
Nimitz Patent Fight Offers Peek Behind NPE Liability Curtain

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Patent litigation brought by nonpracticing entities, or NPEs, has seen exponential growth. These cases are often filed against large retailers or service providers, assert patents that are close to the end of their term and are disposed well before addressing the merits.

Nimitz Technologies LLC's patent assertion campaign against CNET,[1] BuzzFeed Inc.,[2] Imagine Learning Inc.[3] and Bloomberg LP,[4] among others, is one example.

With a little help from Chief U.S. District Judge Colm F. Connolly of the U.S. District Court for the District of Delaware, however, Nimitz's campaign inadvertently provided litigants with unprecedented insight into how NPEs shield themselves from the penalties of bad faith litigation. With a peek behind the curtain, litigants should learn and adapt.

But first, how did we get here? Nimitz's cases were filed in the District of Delaware and assigned to Judge Connolly. Two of Judge Connolly's standing orders are relevant. The first relates to Federal Rule of Civil Procedure 7.1 and requires disclosure of "the name of every owner, member and partner of the party, proceeding up the chain of ownership until the name of every individual and corporation with a direct or indirect interest in the party." [5]

The second relates to third-party litigation funding agreements.

It mandates disclosure of:

- The identity, address and place of formation of the third-party funder;
- Whether any third-party funder's approval is necessary for litigation or settlement decisions in the action, and if so, the nature of the terms relating to such approval; and
- A brief description of the nature of the financial interest of the third-party funder.[6]

The court issued a series of reminders regarding Nimitz's compliance with the standing orders. Eventually, Nimitz identified Mark Hall as "the sole owner and member of Nimitz," and represented that Nimitz "has not entered into any arrangement with a Third-Party Funder." [7]

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Nimitz added that its interpretation of the standing orders "does not require disclosure of entities who may have a financial interest in the outcome of the litigation." [8] Intrigued, the court set an evidentiary hearing "to determine whether Plaintiff has complied with the Court's standing order regarding third-party litigation funding." [9]

Hall, a software salesman, was ordered to attend the hearing in person.

At the hearing, Judge Connolly, a former federal prosecutor, questioned Hall, and elicited information that Nimitz no doubt hoped to keep confidential. [10] Hall testified:

- A mutual friend and representative of Mavexar LLC, a consulting company, brought an investment opportunity to Hall relating to the monetization of U.S. Patent No. 7,848,328; [1]
- Mavexar came up with the name Nimitz and attended to its formation;
- The '328 patent was assigned to Nimitz without "exchang[ing] any money," but Nimitz retained all liability arising from the monetization of the U.S. Patent; [2]
- Hall does not know "[w]hat technology is covered by the '328 patent";
- Mavexar selected counsel to represent Nimitz for its monetization efforts; [3]
- Mavexar makes "all decisions associated with how the patent is asserted and how cases are settled"; [4] and
- Nimitz's counsel also spoke on the record, confirming that he was selected and retained for Nimitz by Mavexar, which he understood to be an "agent" of Nimitz. [16]

Casting doubt on whether communications between Nimitz's counsel and Mavexar are privileged, Nimitz's counsel revealed that he did not directly communicate with his client. Instead, communications were facilitated through Mavexar. [17]

Between Dec. 14, 2021, and April 27, 2022, Nimitz voluntarily dismissed seven cases, presumably because of settlement. Yet, according to his testimony, Hall and Nimitz do not "have any prior knowledge of settlements," but rather learn of them "after the fact." [18]

Also uncovered was a connection between Mavexar and IP Edge, a well-known patent monetization entity. According to its public information report filed with the Texas secretary of state, two of Mavexar's three members are Gautham Bodepudi and Sanjay Pant, who are the managing partners of IP Edge. [19]

The Mavexar representative who pitched the Nimitz investment opportunity to Hall was an IP Edge employee, and Mavexar's communication with Nimitz's counsel to exercise control over the litigation was facilitated through IP Edge email addresses. [20] Mavexar's connection to IP Edge was not unique.

