

## **MANAGING AND FINANCING PATENT LITIGATION**

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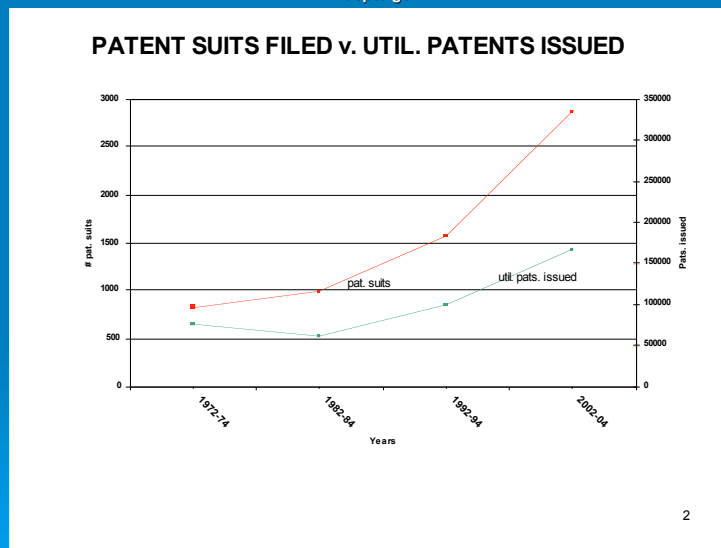
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### **QUESTION: WHY DO WE CARE ABOUT MANAGING AND FINANCING PATENT LITIGATION?**

- **ANSWER: BECAUSE IF YOU ARE IN BUSINESS, IT IS BOUND TO HIT.**
- **ONCE IT HITS, IT IS BOUND TO HURT.**

## THE NUMBER OF PATENT CASES FILED AS A FUNCTION OF THE NUMBER OF PATENTS ISSUED IS INCREASING\*

\*SOURCE: Janicke, U. of Houston Law Center; Admin. Office of U.S. Courts, annual reports, PTO website, [www.uspto.gov](http://www.uspto.gov)



## WHY IS PATENT LITIGATION ON THE RISE?

- *“In the past two decades, the United States has strengthened patent rights while weakening the standards for granting patents. While unpremeditated, these two policy changes have created a ‘perfect storm’: a complex and intensifying combination of factors that increasingly makes the patent system a hindrance rather than a spur to innovation.”*

--Harvard Business School

Professor Josh Lerner

- Testifying before the House Subcommittee on Courts, the Internet, and Intellectual Property, as reported in *InformationWeek* at <http://www.informationweek.com/shared/printableArticle.jhtml?articleID=16430257>

## THE LITIGATION LOTTERY

- ***“We confront a patent system in the U.S. that is excessively litigious. It is too easy for a litigant to manipulate the U.S. system and look to a patent lawsuit as the ultimate lottery ticket, hoping to confuse jurors with technical jargon that will yield the payment of a lifetime. The availability of triple damages [when infringement is determined to be willful] and injunctive relief multiply this further.”***

➤ --Microsoft General Counsel Brad Smith

- Speech given in March 2006 at the American Enterprise Institute in Washington, D.C., as reported in *InformationWeek*, *supra*.

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## PATENT LITIGATION IS EXPENSIVE

- ***“Cases need to settle to keep the cost down. If cases don’t settle, there is no more expensive kind of litigation than patent litigation.”***

- --Brian Roche, lead trial counsel for Eastman Kodak Co. in its patent infringement lawsuit against Sun Microsystems. *InformationWeek*, *supra*.

- --for example, Microsoft spends about \$100 million annually defending 40 ongoing patent suits. *Id.*

- --Legal fees of \$2-5 million to verdict are not uncommon.

- Kaminski, Michael, “Effective Management of U.S. Patent Litigation,” Foley & Lardner LLP (2005).

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## WHY IS PATENT LITIGATION SO EXPENSIVE?

**Too Many Documents**

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## WHY IS PATENT LITIGATION SO EXPENSIVE?

➤ **Too Many Witnesses**

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## WHY IS PATENT LITIGATION SO EXPENSIVE?

**Too Many Lawyers**

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## WHY IS PATENT LITIGATION SO EXPENSIVE?

➤ **Too Much Complexity**

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## WHY IS PATENT LITIGATION SO EXPENSIVE?

➤ Too Much at Stake

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## WHY IS PATENT LITIGATION SO EXPENSIVE?

➤ Too Much/Too Little Time

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## WHY IS THERE SO MUCH PATENT LITIGATION IN THE UNITED STATES?

