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Q1 in Review

April 2023

Q1 in Review: West Texas Reforms Upend US Venue Rankings as SEP Landscape Shifts in Europe

The first quarter of 2023 ended with a 36% slowdown in NPE litigation. Much of that drop, however, was the result of two significant events last year: one formerly prolific litigant's decision to pause all filings due to pressure over transparency in Delaware, and a closely watched reform of judge assignment practices in the Western District of Texas that led to a downturn in the Waco Division.

Meanwhile, USPTO Director Kathi Vidal continued to make changes affecting the Patent Trial and Appeal Board (PTAB) in Q1, including further refinements to its practice of issuing discretionary denials in America Invents Act (AIA) reviews under the *NHK-Fintiv* rule—as the Federal Circuit revived a procedural challenge against the rule's implementation from a group of tech companies.

Moreover, Q1 saw two important developments impacting standard essential patent (SEP) licensing and litigation in Europe: a UK court decision that provided the country's second-ever determination of a global fair, reasonable, and nondiscriminatory (FRAND) license and a newly revealed EU initiative that seeks to impose a Europe-wide framework for SEP litigation.

Also during Q1, BlackBerry announced that it has found a new—and this time, fully financed—buyer for the bulk of its patent portfolio. In addition, for those keeping an eye on the litigation finance market, there were some notable discoveries related to major players in the space as well as two industry reports released during the quarter.

Litigation Update: NPE Filings Drop, Due Mostly to IP Edge's Pause and Changes in Waco

NPEs added 333 defendants to patent litigation campaigns in the first quarter of 2023, a decrease of 190 (36%) compared to Q1 2022, when NPEs added 523 defendants.

Defendants Added		**Change Compared to:**		
	Q1 2023	**Q1 2022**	**Q1 2020-2022 Average**	**Q4 2022**
NPE	333	-36%	-37%	-38%
Operating Company	285	8%	7%	14%
Total	618	-21%	-22%	-21%

There were two primary reasons for this decline, the most significant of which was a pause by a single NPE. Patent monetization firm IP Edge LLC, historically the most litigious NPE by a wide margin, stopped filing litigation altogether in late November after facing pressure over disclosure rules in the courtroom of Delaware Chief Judge Colm F. Connolly (as covered in more detail later in this report). That pause extended through the entirety of the first quarter.

Before halting its activity, IP Edge typically sued roughly 50 defendants each month, so while Q1 2022 included 147 defendants from plaintiffs under IP Edge control, the first quarter of 2023 saw none.

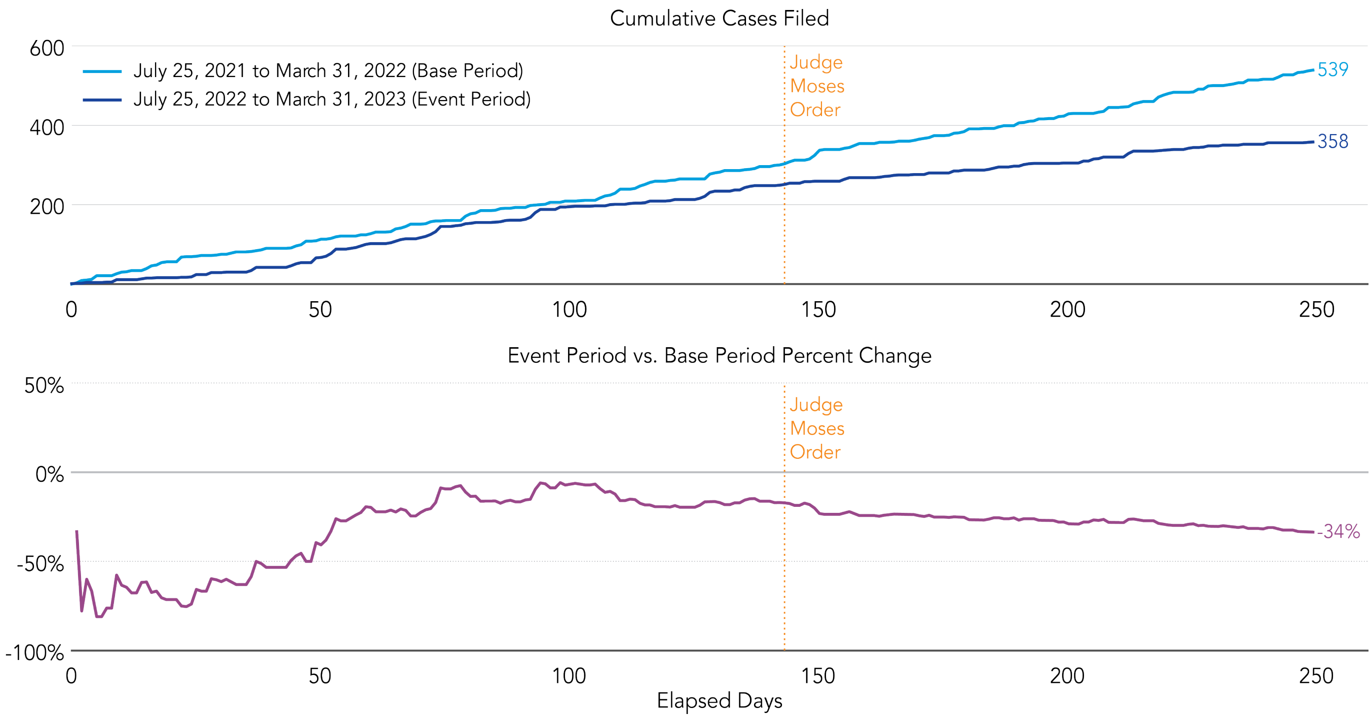
The second factor is due to a downturn in the Western District of Texas; specifically, in the Waco Division, where defendants added by NPEs in Q1 fell by 55% from 190 to 85 as compared to the prior-year period. Added together, the reductions from IP Edge and in Waco (231 defendants in total, adjusting for the overlap in IP Edge and Waco cases) accounted for 100% of the decline in NPE activity in Q1 and then some.

The cause of the drop in Waco's NPE filings appears to be a standing order posted on July 25, 2022 by then-Chief Judge Orlando L. Garcia that was designed to reduce the concentration of patent litigation before District Judge Alan D. Albright. Rules previously allowed plaintiffs to file in their preferred division, thus allowing them to pick Judge Albright, Waco's only district judge. The standing order reduced that temptation, establishing that all patent cases filed in Waco would be randomly assigned to a group of 12 (now 11) judges in the district, including Judge Albright.

Waco saw a noticeable slowdown in NPE litigation in the immediate aftermath of the July order, but complaints rebounded in late fall. However, NPE activity in Waco began to decline again in mid-December, around the time the district's new Chief Judge, Alia Moses, confirmed that the judge assignment order would remain in place. As shown below, NPE filings in Waco continued to slow into the new year and through the first quarter. At quarter's end, cumulative NPE complaints in Waco since the original case assignment order were 34% lower than they were for the comparable prior-year period.

(Note that since the West Texas judge assignment order impacts case assignments, the following two sets of graphs measuring Waco activity show *case* counts. The other graphs in this report follow RPX's usual practice of counting litigation by *defendants added* to campaigns.)

