). As part of this analysis, the attorneys will particularly study the claims in your patent(s), which define the protectable scope of your invention. In view of this analysis of your patent, they will work together with you to gather available information regarding the activities of any suspected infringers.

Ultimately, your counsel will prepare “infringement claim charts” that specify which aspects of a potential defendant's



products are infringing the claims of your patents. Infringement claim charts are commonly prepared by patent litigators in the process of evaluating and preparing a new case—these are work product that map the language of your patent claims against the accused products.

Infringement claim charts are typically important to litigation funders when they are evaluating the strength of your claims to be funded. Thus, thoroughly researching information for infringement claim charts is very important — you and your counsel may wish to thoughtfully flag those aspects of the claim chart where there is less public information to be certain of infringement or where there may be multiple ways to apply the language of the claim to the accused infringing product. The more careful and well prepared these infringement claim charts are when you present them to a funder, the more likely the funder will be able to quickly and clearly appreciate the merits of your infringement claim.

### 3) Consider the Strength of Likely Defenses

All patent owners should expect to be met with defenses against their infringement allegations. The most common defenses are non-infringement and invalidity, although the particular nuances of these and other defenses vary by jurisdiction.

Non-infringement defenses are typically premised on an argument that one or more of the requirements of the asserted patent claim are not met by the accused infringing products. Often accused infringers will take a different view of what certain elements in the patent claims require — these disputes over the meaning of the language of a claim are often called “claim construction disputes.”

As part of solid preparation of a case for review by a litigation funder, it is a good idea to work with your counsel to identify any likely claim construction issues that the accused infringers might raise.

Invalidity is typically alleged in response to allegations of patent infringement. Depending on the jurisdiction where you bring your infringement case, a challenge to the validity of your patent may be brought in the same proceeding where you allege infringement, in a different proceeding, or both. Nearly all jurisdictions provide for an accused infringer to challenge the validity of an asserted patent based on prior art references — typically other patents or publications that were publicly available



before the asserted patent. Your litigation counsel will provide advice on whether and what type of prior art search may be advisable before bringing your case depending on the laws of your jurisdiction and other specifics to your situation. Your lawyers should advise you if they are aware of any prior art that is fatal to one or more of your patents and, if they find such art, you should discuss whether bringing the case with different patents or taking an action to narrow the claims of your patents before filing a lawsuit is a good strategy. Knowledgeable patent litigation counsel is, therefore, also key to getting your bearings with regard to invalidity and other defenses before you file suit.

#### 4) Determine What Success Looks Like for Your Case

It is vital for any patent owner preparing an infringement litigation to have a solid understanding of what a good outcome from your lawsuit would be. For some, the goal is a financial settlement while, for others, injunctive relief to stop an infringer's activities is the primary aim. Your counsel, possibly in conjunction with an expert on IP valuation, can give you a sense of what potential damages awarded by the court might be if your case progresses all the way to a final judgment.

Patent infringement litigation is often resolved through settlement prior to a final resolution by judge or jury. It is therefore important to talk with your lawyers and IP valuation expert about what kind of financial settlement would be acceptable to you. This is a topic that you will likely discuss with your lawyers repeatedly over the course of the case, as new facts and defenses may come to light and offers may be made by the defendant that alter the prospects of your infringement claims and require you to re-think what a successful outcome would be.

Once you have a funder supporting your litigation, they are also a valuable resource that you may consult to determine the best value proposition for all stakeholders as the case(s) progress through the courts.

Sometimes circumstances change such that the definition of success may be a greater or lesser financial value over time – a smart litigant is attuned to the changes in his or her case and adjusts their expectations and strategy in view of new information.

For the patent owners in competition with an infringer, an injunction requiring the infringer to cease their infringing activity is often the ultimate goal of litigation. In such cases, it remains advisable to consult frequently with your team of counsel, experts, and funder to ensure that you are aware of all information that may affect the likelihood of achieving your desired injunctive relief.

Do not be deterred from seeking a funder's support for your patent litigation where an injunction is your ultimate goal. While it is simplest to compensate a funder with a piece of a financial award received at the end of your successful litigation, sophisticated funders, such as Woodsford, are open to considering creative options for compensation after success in the form of an injunction. For instance, perhaps it makes sense to reward the funder with a cash payment or equity stake as a success fee paid after your sales increase when the infringer is no longer in competition. The right structure for litigation funding will vary for each case – talk to your lawyers and a knowledgeable funder to learn more about what funding arrangements are best for your particular strategy.



## 5) Develop a Budget in Consideration of Litigation Milestones

An accurate and realistic case budget is essential for a funder when reviewing a claim. With the advice of counsel, a case budget should be developed to identify the costs and, if necessary, fees that will be incurred along the way as your case progresses through the typical milestones expected in the litigation. For an example, we have considered the stages in a typical US patent litigation in federal district court – the most common type of patent enforcement in the US.

**Initial preparations and pleadings:** In this stage, your counsel will prepare a complaint, draft preliminary claim charts illustrating infringement based on publicly available information, and file your lawsuit. Sometimes there is early motion practice regarding the complaint, such as a motion to dismiss, which your counsel should also anticipate and prepare to defend.