Indeed, similar connections between other NPE plaintiffs and IP Edge emerged. [21] For example, the sole owner of another NPE plaintiff had been presented with a similar investment opportunity from a consulting company by her husband, an IP Edge employee. [22]

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Neither Nimitz nor the other entities with connections to IP Edge disclosed a third-party funding agreement in the cases pending before Judge Connolly. Yet, as Chief Judge Connolly stated, it is Mavexar "[w]ho pays for the lawyers to go out and sue people." [23]

Likewise, according to its consulting agreement, it is Mavexar that advances "all Costs and Expenses relating to the monetization of the Patents." [24] Judge Connolly expressed his concerns with this apparent gamesmanship:

[B]y structuring this litigation the way you have with Mavexar, you've basically put a plaintiff in this court asserting a patent, and the plaintiff has no assets. So you've immunized, effectively, the plaintiff from the consequences of a frivolous lawsuit, for instance. Mavexar, who's driving the train, isn't formally a party, here, so you've insulated it, assuming nobody wanted to look into this. [25]

But the judge "wanted to look into this" and ordered Nimitz to produce documents relating to Mavexar and IP Edge's involvement in the litigation. [26]

Notably, Nimitz was ordered to produce documents, not file them on the docket. Thus, if properly designated, documents could have remained confidential.

But Nimitz brought this ordeal to national attention by petitioning for a writ of mandamus requesting that the U.S. Court of Appeals for the Federal Circuit vacate the court's document production order and direct the district court to terminate its inquisition into Nimitz.

Nimitz argued, inter alia, that the district court's order would not allow Nimitz to assert the attorney-client privilege and that the court's "unprecedented" inquisition was improper. [27]

Nimitz's petition did not go unnoticed — Intel Corp., Garmin Intl., SAP America, SAS Institute, Dish Network, Power Integrations Inc., August Home Inc., the U.S. Chamber of Commerce and the Public Interest Patent Law Institute, among others, filed amicus briefs against Nimitz's petition. [28]

The Federal Circuit denied Nimitz's petition, noting that Nimitz was not entitled to the "drastic and extraordinary remedy" of the writ of mandamus. [29] It found Nimitz's privilege-based arguments unpersuasive because Nimitz was not required to make any of the documents public and was not otherwise prohibited from asserting privilege. [30]

The Federal Circuit also found the inquisition into Mavexar and IP Edge appropriate and related to legal issues within the district court's purview. [31] Nimitz petitioned the Federal Circuit for rehearing. But Nimitz's petition was denied. [32]

The Nimitz ordeal may bring about welcome change to the landscape of NPE litigation. Armed with fresh insight, litigants should consider whether to press for disclosure of the entities that control a litigation but are not the named plaintiff.

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Federal Rule of Civil Procedure 17, for example, requires that an "action must be prosecuted in the name of the real party in interest." Similarly, certain local rules require disclosure of entities with financial interests in the outcome of a litigation.[33] And others, like Civil Rule 33 in the Western District of Texas, allow discovery of "persons or legal entities who have a subrogation interest in the cause of action." [34]

While traditionally not at issue in patent litigation, these rules promote a quintessential judicial adage: "The people have a right to know who is using their courts." [35] Litigants should seek compliance with these rules to reveal the controlling, yet hidden, entities behind NPE litigation.

Indeed, doing so provides litigants with the opportunity to assert counterclaims against these hidden entities and expose them to the liability they work so hard to avoid. Litigants should also press for discovery of communications or agreements with the controlling entities, as they do not appear to be privileged and may provide insight into the controlling entity's perceived value of a litigation.

Given the significant effort to keep this information from being disclosed, however, this information is not likely to be easily obtained. But entities like IP Edge should not be allowed to avoid the liability of frivolous litigation when they are, to quote the judge, "driving the train."

[1] Nimitz Techs. LLC v. CNET Media, Inc., No. 21-1247 (D. Del. filed Aug. 30, 2021).

[2] Nimitz Techs. LLC v. BuzzFeed, Inc., No. 21-1362 (D. Del. filed Sept. 27, 2021).

[3] Nimitz Techs. LLC v. Imagine Learning, Inc., No. 21-1855 (D. Del. filed Dec. 31, 2021).

[4] Nimitz Techs. LLC v. Bloomberg L.P., No. 22-413 (D. Del. filed Mar. 30, 2022).

[5] Standing Order Regarding Disclosure Statements Required by Fed. R. Civ. P. 7.1,
<https://www.ded.uscourts.gov/sites/ded/files/Standing%20Order%20Regarding%20Disclosure%20Statements.pdf>.

[6] Standing Order Regarding Third-Party Litigation Funding Arrangements,
<https://www.ded.uscourts.gov/sites/ded/files/Standing%20Order%20Regarding%20Third-Party%20Litigation%20Funding.pdf>.

[7] Nimitz's Response to Standing Order Regarding Third-Party Litigation Funding Arrangements, Nimitz Techs. LLC v. CNET Media, Inc., No. 21-1247 (D. Del. May 25, 2022), ECF No. 022.