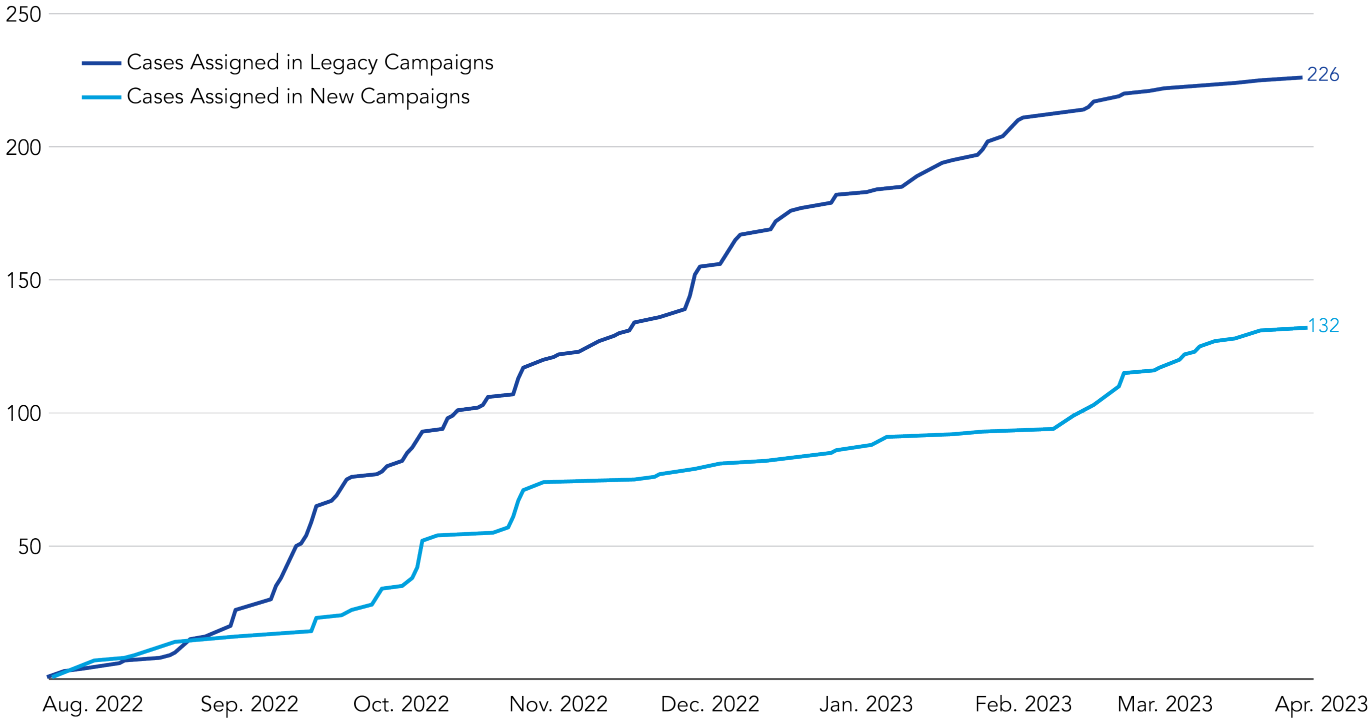
NPE Cases Docketed in Waco Division July 25-March 31 (Cumulative and Percent Change)



Within a few weeks of the July order, the Western District developed a general practice of assigning new cases to the same judge who oversaw prior litigation involving the same parties and patents. Most of the cases in these "legacy" campaigns have thus ended up before Judge Albright, who of course presided over all of Waco's prior NPE litigation, while cases falling in new campaigns have been randomly distributed. It appears that approximately 90% of disputes in legacy campaigns *with an active case in the district* have been assigned to the judge who has presided over the earlier cases. When there are no active cases in a legacy campaign, the new dispute has been assigned to the legacy judge (usually Albright) about 50% of the time.

Since the July order, cases in legacy campaigns have accounted for a little less than two thirds of the cases filed in Waco.

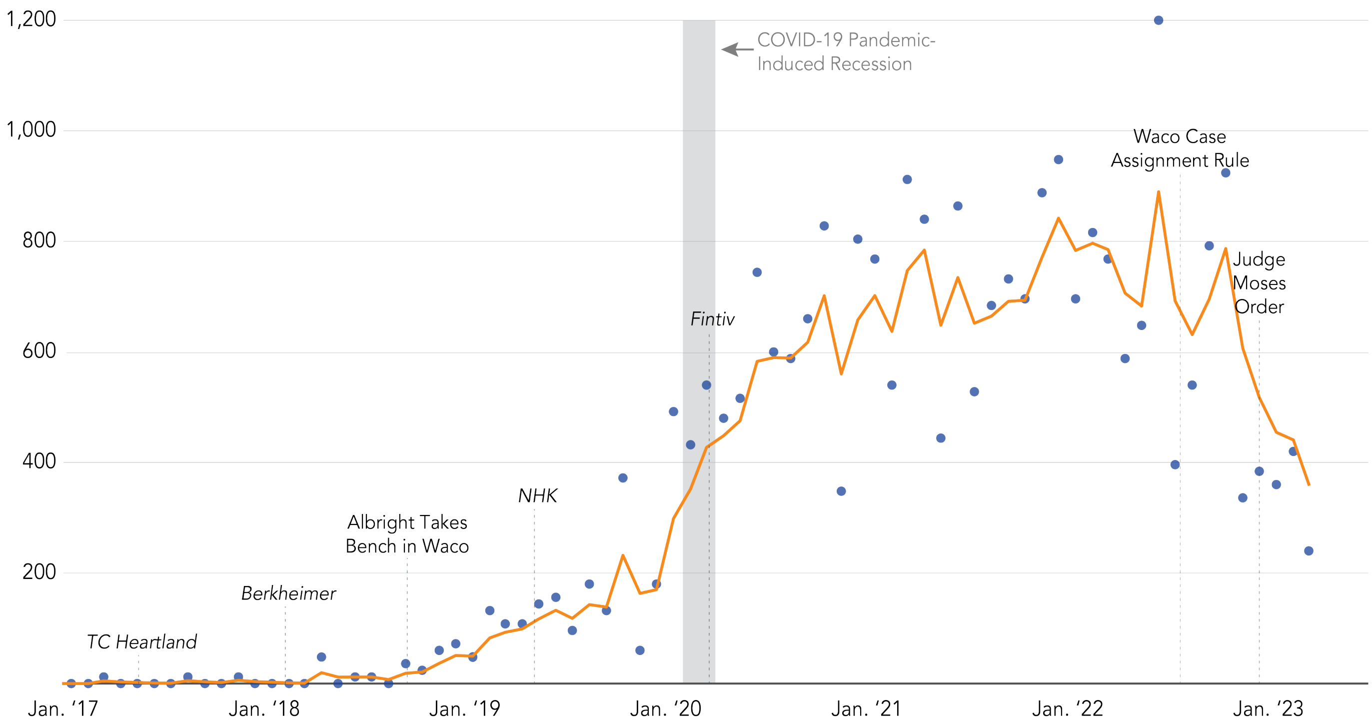
Legacy and Randomly Assigned NPE Cases Docketed in Waco Division, July 25-March 31



The number of cases being filed in legacy campaigns appears to have slowed in March—though monthly case counts are volatile, so this trend could reverse. On the other hand, these legacy campaigns may eventually run out of new defendants to sue. If that happens, Waco may experience yet another downshift in NPE activity.

The longer-term impact of the July order can be seen below. NPE patent litigation in Waco (counted below by defendants added) now stands at roughly half of where it stood at its peak.

Monthly Campaign Defendants Added in Waco by NPEs (Annualized) Since 2017

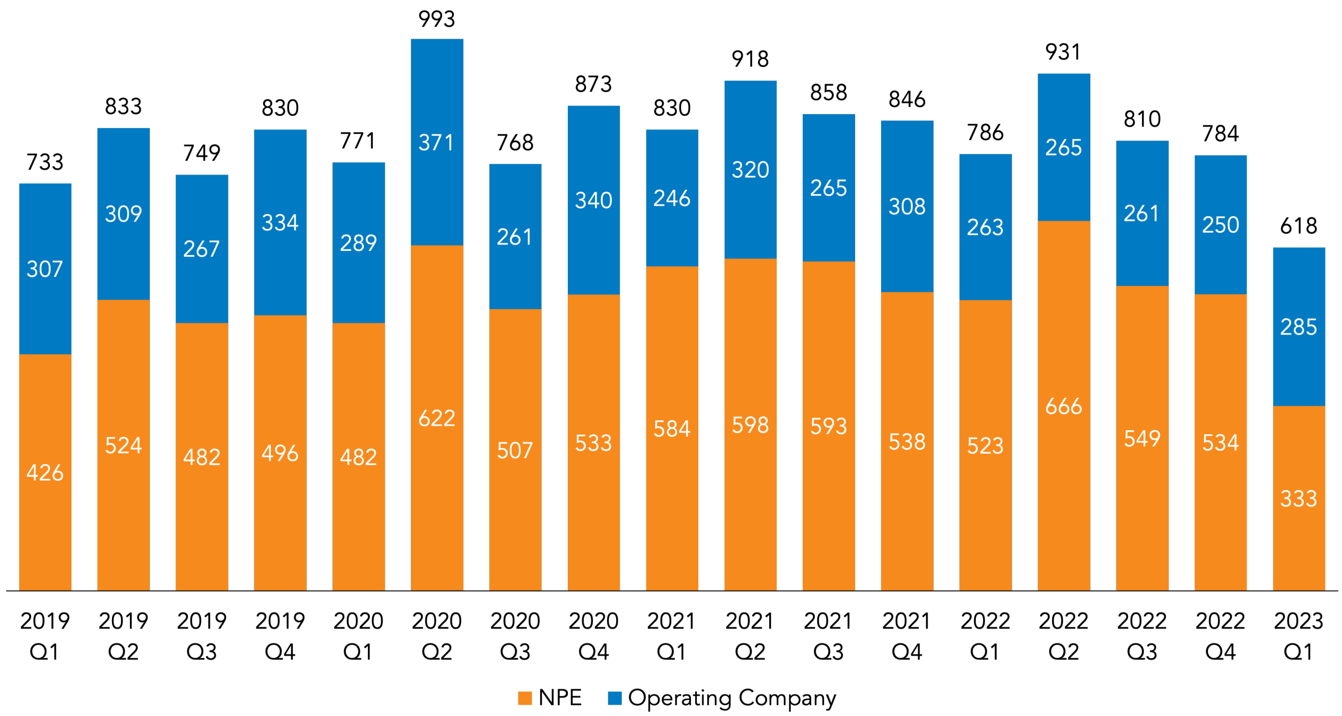


Annualized defendants with EMA smoothing of 0.40 based on monthly data. Time series data is plotted at mid-point of period.

