



# A Practical Guide to Patent Litigation Funding

Woodsford Litigation Funding Insight

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Patent litigation is inherently expensive and comes with substantial risk, leading many litigants and law firms to seek third-party litigation funding. Some patent owners simply cannot afford to pay the legal fees required to retain competent counsel, and many firms that offer contingent-fee arrangements may still require that the litigant pay prohibitively expensive legal costs. Increasingly, well-resourced litigants are spending their capital on improving their business rather than paying large bills to outside counsel. And law firms often look to de-risk their contingent portfolios by obtaining discounted fees and costs through a funding partner. In each of these situations, a well-resourced litigation funder's services make good sense when litigating against a well-resourced defendant.

# 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. Depending on the litigant’s existing relationship with its attorneys, a commercial litigation funder will finance the costs of the patent litigation and some or all of the legal fees. Generally, the funder will also provide the capital required to defend anticipated IPR challenges before the Patent Office and may also provide funding for defending an appeal after a successful district court action.

The litigation funder takes a substantial portion of the risk and its funding is

generally non-recourse—if the claim is lost, the claimant is not liable to repay the funder’s investment. In return, the funder is entitled to a share of any award, settlement, or licensing revenue. Financial terms are negotiated on a case-by-case basis.

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

## The Fit Between Patent Matters and Litigation Funding

Patent litigation can strain the budget of even the most well-resourced claimants. Yet it is increasingly difficult in today’s licensing market for any patent owner to receive fair value for their inventions without resorting to litigation. But first-time patent litigants may be surprised to learn that the costs associated with expert witnesses, discovery, and trial presentation cause a patent case in the United States to cost upwards of \$2 million, excluding attorneys’ fees. Thus, even when a litigant has obtained litigation counsel on a contingent-fee arrangement, litigation funding may be necessary to fund the costs of the case without devastating the patent owner’s finances.

But litigation funding is not just for individuals or cash-strapped corporations. Larger companies and universities may not require outside capital to support their litigation efforts, yet it is often a smart strategic move—a litigation funder can absorb the expense and risk of a patent infringement litigation as it goes along and

thereby remove pressure on the bottom line. Instead, these parties can free up their financial resources to support their business or simply enable their limited litigation budget to support a larger portfolio of meritorious claims.

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Big and small companies alike may also appreciate the benefit of having the backing of a litigation funder when negotiating a settlement. Funded parties are much less likely to accept a low offer merely on account of capital constraints, and the presence of a sophisticated litigation funder like Woodsford can send a powerful message to an infringing defendant that a highly experienced third party believes in the underlying claim enough to put their own capital at risk.

# How to Prepare Your Patent Litigation for Funding

Litigation funding can often seem too complex or difficult to obtain to parties or law firms who are not repeat players. However, funders like Woodsford do their best to make the process as smooth as possible—funders want to invest in good cases. Thus, your goal as a litigant seeking funding should be to compile evidence sufficient to show that your action is likely to be successful. The following are a number of areas a plaintiff should consider when attempting to obtain funding for their patent infringement matter.

## 1) Select Lawyers Who Can Win Your Case

Perhaps the most important early step in enforcing patent rights is for the patent owner to select and hire the best patent litigation counsel for their matter. A patent owner should only hire a legal team with sufficient expertise to properly handle their patent case. Just as scientists and engineers are specialized into particular fields and sub-fields, litigators often specialize in discrete types of litigation, including patent litigation. And patent litigators often specialize in areas of technology, including the subject matter of their technical degrees. 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. The quality, experience and track-record of the plaintiff’s legal team are key factors funders look at when assessing whether to support a claim.

Of course, finding the best counsel to handle your patent litigation may also be daunting. However, experienced funders like Woodsford have relationships with leading patent litigators practicing in most technology specializations. 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.

## 2) Develop a Detailed Infringement Analysis

Once a patent holder is matched with great counsel, it is time to work together to prepare an infringement analysis. The main task here is to create infringement claim charts that specify the potential defendants of the infringement suit, the products or services that are accused of infringement, and a side-by-side analysis of one or more patent claims to the infringing features of the accused products. This analysis will ultimately be necessary for litigating your case but is also equally useful for a potential funder to determine the strength of your patent infringement case.

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In addition to claim charts, you and your counsel should evaluate how your patent terms should be interpreted, including analysis of the application process that led to your patent (the patent’s “file history” or “prosecution history”) to ensure your claim charts consider the proper scope of the claims of your patent.





### 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.

Non-infringement defenses are based on a defendant claiming 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.”

Invalidity is typically alleged in response to allegations of patent infringement. An accused infringer will generally identify the prior art references closest in scope to your patents to challenge the validity of an asserted patent based on prior art references—specifically other patents or publications that were publicly available before the asserted patent. Litigation counsel should carefully review any known prior art that the patent holder is aware, and provide advice on whether it presents a specific issue to the proposed case. Litigation counsel may also wish to perform their own prior art search to separately evaluate the strength of a potential invalidity claim. Knowledgeable patent litigation counsel is, therefore, also key to evaluating invalidity and other defenses before you file suit.

### 4) Determine the Potential Damages for your Case

It is vital for any patent owner preparing an infringement litigation to have a solid and realistic understanding of what a good financial outcome from your lawsuit would be. The first step to completing this analysis is to determine the range of potential damages you can expect to receive from each defendant. Litigation 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. Like the merits evaluation above, the more public information you can bring to your attorneys the better the damages estimate is likely to be. When assessing the value of patent claims, funders will usually take a conservative view.