**Contentions:** In many US district courts, local patent rules require the parties to exchange contentions regarding the key issues in every patent litigation — specifically, infringement and invalidity. These contentions take the form of detailed charts or other documentation that spell out each side's basis for its positions. These are exchanged early in the case and are updated by each party when it learns new facts or other information, such as the court's claim construction, that enables it to develop new or more refined theories for its claims.

**Claim construction:** Claim construction may occur early at the start of fact discovery (discussed below) or in the mid- or late-fact discovery period. Either way, this is a crucial part of a case where the court determines the meaning of certain terms in the asserted patent claims as a matter of law. Both plaintiff and defendant will present their arguments for their preferred interpretation of certain terms crucial to the infringement and invalidity cases through briefing and at a hearing. Ultimately, the court will issue a claim construction

order setting forth the meanings of any disputed terms.

Frequently the issuance of a claim construction order will spur settlement talks between the parties, as the constructions ordered by the court may strengthen or weaken each parties' case.

**Fact discovery:** Fact discovery is typically the longest phase in a US district court litigation and involves the production of documents, things (such as samples of accused products), electronically stored information, and witness testimony relevant to the issues in the case. Counsel for both parties will issue discovery requests to each other to find evidence related to the claims and defenses in the case. Where relevant



evidence may be in the possession of third parties to the litigation, counsel may issue subpoenas for such materials or testimony during fact discovery. This is the phase of the case where all of the evidence to support your claim of infringement and combat the defendant's defenses must be disclosed.

**Expert discovery:** In this phase of district court litigation, each party will hire technical and damages experts to prepare written reports setting forth their opinions on the key issues in the case. Because patent litigations typically involve complicated

science and technology issues, both plaintiff and defendant will retain technical experts to provide their expert opinions to the court and, later, the jury regarding infringement (or non-infringement), invalidity (or validity), and any other issues where an expert's technical expertise may help the fact finder. Similarly, damages experts have expertise in patent licensing and damages, and provide their view on the proper measure of damages for any infringement that the judge or jury may determine has occurred. After expert reports are exchanged, each side may question the other side's experts through a deposition to explore and challenge their basis for opinions and biases.

**Late-stage dispositive motions:** Typically occurring after both fact and expert discovery have concluded, late-stage dispositive motions are filed in view of all of the fact and expert evidence disclosed in the case. These may include summary judgment motions, where a party requests that the judge find in its favor on a particular claim, such as validity or non-infringement, because discovery has shown there is no material disputed facts relevant to that claim. Thus, such summary judgment motions may be dispositive of the outcome of a particular claim or the entire case. This is also often the time frame where each party may file motions seeking to exclude the opinions of the other party's expert if they perceive some deficiency in

the expert's analysis or qualifications. An expert witness is typically key to presenting a party's case at trial and, consequently, full exclusion of an expert may neuter a party's claims, defense, or damages.

**Trial preparations:** Preparations for trial often begin in earnest while the court is considering summary judgment motions or shortly thereafter. Such preparations typically include planning the presentation of evidence in support of each party's claims or defenses, working with key witnesses to prepare their testimony, preparing demonstrative graphics to explain the case to the jury, and planning how to cross-examine or otherwise overcome the other side's trial presentation.

**Trial:** Patent infringement cases in district court are typically tried before a jury. The length of the trial will be set by the district court judge to be appropriate for the nature of the specific case at hand. Each side typically has the opportunity for attorneys to present opening and closing arguments, and between these arguments each side presents its evidence through exhibits and testimony regarding the issues of infringement, validity, other defenses, and damages. After trial concludes, the jury deliberates to reach a unanimous verdict and the verdict determines the outcome of the trial and, if appropriate, the amount of damages awarded.



**Post-trial motions and appeals:** After a trial, the party who lost will typically file motions to request that the district court reconsider the jury's decision and, if the district court does not, request that the appellate court reconsider the judge and jury's decision. Post-trial motions also sometimes concern issues that the judge may only resolve after the outcome of the jury trial is known, such as whether enhanced damages for willful infringement should be awarded and whether attorneys' fees should be awarded to the prevailing party.



**Potential Co-pending IPRs:** Petitions for *inter partes* review (IPR) are often filed with the US Patent and Trademark Office (PTO) by defendants in district court patent litigation as a means of challenging the validity of the plaintiff's patents over prior art references in a speedy alternative forum. While district court litigation can sometimes take 3 years or longer from filing to final judgment, IPRs are resolved within 18 months from filing of a petition by an accused infringer. Many district courts will stay their own proceedings while the PTO considers an IPR. IPRs are fast in part because they are limited – each defendant has only one year from service of the complaint to file IPRs and the PTO will

only consider invalidity arguments relating to prior art. Furthermore, after reviewing the petition and any response from the patent owner, the PTO will decide whether the invalidity grounds raised are strong enough to justify instituting an IPR. When IPRs were first introduced in 2012, the vast majority of petitions were instituted and resulted in claims being invalidated. However, over time, the PTO has transitioned to instituting fewer IPR petitions and invalidating fewer claims. Of course, these are broad trends that may or may not impact your particular case – claimants should talk to their lawyers for specific guidance.