Meanwhile, operating company plaintiffs added 285 defendants to patent litigation campaigns in Q1, or 8% higher than the first quarter last year (when operating companies added 263 defendants) and 14% more than Q4 2022 (250 defendants). Operating company filings exceeded the trailing average by 7%.

Overall, 618 defendants were added to patent litigation campaigns in the first quarter of 2023—21% less than in Q1 2022, 21% fewer in than Q4 2022, and 22% below the trailing average.

NPE and Operating Company Litigation by Quarter (Defendants Added)

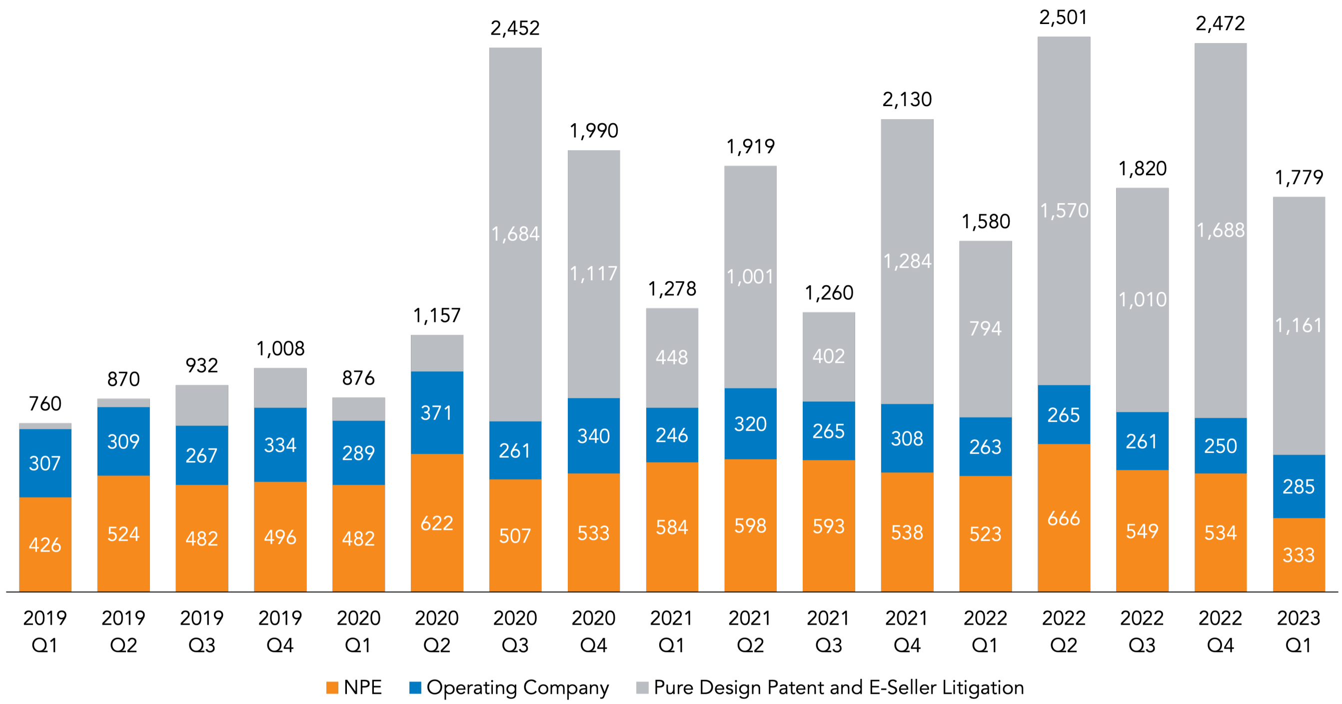


Additionally, the operating company data above leave out another distinct category of litigation filed by a small group of design and utility patent owners targeting copycats and counterfeiters selling products online. RPX excludes such "e-seller" cases from analyses of district court litigation because they tend to follow a different dynamic compared to what one might consider the usual patent suit: These e-seller cases sometimes name hundreds of defendant entities, many of which may be merely online storefronts or aliases for the same ultimate parent. Also, plaintiffs primarily seek injunctive relief instead of damages, and their cases often end with the e-seller defendant's failure to answer, followed by a default judgment.

This category of litigation, which began to spike in Q3 2020, is shown in grey below to illustrate its magnitude. As evident from the rightmost bar, e-seller litigation in Q1 2023 accounted for 1,161 defendants added, or 65% of all litigation during the quarter (subject to the caveat about defendants with multiple online storefronts noted above).

Please note that apart from the next graph on the following page, the remaining analyses in this report exclude pure design patent and e-seller litigation.

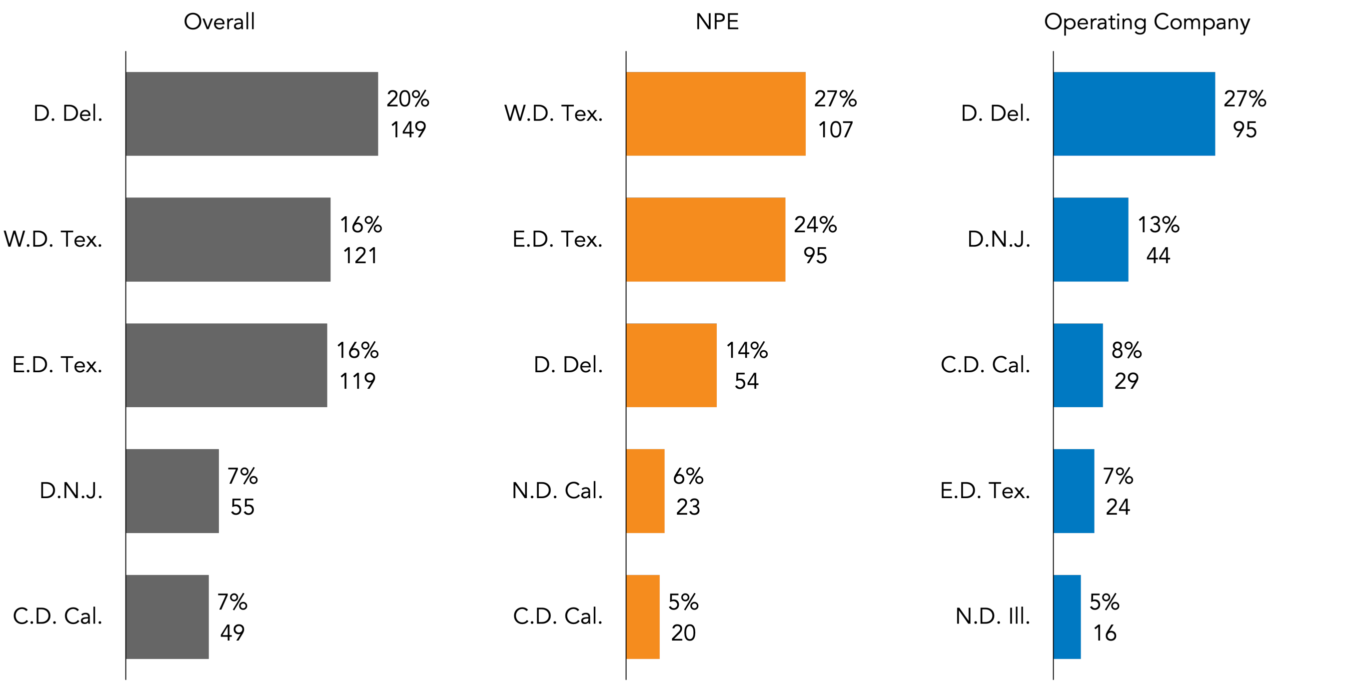
All Patent Litigation Including Design Patent and E-Seller Litigation (Defendants Added)



Venue Update: Delaware Takes the Lead as West Texas Reforms Take Their Toll

The District of Delaware was the top district for overall patent litigation and operating company litigation in Q1 2023, overtaking the Western District of Texas in the former category for the first time since Q2 2020. West Texas fell to second place for overall litigation in the first quarter, likely as a result of the downturn in NPE activity caused by the aforementioned judge assignment order governing Waco. Nevertheless, the Western District remained the top destination for NPE litigation in Q1, albeit by a narrow margin—just ahead of the Eastern District of Texas (previously an NPE favorite before the US Supreme Court's decision limiting patent venue in *TC Heartland*).

