Current Trends and Ethical Implications in IP Monetization and Litigation Financing

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What is IP Monetization?
- Sale
- Licensing without litigation
- Licensing with litigation
  - Litigation funding

“Patent-Centric Specialty Finance”
- Litigation funding – individual case or group of cases related to a portfolio of patents
- Firm portfolio funding
- Funding for patent portfolio development
- General operating financing
Why is this an Ethics Program?

- Model Rules 1.1 (competence) and 1.4 (communication)
  > Lawyers must be educated about various forms of IP Monetization, especially litigation finance, and be prepared to communicate thoroughly with clients about them and advise clients on the pros, cons, risks, benefits, etc.
  > Not just for NPEs anymore
What are the Core Ethical Issues?

- Avoiding conflicts of interest
  - Lawyer v client financial interest
  - Independent professional judgment
    - Duty to client v influence of funder
- Fee issues
- Impact of disclosure of information to the funder – voluntary waiver?
  - Attorney-client privilege
  - Work product doctrine
Ethics Alert: Avoiding Conflicts of Interest

- Relevant rules
  - General material-limitation conflicts – MR 1.7(a)(2)
  - Regulation of business transactions with client – MR 1.8(a)
  - Lawyer prohibited from providing financial assistance to client (non-waivable) – MR 1.8(e)
  - Lawyer prohibited from acquiring a proprietary interest in client’s cause of action (non-waivable) – MR 1.8(i)
  - Client retaining absolute power over hiring and terminating lawyer - MR 1.16(a)
  - Lawyer’s independent professional judgment – MR 2.1
  - Duty to advise on settlement – MR 1.2(a)
Ethics Alert: Avoiding Conflicts of Interest

Issues to consider

- Lawyer’s financial interest in the transaction
  - Who negotiates transaction
- Lawyer’s relationship with funder v client
  - Referral fees from funder to lawyer
  - On-going relationship between lawyer and funder
- Control over the litigation
  - Selection/withdrawal of counsel
  - Effect on settlement
Ethics Alert: Fee Issues

- Relevant rules/Issues to consider
  - Fee sharing (with funder) - MR 5.4(a)
    - Traditional funding agreement with client
    - How work for law firm portfolio funding?
      - Security interest in attorney’s accounts receivable
  - Third Party payment of fees - MR 1.8(f), 2.1 & 5.4(c)
    - Conflicts issues; funder cannot direct proceedings
    - Lawyer’s independent professional judgment
  - Reasonableness of fees - MR 1.5(a)
    - Attorney as litigation funder – also MR 1.8
Ethics Alert: Information Disclosure to Funder

- Relevant rules/legal issues
  - Duty of confidentiality - MR 1.6
  - Attorney-client privilege
    - Work product doctrine

- How handle?
  - Client permission for disclosures – note risks
  - Common interest exception
  - Work product doctrine
Other applicable legal doctrines?

- Champerty/maintenance
  - Maintenance is helping another prosecuting a suit; champerty is helping another for a financial interest in the outcome
  - Champerty permitted in at least 27 out of 51 jurisdictions
    - Champerty never part of common law: Texas, CA
    - Champerty on books but may not apply
      - NY – “traditional” litigation funding is not champerty
      - Delaware – litigation funding permitted; funder may not control litigation
Other applicable legal doctrines?

- Usury
  - Interest at a rate that exceeds maximum legal rate
  - Typically not apply because either
    - (1) non-recourse loan; or
    - (2) investment in/purchase of the IP
Other applicable legal doctrines?

- Enforceability of agreements
  - Agreements typically have arbitration clauses
    - Confidentiality provisions
  - Some funding agreements have been subject to court decisions (in class actions) - e.g., re anti-assignment clauses in settlements
    - NFL case in EDPA – ruled settlement paid to ex-players not funders; on appeal
    - 9/11 fund – briefed earlier this year in SDNY
Other applicable legal doctrines?

- Need to disclose funding agreement during litigation?
  - Not yet by rule in IP cases
    - But see NDCA re disclosure in class actions
    - Also by case law – for example, one Texas court has required disclosure of the arrangement

Thank you!
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