## Finding a Funder for Your Patent Litigation

Once you have thought through the key aspects of your plans for patent litigation, it is time to bring your plans to a litigation funder to seek the financial support necessary for your case(s). In your first discussions with a funder, they will typically want to know what kind of litigation you plan to bring and if you already have a law firm that has reviewed and agreed to represent you. Typically, an NDA is executed before any work product detailing the plans for litigation are exchanged between parties. Also, reputable

funders will ask for the names of all plaintiff and expected defendant entities so that they can ensure that they would not have any obstacle or conflict to learning more about your plans.

Making sure that your funder has experience investing in patent litigation is also very important – because patent litigation necessarily concerns the intersection of law and technology, it requires a different skill set to diligence than general commercial litigation. An

experienced funder for patent litigation, such as Woodsford, knows the ins and outs of funding patent cases and is able to diligence many patent funding proposals with its own in-house personnel. Also, a funder with experience backing patent litigations is better able to evaluate the strengths and risks of your particular litigation proposal and will, consequently, be better able to craft terms to ensure set all parties to the funding agreement up for success.

A detailed look at Woodsford's process for negotiating and conducting due diligence on litigation funding opportunities is set forth in *A Practical Guide to Litigation Funding*.\* In addition to the process and pointers provided in the *Practical Guide*\*, you can expect that a funder considering investing in a patent litigation will request infringement

claim charts, information on any expected claim construction issues, details on anticipated defenses (e.g., invalidity, non-infringement, inequitable conduct, and others), and a thorough discussion of potential damages for infringement.

If you do not have lawyers on board with your litigation plans yet, but know that you have a patent infringement problem on your hands that will require third party funding support for litigation, it can often be beneficial to reach out directly to a funder. Woodsford can facilitate introductions to patent litigation counsel who may be willing to provide an initial evaluation of your case and have the skillset to file a funded litigation on your behalf once plans have been developed and a funding arrangement agreed.

## Looking Ahead: Continuing Importance of Third-Party Funding for Patent Owners

Patent litigation was one of the first areas of civil litigation to embrace third party litigation funding, and it continues to be an area where funding is in high demand. As discussed, the need for both technical and damages experts in most patent litigations, and the burden of extensive testing, code review, or other advanced analysis to present a solid infringement claim increase the expense of patent litigation. Further, the advent of parallel proceedings in the PTO, such as IPRs, in many US litigations has increased both early costs and invalidity risks for patent owners.

The net result of these factors is that more and more patent owners are seeking financial support from third party litigation funders rather than facing the spectre of patent litigation on their own. Increasingly,

larger companies and universities are employing funding to keep the expense and uncertainty of litigation costs and fees off of their balance sheets. Meanwhile, smaller companies and individual inventors continue to seek the support of funders to take on large infringers that may have trampled on their patent rights without any expectation that the smaller party would have the resources to seek redress.

Ultimately, funding for patent litigation is popular and increasingly used in both the US and worldwide jurisdictions. Wise patent owners and patent litigators view funding as one of the fundamental tools in their strategic tool box, and Woodsford is pleased to continue to pave the way to success for inventors and IP owners protecting their inventions.

\* Available for download at [woodsfordlitigationfunding.com/about-woodsford/downloads](https://woodsfordlitigationfunding.com/about-woodsford/downloads)

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Before joining Woodsford, Robin was a Partner at Radulescu LLP, a boutique patent litigation firm in New York City. Earlier in her career, Robin was an Associate at Quinn Emanuel Urquhart & Sullivan LLP and Hogan Lovells US LLP. She is admitted to practice law in New York and Pennsylvania, as well as before the Federal Circuit Court of Appeals and numerous district courts.

Robin serves as Woodsford's in-house expert on patent and other intellectual property litigation and arbitration. In particular, Robin plays a key role in underwriting and monitoring Woodsford's investments in US intellectual property litigation concerning a wide variety of technologies.

Robin holds an S.B. degree from the Massachusetts Institute of Technology (MIT) in Materials Science and Engineering, where she was a member of the Tau Beta Pi engineering honors society. She received her J.D. from Cornell Law School and was a Notes Editor for the Cornell Journal of Law and Public Policy.

## About Woodsford Litigation Funding

Founded in 2010 and with offices in London, the USA, Singapore and Tel Aviv, Woodsford Litigation Funding provides tailored litigation financing solutions for businesses, individuals, and law firms. This includes both single case and portfolio litigation funding and arbitration funding. Woodsford's Executive team blends extensive business experience with

world-class legal expertise. Woodsford is a founder member of the Association of Litigation Funders of England and Wales.

For further information, visit [www.woodsfordlitigationfunding.com](http://www.woodsfordlitigationfunding.com) or email **Robin** ([rdavis@woodsfordlf.com](mailto:rdavis@woodsfordlf.com)) directly.