Top Patent Litigation Districts in Q1 2023 (Defendants Added and Percentage of Total)



Despite the downturn in West Texas NPE litigation, such plaintiffs do not appear to have selected a new favorite venue, at least in the short term—as no one district has yet experienced a disproportionate rise in NPE activity. In particular, NPEs do not seem to be flocking to Delaware, where they previously headed after *TC Heartland*: NPEs added roughly the same number of defendants there in Q4 2022 and Q1 2023.

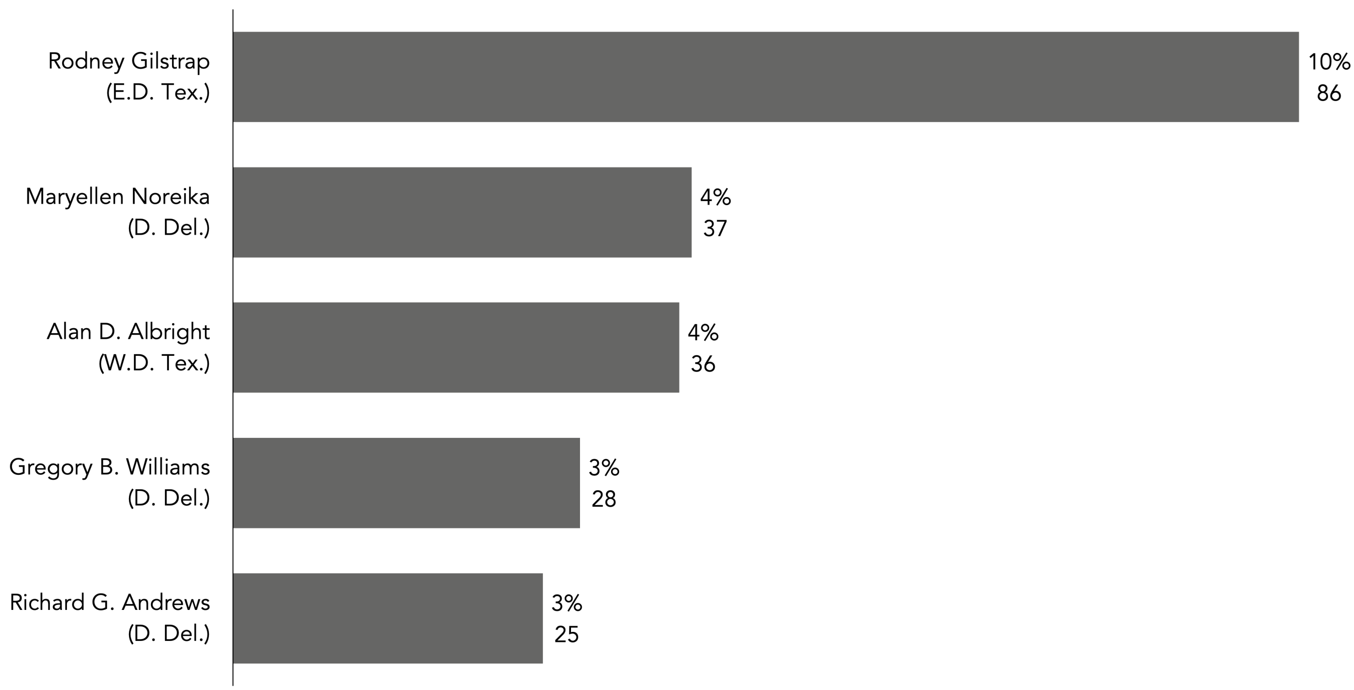
That relative hesitance could be the result of an ongoing battle over transparency and mandated disclosures in the courtroom of Delaware Chief Judge Colm F. Connolly. In April 2022, Judge Connolly posted new standing orders applicable to cases assigned to him, including two that require parties to reveal information related to funding arrangements and corporate control. While these new requirements pushed many plaintiffs to file new or updated disclosures, others have apparently failed to comply—including a group of entities linked to IP Edge that Judge Connolly ordered to produce a substantial range of information on their formation, control, and funding. Thus far, those plaintiffs have been unsuccessful in their attempts to push back on appeal. In February, the Federal Circuit declined to rehear a prior decision in which it refused to vacate one such production order against Nimitz Technologies LLC, which has indicated that it may appeal to the Supreme Court. Back in Delaware, after two months passed with no production forthcoming from Nimitz, Judge Connolly ordered its counsel to appear before him and explain why it should not be sanctioned for its failure to comply. Three days later, Nimitz made the requested filings.

Another IP Edge-linked entity, Lamplight Licensing LLC, has also challenged another such order directly before Judge Connolly, arguing that its dismissal of the underlying cases deprives the court of jurisdiction, that the order is overly broad, and that it calls for the production to the court of privileged materials for an "improper purpose". On April 3, a third IP Edge entity, Backertop Licensing LLC, raised essentially the same arguments in its own motion to set aside a similar production order against it.

Although the effect of Judge Connolly's standing orders is inherently limited to parties before him for the most part, their impact was also briefly felt outside his district in Q1 as the result of a multijurisdictional discovery dispute involving the once-prolific litigant WSOU Investments, LLC (d/b/a Brazos Licensing and Development) ("WSOU"). In January, Salesforce—a defendant in ten WSOU cases brought in the Western District of Texas—filed a Delaware motion asking the court to force two Delaware entities with allegedly "substantial interests" in WSOU to provide information on their ownership and control. WSOU filed a motion to seal much of that material, sought by Salesforce in support of a license defense. On February 24, Judge Connolly not only denied that sealing motion but also rolled back all prior redactions in the case—revealing new details on the asserted license, which stems from WSOU's alleged ties to an individual behind another well-known NPE. Judge Connolly's involvement has since come to an end, as he transferred the discovery action back to the Western District of Texas in early March.

Meanwhile, another result of the West Texas judge reassignment order—and, perhaps, as reflected in the leveling-out of legacy cases mentioned above—is that District Judge Alan D. Albright is no longer the nation's top patent judge. In fact, he has fallen to a distant third place, just barely edged out by Delaware District Judge Maryellen Noreika, with 4% of all Q1 patent litigation in his courtroom. Reclaiming first place is a familiar name: District Judge Rodney Gilstrap of the Eastern District of Texas.

