

Opportunities Abound In Patent Litigation Funding At The ITC

By **Matt Rizzolo and Hyun-Joong (Daniel) Kim** (November 6, 2019)

It is neither a surprise nor a secret that third-party funding of commercial disputes, often called as “litigation funding” or “litigation financing,” is becoming increasingly common.

For example, just last year, Validity Finance LLC, a new litigation funding firm, launched with \$250 million backed in private equity, and Longford Capital Management LP closed its second private investment fund at \$500 million — purportedly the largest of its kind in North America.[1] Many expect litigation funding to grow by leaps and bounds in years to come.[2]

Due to its often high cost and amount at risk, intellectual property litigation — particularly patent litigation — has been a natural fit with litigation funders. To date, much of the IP-related litigation funding has been limited to district court cases, where damages awards provide valuable data points for funders to use in evaluating a potential return for their investment.

But in the United States, patents can also be enforced at the U.S. International Trade Commission, which has proven to be a very popular forum for patent owners to enforce their rights. Yet ITC patent litigation has attracted significantly less litigation funding to date. As discussed below, while there are certain hurdles to overcome, the advantages of the ITC may provide creative IP owners and litigation financiers with lucrative opportunities.



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Section 337 Actions at the ITC

The ITC, a quasi-judicial independent agency based in Washington, D.C., serves to protect companies with a U.S. presence — a “domestic industry” — from unfair business practices. Among other duties, the ITC enforces 19 U.S. Code Section 1337, which prohibits “unfair acts” in the importation of goods into this country — including violation of IP rights such as patent, trademark and copyright infringement.

Unlike district courts, the ITC cannot award damages. Instead, the default remedy is an exclusion order, enforced by U.S. Customs, that bars affected products from entering into the U.S.[3] Despite its inability to award damages, the ITC remains an attractive forum for patent owners for many reasons: An exclusion order can be a source of powerful leverage in business disputes; the ITC does not need to have personal jurisdiction over a respondent in order to issue a remedy; discovery is expansive, even from foreign entities; and ITC proceedings are typically resolved much more quickly than district court cases.

Indeed, Section 337 investigations often take less than 18 months from filing of a complaint to final decision and a potential exclusion order, with trial taking place less than a year after the complaint is filed. And due to its statutory mandate to resolve proceedings at the earliest practicable time, the ITC generally denies motions to stay pending parallel inter partes review proceedings at the Patent Trial and Appeal Board.[4]

Owing to their fast pace and broad discovery, however, ITC cases are often as expensive as

a typical district court patent infringement case with all the costs squeezed into a fraction of a district court case's time frame.[5] Combined with additional hurdles to bring a Section 337 action (e.g., establishing domestic industry), the costs to complainants often dissuade patent owners from filing a meritorious case in the ITC, resulting in a relatively small docket as compared to district courts — approximately 60-70 cases filed each year.[6]

Opportunities for ITC-Related Litigation Finance

In a typical litigation finance arrangement, a third-party funder pays all or a portion of the plaintiff's litigation expense in exchange for a portion of any recovery. Although these arrangements are often very complex and may feature different tiers of payment depending on the stage of the proceedings, the purpose is generally the same: to reduce risk and expense to both the plaintiff (i.e., from hourly based fee litigation) and the law firm (i.e., from contingency fee arrangements), while providing a potential return to the litigation funder.

This is where a patent owner who may lack the financial resources to pursue an expensive ITC proceeding may benefit from litigation financing. Generally speaking, litigation finance makes the most sense in very expensive and complex litigations and with a myriad of issues in play — infringement, validity, domestic industry and other ITC jurisdictional issues — as well as the costs associated with expansive discovery, the ITC perfectly fits the bill.

But with no damages awards from which to pay out a funder's investment or to use as historical data points, are ITC cases attractive enough for litigation funders? There are many reasons the answer should be yes:

- Like all investors, litigation funders favor speed and certainty regarding the length of their investment. Because ITC proceedings are mandated by statute to be resolved quickly and have virtually never been stayed pending parallel PTAB proceedings to date, an entity funding a Section 337 claim will likely be free from the risk of getting their money tied up for many years — unlike what can happen in many district court cases.
- Litigation funders can benefit from the heightened fact-based pleading requirements of Section 337 complaints. Unlike in district courts, where mere notice pleading suffices, an ITC complainant must prepare a very detailed complaint, including claim charts demonstrating the alleged infringement.[7] Such a thorough up-front investigation allows funders to better evaluate the merits of the complainant's case. (Indeed, the vast majority of litigation funders require such an analysis anyway).
- When ITC investigations proceed to a decision on the merits, complainants' success rate has been high. While a little less than half of the ITC cases historically settled before the commission's final determination, since 2015, approximately 70% of the cases that did proceed to a merits decision resulted in a finding of Section 337 violation with respect to at least one respondent.[8]

- And arguably of most importance to litigation funders, the strength of the remedy — an exclusion order — provides a complainant with extremely powerful leverage that makes up for the lack of damages award. Exclusion of a competitor's products allows the complainant to step in and claim the market share of the competitor, and often leads to a very favorable settlement for the patent owner in subsequent or related disputes[9] — situations that can be modeled or quantified to determine an appropriate funding arrangement. In but one recent example, Cisco Systems Inc. and Arista Networks settled for \$400 million ending multiple litigations after Cisco obtained exclusion orders against Arista in two different ITC cases.[10] The potential for an exclusion order may also give rise to situations where defensive litigation funding may be appropriate — an accused infringer with a valuable product in the market may wish to reduce its defensive litigation costs but be willing to pay an incentive to a litigation funder, so that it can successfully defend against the infringement claims and keep its products on the market.

Challenges for ITC-Related Litigation Finance

Of course, using litigation finance for ITC proceedings is certainly not without challenges. Many ITC cases settle before reaching the decision on the merits, and while many of these settlements involve money changing hands, sometimes these settlements occur in the form of a consent order, where the respondent simply agrees to stop importing or selling the accused product.

Although patent owners and litigation funders could quantify the monetary benefits of those settlements — particularly where a complainant and respondent are competing with each other — this requires a detailed and resource-intensive analysis of the market upfront. For example, litigation funders and patent owners may be able to negotiate a creative incentive structure based on the complainant's increased revenue, sales or market share projections or fees for forcing a respondent to design-around the patent.

Issues of privilege and confidentiality may also arise. While district courts have often held that litigation funding or a related agreement is an issue outside the scope of discovery, certain communications between a patent owner and a litigation funder without a confidentiality agreement have been found to effect a privilege waiver.[11]

Further, the ITC has traditionally taken a broader view of discovery than many district courts — in *Certain Audio Processing Hardware, Software, and Products Containing the Same*, for example, the respondents were able to obtain discovery into litigation financing arrangements in connection with a challenge to the complainant's standing to bring the complaint.[12]

Yet, even to the extent a respondent may be able to obtain discovery into a litigation funding arrangement, the ITC's strict protective orders mean that complainants and litigation funders can be assured that the details of such litigation funding arrangements will not be released publicly.

The Tip of the Iceberg? Litigation Funding in the ITC is Already Happening

Perhaps recognizing the value of Section 337 proceedings, litigation funders have already made limited forays into the ITC. For example, in *Certain Audio Processing Hardware*, the complainant sought funding for a patent enforcement campaign, entered into an agreement with a litigation funding entity, and brought a patent-related ITC action against multiple

electronic device makers.[13]

And, in July, litigation funder Longford Capital publicly announced that it was financially backing an ITC complaint brought by University of California at Santa Barbara against several major retailers, alleging patent infringement related to filament LED light bulbs.[14] While the specifics of the agreement remain confidential, Longford Capital stated that it would fund the attorney fees and expenses related to the enforcement campaign in exchange for an agreed-upon portion of the proceeds generated from the campaign, if those campaigns are successful.[15] Trial in that case — Certain Filament Light-Emitting Diodes and Products Containing Same — is expected in April 2020.[16]

So, while litigation finance and the ITC have rarely intersected, this paradigm may be changing.[17] As noted above, many Section 337 investigations are ideally suited for litigation funding, particularly where a patent owner believes its rights are being infringed by a competitor, or where it is concerned that it lacks the resources to exercise those rights and bar the infringer from the market.

Whether the complainant is a product-practicing entity seeking to gain a competitive advantage, a university with limited resources seeking increased leverage in a licensing dispute, or a patent owner simply looking for a creative way to share risk in the assertion of its IP rights, a litigant would be wise to explore the potential for ITC-related litigation funding.