Patent infringement litigation is often resolved through settlement prior to a final resolution by judge or jury. Once you have determined how valuable your case might be at trial, it also becomes important for the patent holder, lawyers, and possibly an IP valuation expert to have earnest discussions regarding what kind of financial settlement would be acceptable. This is a discussion that will likely occur 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 the infringement claims and require new analysis to determine what a successful outcome would be.



### 5) Develop a Budget in Consideration of Damages

An accurate and realistic case budget is essential for a funder to analyze and approve an investment. 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. Your law firm will be able to provide you with an estimate of the legal fees necessary to take the case from filing of the Complaint all the way through trial, which will largely depend on the number of patents, the number of defendants, the anticipated venue, and the firm's hourly rates. Your firm will also be able to estimate costs for you, which will vary with the number of patents asserted and the quality of the experts you plan to engage. Additionally, you and your firm should develop estimates for cost and fees associated petitions for inter partes review (IPR), which are very commonly filed by defendants in most patent litigation cases today.

Once a budget is developed, you should compare that budget to the anticipated damages to decide whether the litigation makes good financial sense. For example, in cases to be brought to a litigation funder,

litigants should ensure that the expected damages are at least ten times greater than the proposed amount of funding, ensuring that all parties involved have room for a successful investment. Often times law firms will offer to take additional risk by discounting their fees if the amount of available damages cannot fully support the funding necessary.

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## Finding a Funder for Your Patent Litigation

Once a firm and a patent holder have thought through the key aspects of the plans for patent litigation together, it is time to bring those plans to a litigation funder to seek the financial support necessary for your case(s). Typically, an NDA is executed to protect any work product, and then your detailed litigation materials are provided to the funder for diligence. As explained above, the more information you can provide easier it will be for the funder to evaluate whether the proposed litigation meets the funder's funding criteria.

At the same time, it's important for you to make sure your funder has experience investing in patent litigation. Just like lawyers and law firms, litigation funders will specialize in certain types of litigation, and an experienced funder of patent litigation, such as Woodsford, will be 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 set all parties to the funding agreement up for success.

Woodsford has assessed hundreds of IP claims for investment and funded matters in every popular US patent jurisdiction, including the Eastern and Western Districts of Texas, the District of Delaware, and Northern District of California, as well as the International Trade Commission, the Patent Office, and the Federal Circuit Court of Appeals. Additionally, Woodsford has funded patents disputes pertaining to patents all across the technological spectrum, from software to medical devices to consumer products.

A detailed look at Woodsford's process for negotiating and conducting due diligence on litigation funding opportunities is set forth in the 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 claim 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.



## The Increasing 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. The need for both multiple experts in most patent litigations, and the burden of extensive analysis to present a solid infringement claim increase the expense of patent litigation. Further, the likely need to handle parallel proceedings in the Patent Office, such as IPRs, in many US litigations has increased both early costs and invalidity risks for patent owners.

Individual patent owners and small companies continue to seek financial support from third party litigation funders rather than facing the daunting prospect of patent litigation on their own. And increasingly, larger companies and

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universities are employing funding to keep the expense and uncertainty of litigation costs and fees off of their balance sheets.

Wise patent owners and patent litigators view funding as one of the fundamental tools in their strategic tool box, and Woodsford is proud to support inventors and IP owners in protecting the value of their hard work and innovation.

### About the authors

**Robin M. Davis**, Woodsford's Chief Investment Officer (US), is a US litigator with substantial litigation and trial experience in high-value disputes, with particular expertise in patent infringement actions. Robin leads Woodsford's US underwriting and investment team for all types of litigation and arbitration.

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 and Hogan Lovells US. She has represented both plaintiffs and defendants in district court patent infringement and has also advised clients on matters before the U.S. International Trade Commission (ITC) and U.S. Patent and Trademark Office. Robin's substantial litigation expertise further extends to other types of intellectual property litigation, commercial disputes, and arbitration. Robin was recognized by Super Lawyers as a "Rising Star: Top Rated Intellectual Property Litigation Attorney" in the New York metro area from 2015-2018.

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.

**Dan Kesack**, Investment Officer, is an experienced patent litigation attorney who is proficient in evaluating and understanding highly technical matters. He has advised clients in many different forums, including federal and state court, the U.S. Patent and Trademark Office, and the U.S. International Trade Commission. Dan's expertise includes counseling entities large and small in developing and executing patent enforcement campaigns.

Prior to joining Woodsford, Dan was a trial litigator at Radulescu LLP, a New York litigation firm, where he represented plaintiffs and defendants in all areas of patent litigation. Earlier in his career, Dan was an Associate at Weil, Gotshal and Manges.

Dan received his J.D. from New York University, and holds a B.S. in nuclear engineering from Penn State University.

## About Woodsford

Woodsford is one of the world's leading providers of finance to law firms and their clients. Founded in 2010, with a presence in London, New York, Philadelphia, San Francisco, Minneapolis, Toronto, Montreal, Brisbane, Singapore, and Tel Aviv, Woodsford provides financing solutions for law firms, businesses and individuals around the world.

Woodsford's highly-experienced, international team delivers a unique combination of extensive business and legal expertise, which allows for quick understanding of the financial implications and legal merits of a case or portfolio of cases. By using our own internal legal capability and funds from our own balance sheet rather than

relying on external advice or capital, the entire financing process is accelerated.

Woodsford is a founder member of both the International Legal Finance Association (ILFA) and the Association of Litigation Funders of England and Wales (ALF). By working with Woodsford, law firms and their clients are assured that they are working with an organization meeting the high-quality standards that should define this industry.

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