Top District Judges in Q1 2023 (Defendants Added and Percentage of Total)



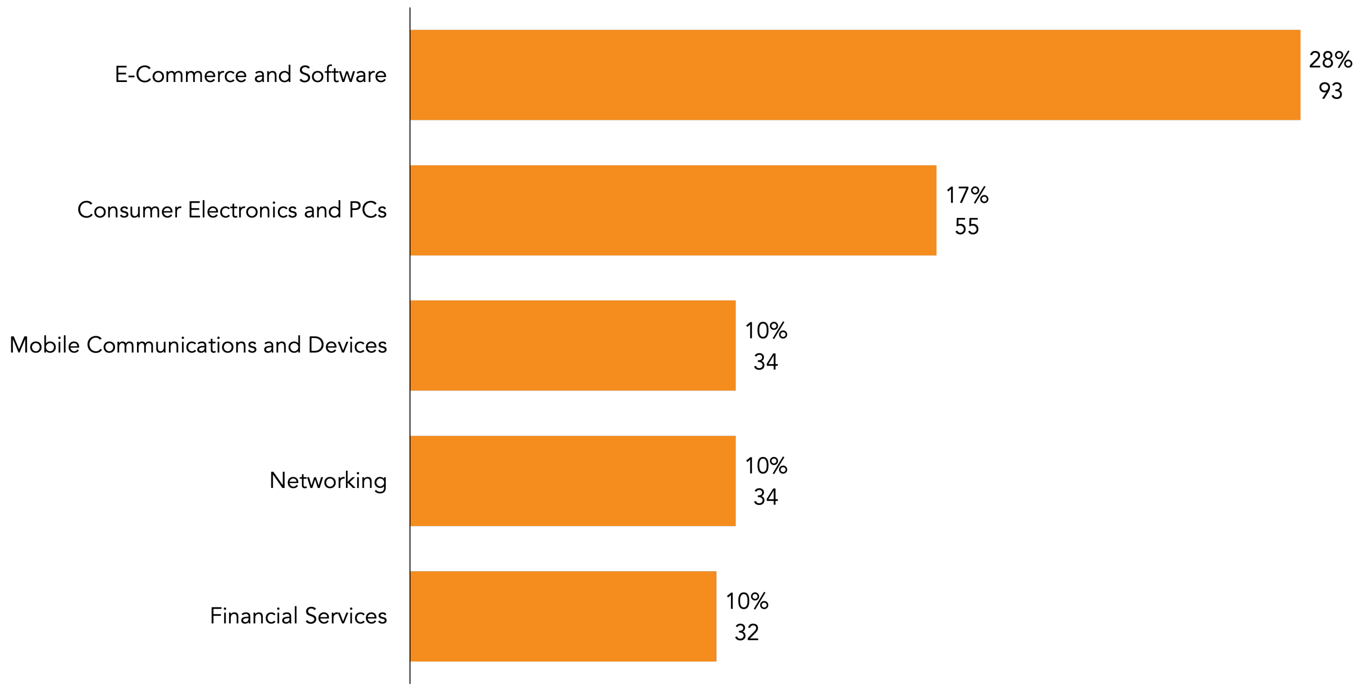
While Judge Albright has fallen out of first place, one aspect of the pre-July 2022 status quo that apparently remains intact has been his ongoing back-and-forth with the Federal Circuit over his handling of convenience transfer motions. As noted in RPX's prior coverage, the proper application of the relevant transfer factors—and the extent of a district judge's discretion to do so—has been at the center of the appellate court's ongoing disagreement with Judge Albright, who has often denied such motions since taking the bench in 2018. Starting in 2020, the appellate court has repeatedly reversed him on that issue through *mandamus* review, identifying a series of recurring legal errors in his transfer analyses.

An October 2022 ruling from the Fifth Circuit—the regional circuit that determines the law governing convenience transfers in Texas—appeared to depart from the Federal Circuit's prior take on issues central to the analysis of such transfer motions, including the location of evidence, the cost of attendance for witnesses, and the district judge's overarching discretion over such matters. However, in early February, the Federal Circuit interpreted that closely watched decision as still justifying its current approach. In its *In re: Google* ruling, the court held that a clear showing that a venue is more convenient takes precedence over the district judge's discretion. Even more significantly, the Federal Circuit determined that NPEs do not have an interest in getting cases to trial quickly—and that a district judge lacks the discretion to give undue weight to his district's time to trial.

Market Sector Update: A Monetization Firm, a Growing Web of Related NPEs, and a Variety of Inventor-Controlled Plaintiffs Targeted E-Commerce and Software in Q1

The top market sector for NPE litigation in Q1 2023 was E-Commerce and Software, accounting for 28% of new defendants added to patent litigation campaigns. Consumer Electronics and PCs saw the second highest amount of NPE litigation in the first quarter, followed by Mobile Communications and Devices, Networking, and Financial Services.

Top NPE Market Sectors in Q1 2023 (Defendants Added)



A wide variety of NPE plaintiffs, many of them interrelated, hit the E-Commerce and Software sector in Q1 2023. Among them were KOJI IP LLC, which filed its first litigation over location-based notifications on February 22; Street Spirit IP LLC, which on February 27 expanded the campaign it launched last September with new suits targeting content moderation and user verification tools; and AK Meeting IP LLC, which added a new complaint over screen sharing technology to its own existing campaign on February 1. All three are connected to Texas-based monetization firm Dynamic IP Deals (d/b/a DynaIP) via affiliated entity Pueblo Nuevo LLC, which has developed a distinctive approach to corporate disclosures after other plaintiffs under its control faced pressure from Judge Connolly over disclosures in his Delaware court (as detailed in the coverage linked above). Additionally, a fourth DynaIP plaintiff—AML IP LLC, which is under the firm's direct management—pushed its online payments campaign past the 50-defendant mark in Q1 with a wave of new cases filed in January.

Other NPEs hitting this sector in the first quarter were multiple NPEs apparently associated with a familiar figure in patent monetization—a former inventor who in recent years has shifted to the assertion of patents acquired from others. Those plaintiffs included Convergent Assets LLC, which in March launched its first litigation campaign over targeted advertising technology, asserting patents developed at ADISN, an inventor-controlled digital advertising agency. Another was Hyperquery LLC, which in January filed its first litigation targeting smartphones with preinstalled Google search products and filed a second cluster of cases in March (see here and here). One more of those affiliated plaintiffs, Scancomm LLC, also added more litigation to the campaign that it kicked off in July 2022 over payment platforms, targeting features related to sharing contact information and making transactions by using QR codes. Additionally, yet another NPE in this extended family, InvesTrex LLC, filed one more case in its own campaign targeting web features for displaying real-time stock information in March. If past activity is any indication, these plaintiffs will likely proceed in file-and-settle fashion. See RPX Insight for more on the connections between these NPEs—and related patent acquisition activity indicating that even more litigation is coming.

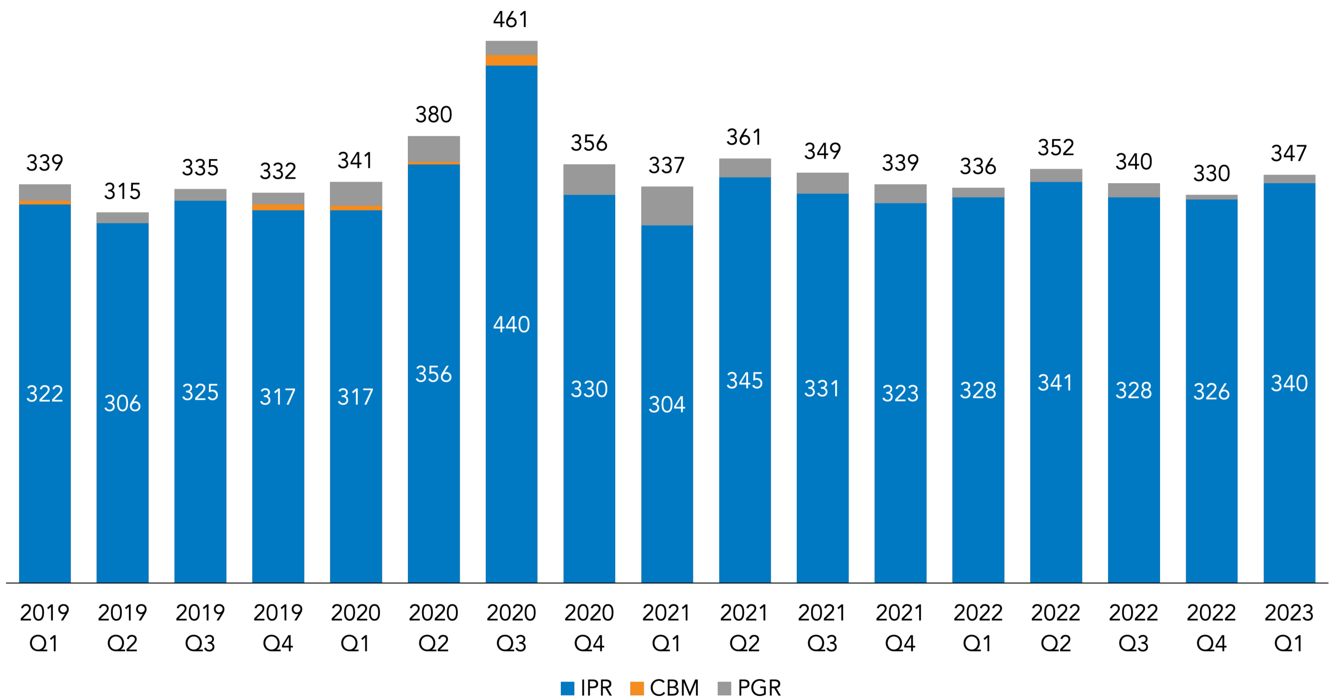
Another plaintiff that hit the E-Commerce and Software space in the first quarter was Dialect, LLC, which in mid-February initiated a litigation campaign over certain products (*i.e.*, Internet of Things devices, smartphones, tablets, and wearables) that incorporate voice-recognition software services. The asserted patents originated with Voicebox Technologies (acquired in 2018 by Nuance Communications). Dialect is connected to a different, but also familiar, figure in patent monetization, an individual who has been linked to other established NPE plaintiffs—including Oyster Optics, LLC, which, with its subsidiary and coplaintiff Oyster Optics, Inc., has waged an optical networking campaign, with some setbacks, since 2008; and Document Security Systems, Inc. (DSS), a publicly traded company with a rocky patent litigation history.