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[1] M. Guarnaccia, New Litigation Funding Co. Scores BigLaw Attys, \$250M In PE, Law360.com (June 26, 2018), available at <https://www.law360.com/articles/1057371/new-litigation-funding-co-scores-biglaw-attys-250m-in-pe> (last visited Oct. 22, 2019).

[2] M. Gorman, Use of 3rd-Party Litigation Financing By Cos. Likely To Grow, Law360.com (Sept. 18, 2019), available at <https://www.law360.com/articles/1200365/use-of-3rd-party-litigation-financing-by-cos-likely-to-grow> (last visited Oct. 22, 2019).

[3] 19 U.S.C. § 1337.

[4] See, e.g., Certain Laser-Driven Light Sources, Subsystems Containing Laser-Driven Light Sources, and Products Containing the Same, Inv. No. 337-TA-983, Order No. 8 (Mar. 3, 2016).

[5] See, e.g., B. Reiser & C. Frelinghuysen, An Overview of Section 337 Litigation Before the ITC, Law360.com (Aug. 9, 2010), available at <https://www.law360.com/articles/183706/an-overview-of-section-337-litigation-before-the-itc> (last visited Oct. 23, 2019) (“Although [Section 337 litigation] costs are generally commensurate with the cost of a similar matter in a district court, the cost in a district court is generally spread out over a longer period of time.”).

[6] Section 337 Statistics: Number of New, Completed, And Active Investigations By Fiscal Year, U.S. International Trade Commission (Oct. 16, 2019), available at https://www.usitc.gov/intellectual_property/337_statistics_number_new_completed_and_active.htm (last visited Oct. 22, 2019).

[7] 19 C.F.R. § 210.12(a).

[8] Section 337 Statistics: Number Cases In Which Violation Is Found/Yr, U.S. International Trade Commission (Oct. 16, 2019), available at https://www.usitc.gov/intellectual_property/337_statistics_number_cases_which_violation.htm (last visited Oct. 22, 2019).

[9] D. Kass, Japanese Tire Co. Wins \$16.7M In No-Show IP Row, Law360.com (Sept. 19, 2019), available at <https://www.law360.com/articles/1200540/japanese-tire-co-wins-16-7m-in-no-show-ip-row> (last visited Oct. 22, 2019).

[10] J. Wolfe, Arista to pay \$400 million to Cisco to resolve court fight, Reuters (Aug. 6, 2018), available at <https://www.reuters.com/article/us-cisco-arista-settlement/arista-to-pay-400-million-to-cisco-to-resolve-court-fight-idUSKBN1KR1PI> (last visited Oct. 22, 2019).

[11] See, e.g., *Miller UK Ltd. v. Caterpillar, Inc.*, 17 F.Supp.3d 711, 740-41 (N.D. Ill. 2014) (finding that disclosing damage summaries, estimates, and spreadsheets to potential funders without a confidentiality agreement resulted in a waiver of the work product privilege, while finding that deal documents “have nothing to do with the claims or defenses in the case.”).

[12] See, e.g., *Certain Audio Processing Hardware, Software, And Products Containing the Same*, Inv. No. 337-TA-1026, Comm. Op. at 13-14 (Apr. 18, 2018).

[13] See *Certain Audio Processing Hardware*, Comm. Op. at 13, 25.

[14] H. Konnath, UC System Targets Retailers In Litigation-Funded IP Blitz, Law360.com (Jul. 30, 2019), available at <https://www.law360.com/articles/1183562/uc-system-targets-retailers-in-litigation-funded-ip-blitz> (last visited Oct. 22, 2019).

[15] *Id.*

[16] *Certain Filament Light-Emitting Diodes and Products Containing Same*, Inv. No. 337-TA-1172.

[17] The issue of potential litigation funding has been raised in other pending ITC proceedings. See *Certain Light-Emitting Diode Products, Systems, and Components Thereof*, Inv. No. 337-TA-1163, -1168, Procedural Stipulations at 13 (Aug. 21, 2019) (noting the potential existence of litigation funding entities); see also *Certain Light-Emitting Diode Products, Systems, and Components Thereof*, Inv. No. 337-TA-1164, Resp. to Compl. at 73 (Jul. 16, 2019) (Respondents Acuity Brands, Inc. and Acuity Brands Lighting, Inc. alleged that Lighting Science Group “may have received litigation funding to pursue their claims in Investigation Nos. 1163 and 1164.”).