- FROM THE LAW FIRM PERSPECTIVE:
- Increase in Patent Litigation is the Natural Consequence of:
- Increase in businesses based or reliant on technology
- 20-plus Years of Federal Circuit jurisprudence demonstrates the value of patents
- Intellectual property lawsuits are an important business tool
- Patent litigation can be profitable [at least for the lawyers]
- Kaminski, *supra* at 2-3.

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## BETTER QUESTION: WHY IS THERE SO MUCH PATENT LITIGATION IN THE UNITED STATES AS OPPOSED TO OTHER COUNTRIES?

- FROM BUSINESS' PERSPECTIVE:
- COMPETITION IS FIERCE AND MARKET SHARE MUST BE PROTECTED AT ALL COST.
- TOO MANY PATENTS ISSUE THAT ARE OBVIOUS OR OF QUESTIONABLE MERIT, e.g., THE "DE SOTO PHENOMENON."\*
- WHILE THE FED. CIR. WAS INTENDED TO CREATE UNIFORMITY AND DISSUADE FORUM SHOPPING, IT HAPPENS WITH REGULARITY AT THE DISTRICT COURT LEVEL IN "PLAINTIFF'S PARADISES."
- UNLIKE SOME OTHER COUNTRIES, THE LOSER DOES NOT PAY.
- UNLIKE SOME OTHER COUNTRIES WHERE THEY DO NOT EXIST, CONTINGENT FEE CASES, PUNITIVE DAMAGES, AND LIBERAL DISCOVERY ARE DE RIGURE IN THE UNITED STATES.

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### \*THE DE SOTO PHENOMENON

- Jerry Seinfeld indicates to George that he likes the explorer Magellan, to which George replies:
- George: Magellan, you like Magellan?
- Jerry: Oh yeah, my favorite explorer, around the world, come on. Who do you like?
- George: I like de Soto.
- Jerry: de Soto, what'd he do?
- George: He discovered the Mississippi.
- Jerry: Oh, yeah, like they wouldn't have found that anyway.

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### WHAT ARE THE IMPLICATIONS?

- IF WE ASSUME (OR IT BUSINESS PERCIEVES):
  - 1. THAT BUSINESS IS THE ENGINE THAT DRIVES A NATION'S ECONOMY;
  - 2. THAT LITIGATION IN GENERAL, AND PATENT LITIGATION IN PARTICULAR, IS HAMPERING U.S. BUSINESS;
  - 3. THAT THIS PUTS U.S. BUSINESS AT A COMPETITIVE DISADVANTAGE RELATIVE TO FOREIGN COMPETITION NOT SO HAMPERED WITH LITIGATION;
  - 4. THAT, IN AN INCREASINGLY GLOBAL ECONOMY, THE LOW COST PRODUCER WINS,
  - THEN, UNLESS SOMETHING CHANGES, BOTH U.S. BUSINESSES AND THE U.S. ECONOMY LOSE.

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## WHAT ARE SOME POSSIBLE SOLUTIONS?

- 1. LEGISLATION, such as Senate Bill S.3818, introduced by Hatch and Leahy on August 3, 2006, entitled "Patent Reform Act of 2006" providing for, *inter alia*, post-grant review procedures for cancellation of issued patents.
- 2. SUPREME COURT DECISIONS, e.g., in the *KSR Int'l v. Teleflex* case, if the result is to overrule the Federal Circuit's "teaching, motivation, suggestion" test.\*\*
- 3. ADR, such as mediation now being required by many court's local rules.
- 4. "ACR" or "Alternative Country Resolution," where a case is filed in a much more streamlined country with limited discovery.
- 5. MAKING IT ALL PUBLIC- i.e., the nuclear option, where companies defensively publish everything a la IBM, to increase the body of knowledge without impeding its use, keeping competitively sensitive information trade secret.
- 6. A NEW PAYMENT SYSTEM, similar to that used by copyright owners, through ASCAP, to recoup reasonable, standard royalties for usage rights.
- 7. U.S. BUSINESSES may increasingly relocate operations overseas and outsource manufacturing, financial, and even legal services to low cost overseas providers.

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**\*\*JUSTICE BRYAR'S RACCOON HYPOTHETICAL  
MADE DURING NOVEMBER 28, 2006 ORAL ARGUMENT IN  
KSR INTERNATIONAL CO.,v.TELEFLEX, INC., ET AL.,**

- **JUSTICE BREYER:** You look at that thing [the claimed invention], you think what this genius did, and I don't doubt that he's a genius . . . . Now to me, I grant you I'm not an expert, but it looks at about the same level as I have a sensor on my garage door at the lower hinge for when the car is coming in and out, and the raccoons are eating it. So I think of the brainstorm of putting it on the upper hinge, okay? Now I just think that how could I get a patent for that . . .
- Transcript, p. 34.