Other already-active inventor-backed plaintiffs filed complaints over a wide range of other technologies in this sector in Q1: Virtual Creative Artists, LLC brought another case over products with online photo sharing features in March; AlmondNet, Inc. and its subsidiary Intent IQ, LLC again focused on targeted advertising in a new complaint filed earlier that month; and PACid Technologies, LLC filed a complaint focused on the use of certain secure authentication standards, also in March. In January, inventor-controlled S3G Technology LLC continued to sue retailers over the provision of mobile apps for retail operations, asset tracking, and digital key operation; and Innovaport LLC (f/k/a PatentBank LLC) sued another retailer over its mobile app's product availability tracking features.

PTAB Update: Vidal Tweaks Discretionary Denial Rules, Contemplates Structural Changes

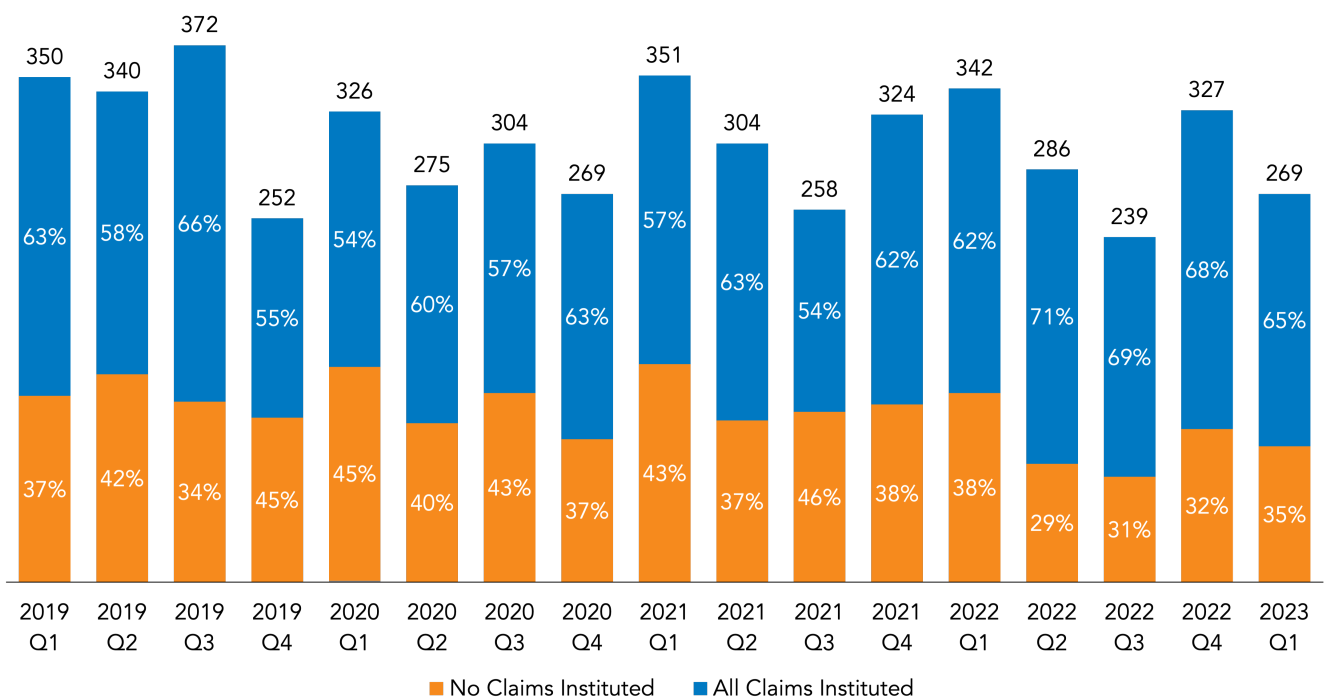
The Patent Trial and Appeal Board (PTAB) saw 347 petitions for America Invents Act (AIA) review in the first quarter of 2023, including 340 petitions for *inter partes* review (IPR) and seven petitions for post-grant review (PGR). Filings largely held steady compared to Q1 2022 and Q4 2022, when 336 and 330 petitions were respectively filed.

AIA Review Petitions Filed



Institution rates in AIA review trials were also relatively stable in the first quarter, which came in at 65%—slightly higher than Q1 2022 (when the rate was 62%) but lower than Q4 2022 (68%).

AIA Review Institution Rates



In the first quarter, the PTAB's practice of discretionarily denying institution in AIA reviews based on the status of parallel district court litigation—known as the *NHK-Fintiv* rule—remained a focus of USPTO Director Kathi Vidal. Q1 saw Vidal use her post-*Arthrex* director review power to further refine the metes and bounds of *NHK-Fintiv* through a series of such reviews initiated *sua sponte* (*i.e.*, at the director's own initiative, rather than at the request of a party).

Vidal Clarifies Scope of "Compelling Merits" Standard from June 2022 Guidance

Two of Vidal's most notable changes served to clarify a prior reform that the director made last year through a June 2022 guidance on the *NHK-Fintiv* rule. Among other changes, that guidance established a new limitation that essentially exempted AIA reviews that are especially likely to succeed from *NHK-Fintiv*. Specifically, the Director stated that while the PTAB will retain the discretion to deny institution under *NHK-Fintiv* factor six (considering the merits of the petition) where evidence of invalidity is "merely sufficient to meet the statutory institution threshold", the Board "should not discretionarily deny institution" for petitions presenting "compelling, meritorious challenges": "those in which the evidence, if unrebutted in trial, would plainly lead to a conclusion that one or more claims are unpatentable by a preponderance of the evidence".

On February 27, Vidal issued a director review decision in *CommScope v. Dali Wireless* to explain that it was not her intent for the compelling merits determination to serve as a "substitute for a *Fintiv* analysis", after acknowledging that this was a plausible reading of the guidance as written. Rather, Vidal clarified that PTAB should assess the other *NHK-Fintiv* factors first: If they do not favor discretionary denial, no compelling merits analysis should be performed, whereas if the factors tip the scale toward discretionary denial, compelling merits should then be assessed.

Vidal also addressed how the compelling merits standard affects the interplay of certain district court validity challenges with PTAB proceedings. In *AviaGames v. Skillz Platform*, a PTAB panel discretionarily denied institution under *NHK-Fintiv* after the district court invalidated the challenged patent as ineligible under Section 101. However, Vidal reversed and remanded the denial of institution on March 2, holding that the Board should institute trial despite the ineligibility ruling if the petition presents compelling merits. Vidal explained that since invalidity under Section 101 is not a statutory ground that the petitioner could have raised before the PTAB, there is no risk of duplicative proceedings or inconsistent results. Additionally, Vidal underscored that by the time the Section 101 ruling has made its way through the appellate process, the petitioner would be time-barred. That said, the director also held that the IPR should be terminated if the Section 101 decision gets overturned on appeal (ostensibly, while the IPR is still in progress).

Vidal Gives Update on Planned Structural Changes

In late February, Vidal also gave further details on her longer-term plans for restructuring how the PTAB reviews decisions and implements reforms in an interview with *IAM*. Vidal expressed the view that there remains value in pursuing changes at the PTAB both through formal rulemaking as well as through interim guidance, characterizing the latter as a halfway point between rulemaking and the use of her post-*Arthrex* director review power to unilaterally set policy, in terms of those mechanisms' level of formality and finality. The director emphasized that rulemaking is valuable because it is "important to memoriali[z]e these types of things so that they don't change over time" and gives the "public some certainty". However, she also observed that beginning the reform process with an interim guidance allows the PTAB to consider the practical impact of changes before they are formalized: "The way we've done it is interim until final, and that's worked really well because it's taught what has worked well and what could be improved. By the time we go to rulemaking, we've lived with some of this for a little while".