[8] Nimitz's Amended Disclosure Statement to Rule 7.1, Nimitz Techs. LLC v. CNET Media, Inc., No. 21-1247 (D. Del. May 25, 2022), ECF No. 021.

[9] Order Setting Evidentiary Hearing, Nimitz Techs. LLC v. CNET Media, Inc., No. 21-1247 (D. Del. Sep. 13, 2022), ECF No. 024.

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[10] Prior to taking the stand, counsel for Nimitz requested that Mr. Hall's testimony be provided to a closed courtroom. The Court denied this request and indicated that the "public has a right to know who the parties are in the case." Tr. of Hr'g at 49:9–51:3., Nimitz Techs. LLC v. CNET Media, Inc., No. 21-1247 (D. Del. Nov. 4, 2022), ECF No. 026 ("Nov. 4 Hr'g").

[11] Id. at 67:25–75:2.

[12] Id. at 71:8-18.

[13] Id. at 41:4-44:13.

[14] Id. at 77:7-11.

[15] Id. at 82:19-83:8.

[16] Id. at 41:24-43:15.

[17] Id. at 41:21-49:7; 52:24-54:9; 86:18-87:27; 88:2-89:14.

[18] Id. at 74:22-75:2; 76:13-77:14.

[19] IP Edge, Team, <http://www.ip-edge.com/team/> (last visited Feb. 1, 2023).

[20] Nov. 4 Hr'g at 6:21–7:1, 7:6–15, 10:3–12:7, 18:24–25, 20:14–25.

[21] Id. at 5:3–23, 6:21–7:9, 10:5–11:17, 85:19–88:7, 90:5–13, 91:5–14, 93:13–18, 95:11–97:19, 99:21–100:10; Tr. of Oral Arg. at 12:15–13:22, 14:3–15:21, 16:8–21, 19:25–20:5, 20:16–22:6, 23:4–24:9, 33:6–16, 34:20–24, 35:14–19, 40:7–23, 41:6–8, 47:2–5; Backertop Licensing LLC v. August Home, Inc., No. 22-00573 (D. Del. Nov. 10, 2022), ECF No. 027 ("Nov. 10 Tr.").

[22] Nov. 10 Tr. at 12:15–33:16.

[23] Nov. 4 Hr'g at 99:22–100:10.

[24] Nov. 10 Tr. at Ex. 3, § 3.

[25] Nov. 4 Hr'g at 51:24–52:7.

[26] Mem. Order Setting Deadlines, Nimitz Techs. LLC v. CNET Media, Inc., No. 21-1247 (D. Del. Nov. 10, 2022), ECF No. 027.

[27] Nimitz's Petition for Writ of Mandamus, In re Nimitz Techs. LLC, No. 2023-103 (Fed. Cir. Nov. 16, 2022), ECF No. 002.

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[28] See Amicus Brief filed by Intel, In re Nimitz Techs. LLC, No. 2023-103 (Fed. Cir. Dec. 8, 2022), ECF No. 045; Amicus Brief filed by SAP America and SAS Institute, In re Nimitz Techs. LLC, No. 2023-103 (Fed. Cir. Dec. 8, 2022), ECF No. 046; Amicus Brief filed by Public Interest Patent Law Institute, In re Nimitz Techs. LLC, No. 2023-103 (Fed. Cir. Dec. 8, 2022), ECF No. 047; Amicus Brief Filed by August Home and Dish Network, In re Nimitz Techs. LLC, No. 2023-103 (Fed. Cir. Dec. 8, 2022), ECF No. 049; Amicus Brief filed by Chamber of Commerce of the United States of America, In re Nimitz Techs. LLC, No. 2023-103 (Fed. Cir. Dec. 8, 2022), ECF No. 050.

[29] Order Denying Petition for Writ of Mandamus at 4, In re Nimitz Techs. LLC, No. 2023-103 (Fed. Cir. Dec. 8, 2022), ECF No. 044 (quoting *Cheney v. U.S. Dist. Ct. for D.C.*, 542 U.S. 367, 380–81 (2004)).

[30] *Id.* at 5.

[31] *Id.* at 5-6.

[32] Order Denying Petition for Panel Rehearing, In re Nimitz Techs. LLC, No. 2023-103 (Fed. Cir. Jan. 31, 2023), ECF No. 058.

[33] E.g., N.D. Cal. L.R. 3-15; N.D. Tex. L.R. 3.1(c).

[34] W.D. Tex. Civ. R. 33(b)(2).

[35] *Doe v. Blue Cross & Blue Shield United of Wis.*, 112 F.3d 869, 872 (7th Cir. 1997).

ATTORNEYS MENTIONED

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