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## ASSUMING PATENT LITIGATION IN ITS PRESENT FORM IS HERE TO STAY, HOW DO WE MANAGE AND FINANCE IT?

- PLAN HOW TO FINANCE PATENT LITIGATION FIRST, MANAGE FROM THERE.
- OTHERWISE PATENT LITIGATION MANAGES YOU.

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## HOW TO FINANCE PATENT LITIGATION?

- **Plaintiff Considerations**
  - Who is the Defendant? Will they mount a vigorous defense?
  - Defendant's insurance (or indemnity) coverage—good news bad news
  - if they have it, there may be less incentive to settle and all out litigation might result
  - on the other hand, insurance/indemnity injects a third party that might press for a reasonable settlement
  - Straight fee/Contingent fee/Hybrids

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## HOW TO FINANCE PATENT LITIGATION?

### • Defendant Considerations

- Who is the Plaintiff?
  - i. Big Company
  - ii. Individual Inventor/Small Company
  - iii. Other
- What does the plaintiff want? Money, Injunction, Trash Talk, Cross License
- If plaintiff wants only money, then weigh the amount they demand versus cost to litigate and risk of adverse outcome.
- Will insurance (or indemnity) cover it? Give notice.

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## HOW TO FINANCE PATENT LITIGATION?

### • Management Considerations

- Identify a management “champion” for the case.
- What is the Company’s business objective it hopes to achieve by “winning” the case?
- How much will this cost and who will pay?

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## HOW TO FINANCE PATENT LITIGATION?

- **Outside Counsel Considerations**
  - Aggressive Opposing Counsel?
  - How does your Outside Counsel staff cases?  
Each firm is different.
  - Some firms just cost more.

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## HOW TO FINANCE PATENT LITIGATION?

- **The Budget-MOST IMPORTANT**
  - Law firms resist, Clients insist.
  - Use programs, spreadsheets to prepare.
  - Update/revise frequently. Note this should not always mean "increase" the budget. It is perfectly acceptable to lower the budget if the situation warrants, e.g., if summary judgment eliminates certain issues from the case.
  - Accept it not only as part of the process but as part of the litigation strategy.
  - Neither overestimate nor underestimate.

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## HOW TO MANAGE PATENT LITIGATION?

- **Manage Client Expectations—Early and Often**
  - **Provide** an early case assessment—be candid and do not over commit— clients assume victory—they must be brought gently to earth
    - Analogy—the best Major League pitchers win about 60-70% of their games lifetime (Pedro Martinez 69%, Lefty Grove 68%, Whitey Ford 69%). Nolan Ryan won 52.6%.
  - **Understand** client’s business objectives, experience with litigation, knowledge of the litigation process, tolerance for risk and expensive litigation.
  - **Educate** client as to opposing parties, opposing counsel, the judge, and the jurisdiction.
  - **Review** a sample scheduling order from the judge with the client.
  - **Over communicate** with periodic emails, phone calls, strategy meetings—promptly, briefly, candidly—don’t sugar coat bad news.
  - **Empathize** with the business client—he or she will have difficulty responding to last minute or voluminous requests, e.g., to review briefs to be filed the next day.

➤ See, e.g., Kaminski, *supra*, at 5-8.

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## HOW TO MANAGE PATENT LITIGATION?

### In-House Counsel Managing Outside Counsel

- **Clearly Communicate Business Objectives to Outside Counsel:** e.g., “bet the company” vs. “penny ante.”
- **Avoid Runaway Billables Caused By:**
  - invisible associates
  - unapproved and generally unseen legal memoranda
  - forgotten budgets
  - Depo duplication—witnesses and lawyers
- **Consider weekly conference call updates—e.g. every Monday or Friday morning, to report on past week’s activities and plans for the next week.**
- **Act as a check on the system—call out frivolous defenses and claims.**

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## HOW TO MANAGE PATENT LITIGATION?

### Outside Counsel Managing In-house Counsel

- Understand I.C.'s patent litigation experience and risk tolerance.
- Understand I.C.'s need to be part of the litigation team and part of the client's management team. Attempt to include I.C. on the highest category of the Protective Order, so he can see all the documents you see--- they all come out at trial anyway.
- Anticipate out of pocket expenses the firm might not want to front for the client and seek a retainer to cover them, e.g., expert witness fees.
- Act as a check on the system—call out frivolous defenses and claims.

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## CONCLUSION/QUESTIONS

THE END.

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