That said, Vidal's use of interim guidance as a policy-testing approach could face obstacles as a result of a lawsuit challenging *NHK-Fintiv* from a group of prominent petitioners and frequent defendants. On March 13, the Federal Circuit partially revived a case filed by Alphabet (Google), Apple, Cisco, and Intel, alongside Edwards Lifesciences, with respect to their claims that the rule is procedurally unsound—and should thus be set aside—because it was not implemented via notice-and-comment rulemaking in the first instance.

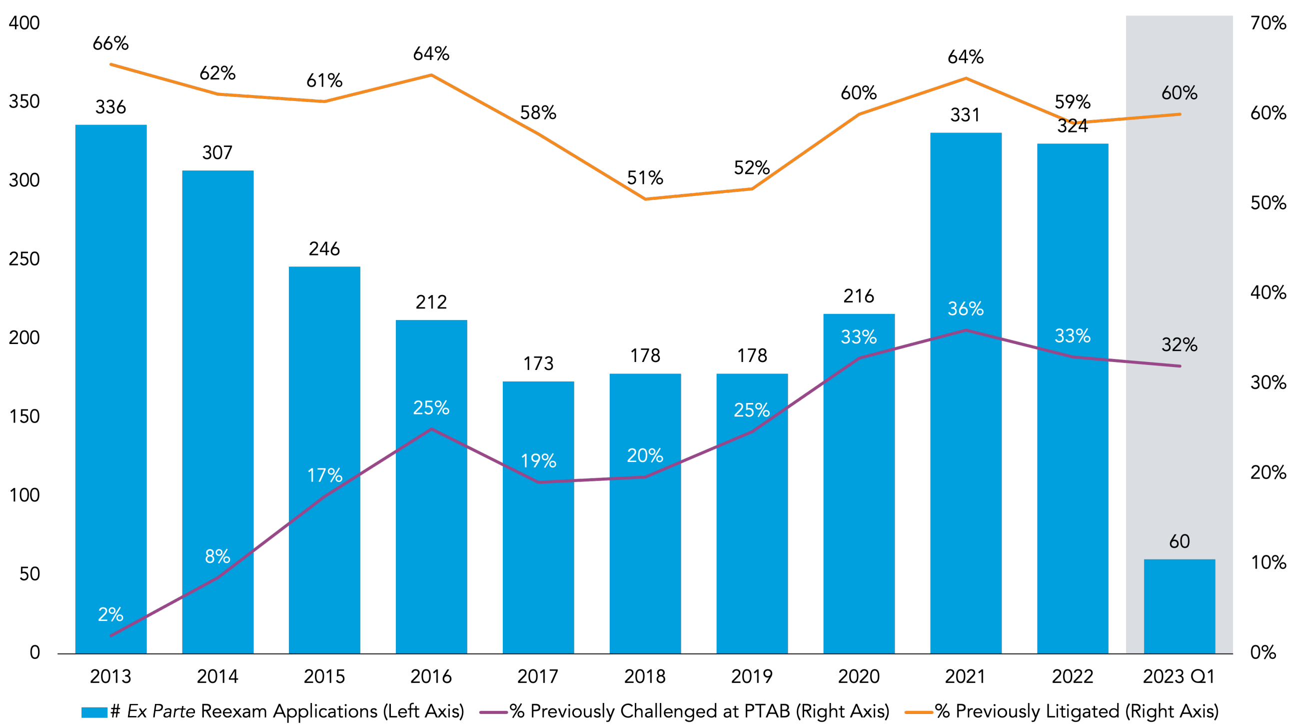
While USPTO data (as summarized here) show that discretionary denials based on *NHK-Fintiv* went down due to practices codified in the June guidance, Vidal has explained that her intent was not to "slow discretionary denials". Rather, the director explained that the goal was to make them more predictable: "The intent of the memo was to get away from a multifactor test that each judicial panel was weighing, and to get more certainty, so that the public could know what to expect from *Fintiv* denials".

Reexam Filings Continue to Dip in the Wake of the June 2022 Guidance

One particularly notable result of the uncertainty caused by *NHK-Fintiv* was a shift by frequent defendants from AIA reviews to *ex parte* reexaminations, which are not subject to discretionary denials to the same extent. The number of reexam requests went up by 21% in 2020 and then by 53% in 2021, with an increasing share of those patents having previously been litigated in district court and subjected to PTAB challenges—together, indicating that this prior uptick was the result of *NHK-Fintiv*.

However, after one last spike in the second quarter of 2022, reexam filings dipped in Q3 (the first full quarter after Vidal's late-Q2 guidance), plateaued in Q4, and then declined even further in Q1 2023—suggesting that the changes made to *NHK-Fintiv* have collectively reduced its deterrent effect on petitioners. That said, a significant share of those reexams still involve previously litigated patents and those challenged at the PTAB, indicating that reexams remain in play for district court defendants despite their reduced popularity in the wake of recent reforms.

Ex Parte Reexam Filings and the Share of Challenged Patents with Prior Litigation and PTAB Reviews



Note: Data as of April 4, 2023. Due to the delayed availability of filing dates and related data from the USPTO, this analysis is subject to change. Grey box indicates incomplete data for the year.

Vidal Reinstates Third-Party Petitioners After Sanctions Rulings

Finally, in January and February, Vidal walked back a portion of an increasingly severe set of sanctions that she imposed in late 2022 over alleged gamesmanship before the PTAB. In October, Vidal demoted third-party IPR petitioner OpenSky Industries to a silent understudy role for its abuse of the IPR process by making a set of unusual financial offers designed to "extract rents" from patent owner VLSI Technology LLC and joined copetitioner Intel, among other offenses. December saw Vidal double down, dismissing OpenSky entirely and doing the same to another third-party challenger, Patent Quality Assurance (PQA), for similar behavior and making additional misrepresentations. However, on January 27 and February 3, Vidal restored both PQA and OpenSky as petitioners and ordered OpenSky to pay attorney fees and costs to VLSI.

On April 4, Vidal then denied OpenSky's motion to terminate Intel, which had been designated lead petitioner. While OpenSky had argued that Intel was barred from participating due to claim preclusion, as a result of a jury verdict rejecting its validity challenge, Vidal agreed with Intel that claim preclusion does not apply in AIA review proceedings.

FRAND Update: UK Court Doubles Down on Global FRAND Reach; EU-Wide SEP Initiative Gets Revealed

UK: London High Court Issues Country's Second-Ever FRAND Determination

One of the first quarter's most significant events in the arena of standard essential patent (SEP) licensing came in the UK, where the High Court of Justice issued its long-awaited judgment in *InterDigital v. Lenovo*. The decision imposed a $138.7M global fair, reasonable, and nondiscriminatory (FRAND) license against defendant Lenovo after finding that neither party's offers had been FRAND, a rate that was closer to what Lenovo had sought (totaling $80M) than US-based InterDigital, Inc.'s proposal ($337M). Notably, the court also found that Lenovo had behaved as a willing licensee during licensing negotiations, but that InterDigital had not acted as a willing licensor due to having consistently offered supra-FRAND rates. The court also rejected InterDigital's proposed rate-setting methodology.

This sweeping, 225-page decision was the second-ever FRAND determination issued by a UK court in a SEP dispute since the UK Supreme Court's August 2020 opinion in *Unwired Planet v. Huawei*. That landmark ruling marked the first time that any national court had held that it may set the terms of a FRAND license for a multinational SEP portfolio and did so. *Unwired Planet* has since prompted courts in other countries to assert the authority to resolve global FRAND disputes.

Those subsequent rulings have each taken a different approach to establishing jurisdiction. For instance, in September 2021, China's Supreme People's Court (SPC) upheld a prior decision establishing that a Chinese court may decide a global SEP dispute if it has an "appropriate connection" with China—based on just one of several factors, including whether China was where a relevant patent right was granted or where a license is negotiated or signed. In February 2022, the District Court of the Hague released an interim decision establishing that it could exercise international and territorial jurisdiction over a FRAND case in a declaratory judgment action filed by implementer Vestel against patent pool Access Advance LLC and several of its licensors, due to the fact that one of the licensors (Philips) is based in the Netherlands. Meanwhile, in France, the Tribunal Justiciare de Paris, the first-instance court that gets patent cases, has issued two decisions in which it asserted jurisdiction over global FRAND issues, albeit in cases that settled before a final judgment could be reached. Both decisions grounded jurisdiction based on the fact that the implementer plaintiffs sued the relevant standard-setting organization (SSO), the France-based European Telecommunications Standards Institute (ETSI), alongside the patent owner.

EU: European Commission to Propose New SEP Framework

Another important SEP development came in the European Union (EU), where the European Commission will reportedly soon announce a policy initiative that would establish a sweeping, EU-wide FRAND licensing framework.

As first revealed by *Reuters* on March 28, that framework would require SEP owners to use a new process for determining FRAND rates that would be administered by the EU Intellectual Property Office (EUIPO). This FRAND determination process "should be concluded within nine months", as summarized by *Reuters*, and would be a mandatory step before SEP owners can file any infringement litigation—either before national courts or the Unified Patent Court (UPC), which launches on June 1.

The draft framework would also create a registry for SEPs in an attempt to address concerns over transparency in the licensing process. This, too, would be mandatory for patent owners seeking to enforce their SEPs: According to language quoted by Reuters, "[a] SEP owner shall not be entitled to receive royalties or seek damages for infringement of a claimed SEP subject to registration". The framework would also include a system requiring essentiality checks, wherein "[i]ndependent evaluators" would determine whether declared SEPs are actually essential to a given standard.

This SEP framework proposal will reportedly be announced on April 26, World IP Day, according to a European Commission agenda cited by Reuters. Time will tell if the ensuing debate over the new system imperils the draft legislation's passage before the current Commission's term ends at the close of October 2024.

Patent Market Update: Sale of BlackBerry Patents Announced; New TPLF Reports Leave Unanswered Questions; Lit Funders May Have Settlement Veto

Bulk of BlackBerry's Portfolio Finds a New Home

BlackBerry made headlines during the first quarter with the announcement that it had reached an agreement to sell most of its patent portfolio to Malikie Innovations Limited—a subsidiary of Irish patent monetization firm Key Patent Innovations Limited—for $200M in upfront and guaranteed payments, plus a profit-sharing agreement. The deal is subject to regulatory approvals, but the Malikie deal is fully financed. This news came thirteen months after BlackBerry announced a tentative agreement to sell the portfolio to Catapult IP Innovations Inc.

Had it come to fruition, the deal with Catapult IP (which is controlled by York Eggleston) would have provided BlackBerry with $450M up front and a $150M promissory note, but it ultimately fell apart when Catapult was unable to line up the equity investment required by Catapult's lenders.

Public records indicate that a group of individuals who have previously monetized BlackBerry patents are involved in Malikie Innovations Limited—the Key Patent Innovations subsidiary in line to acquire BlackBerry's legacy patent portfolio. While the identity of the deal's funder has not been disclosed by the parties, it does appear likely (in part because of the description of the investor as US-based, with over $30B in assets under management) that the group returned to a familiar well of capital to finance the deal.

For more on this pending transaction, including RPX analysis of the deal's economics, see RPX Insight.

Industry Reports on TPLF Generate More Questions Than Answers

The first quarter also saw the release of two industry reports on third-party litigation funding (TPLF). Both publications are inherently incomplete, given the opacity of the litigation finance space—a challenge cited by both reports—although one offers potentially useful metrics by which the market can be measured as it continues to grow and mature.

In January, the Government Accountability Office (GAO), "which provides nonpartisan research to Congress", released a report that was meant to shed light on the activities of litigation funders active in the US—including how many cases have been funded, how many have concluded, and what types of returns they have generated. By its own admission, the report fell short of its goals, citing gaps in available data on TPLF.

TPLF has been well established for decades in countries including Australia, says the GAO, but it is still a relatively new practice in the US, gaining a foothold in about 2010. The growth of the industry—which appears to have accelerated in recent years, if reported fundraises (such as those discussed in RPX's Q4 in Review) are any indication—while the opacity with which funders tend to operate have raised concerns among certain interest groups as well as policymakers.

Commissioned by a group of lawmakers, the GAO report provides a primer on TPLF as well as some information about the characteristics of and trends in the commercial (as well as consumer) TPLF markets, much of it drawn from Westfleet Advisor's 2021 Litigation Finance Market Report, interviews with unidentified litigation funders, and review of the regulatory filings of publicly traded litigation finance firms Burford Capital and Omni Bridgeway.

Yet, with respect to its original goals—to provide detailed market data and information about the types of returns generated by litigation funding arrangements—the GAO's report elicits no new findings. Instead, the report points to "data gaps in the market", which include "data on funders' rates of return, the number of funders operating in the U.S., and the total amount of funding provided".

Weeks after the GAO publication, Westfleet Advisors released the 2022 version of its much-cited market report on litigation finance, providing transactional data for over 40 commercial litigation funders active in the US.

Westfleet describes its core business as "advising law firms and their clients on all aspects of securing litigation financing", with its deal advisory role placing Westfleet "astride market-facing operations of every active US litigation funder". It boasts access to anonymized data and responses submitted by litigation funders through a third party—as well as "more granular data" gathered from certain funders directly—that have been aggregated into the current report to provide "a complete picture of the industry's size and scope". Still, says Westfleet, the market "continues to be opaque—even to funders themselves—in terms of pricing and other deal terms, and significant differentiation exists among funders and their investment criteria".

Further, while some data around transactional volume and assets under management (AUM) are publicly available, much of this information is reported by the two publicly traded industry leaders (Burford Capital and Omni Bridgeway) and several other "league leaders"—the operations of which may not be indicative of the investment holdings and activities of smaller and/or more bespoke litigation funders.

Nonetheless, Westfleet assigns an estimated collective $13.5B AUM to the 44 funders that contributed to its report, noting that for certain funders, the firm has "adjusted to exclude any capital not dedicated or allocated to US commercial litigation finance" from its estimated industry-wide AUM.

Two more notable takeaways: First, Westfleet's report also points to "noticeable developments" in recent months suggesting that more litigation funders are utilizing insurance to limit risk and protect against loss of capital. (RPX's own exploration of that trend is available to RPX members here.) Second, according to Westfleet, patent litigation "attracted a percentage of new commitments in 2022 more in line with historical norms, comprising 21% of all capital commitments, following an outlier year in 2021 in which 29% was allocated to patent litigation". That increase in 2021, says Westfleet, "may have been driven by a small number of outsized portfolio transactions in patent litigation".

Sysco Needs Lit Funder's Prior Consent to Settle Its Own Cases

A battle between Sysco and its own litigation funder, Burford Capital—which claims to have invested $140M in the food distributor's price-fixing suits—has provided a rare behind-the-scenes look into the business of litigation finance. The allegations made by Sysco, and a preliminary injunction awarded by an arbitration panel in March, highlight one of the potential pitfalls of third-party litigation funding, namely, who calls the shots: the client, its counsel, or its funder.

According to Sysco, beginning in 2019, Burford Capital invested in antitrust litigation pending in the Northern District of Illinois and the District of Minnesota filed by Sysco against certain suppliers of protein and other products.

After "years of litigating" against many of its key suppliers, says Sysco, it has "negotiated reasonable settlements with several of them" to resolve those antitrust claims—but Burford is allegedly "forcing Sysco to continue to litigate against its will".

When Burford became aware of those proposed settlements, it took issue with their being "too low" and reportedly forbade Sysco from moving forward. The funder then filed a request for arbitration seeking a permanent injunction prohibiting Sysco from entering into the settlement agreements without Burford's consent.

At the crux of this feud are multiple amendments to the original funding agreement between Burford and Sysco, which apparently required Sysco to agree not to accept a settlement offer without Burford's prior written consent (which, per the pertinent language, was "not to be unreasonably withheld").

A tribunal seated in New York issued a temporary restraining order prohibiting Sysco from entering into the disputed settlements prior to a final determination of the merits, and in early March, Burford was awarded a preliminary injunction in a 2-1 order, the tribunal rejecting Sysco's argument that the parties' funding agreement—if construed to provide a veto right—violates New York public policy.

Burford has since filed a petition in New York state seeking confirmation of the arbitration panel's preliminary injunction award, and additional parties have entered the fray, including the US Chamber of Commerce and pork processors JBS US and Smithfield Foods.

Additional RPX Patent Market Intelligence

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