

THE STATE BAR OF California
INTELLECTUAL PROPERTY LAW
SECTION

Webinar
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*US and Global Patent Litigation in the New Age:
The Influence of Business Context, Win Rates and Data
Metrics on Forum Shopping and Outcome*

By

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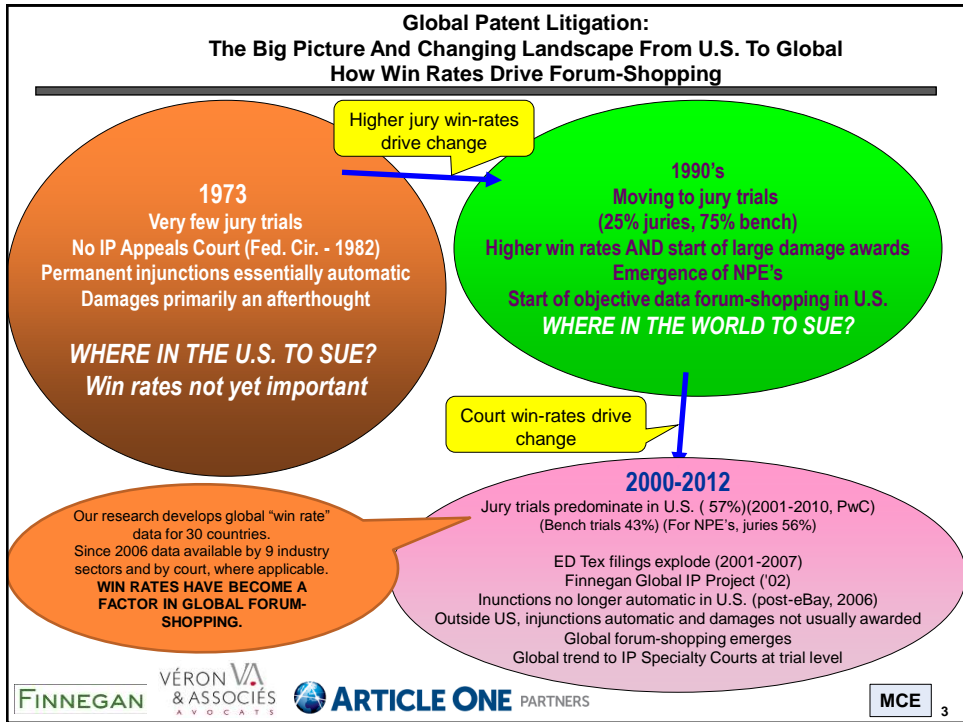
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2



Why Global Data Important: German Company Employing Defensive First-strike Strategy In A Medical Device Case **Before** Country Win-rate Available

- Small medical products manufacturer wanted to enter U.S. market.
- Two litigious U.S. competitors with blocking patents who did **not** want German company in U.S. market: big Company-A, 50% of market; big Company-B, 25% of market.
- Needed:
 - U.S. and worldwide licenses from Company-A;
 - U.S. license from Company-B.
- U.S. FDA approval was 2 years away
- Client asked us to file a declaratory judgment action in U.S.
- **After early case assessment, concluded client could not "afford" to litigate in the U.S.**

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Solution: German Company Employs Defensive First-strike Strategy Based on Anecdotal Data

•Solution **before win rate data available**

- German company provoked infringement suit in Dusseldorf, patentee 63% win rate (37% chance of success for German company).
- German company negotiates global license with Company A based on “leverage” of putting licensor’s patents at risk in a foreign (unfamiliar) court.

•Preferred solution **with win rate data**

- Bring declaratory judgment action in London Patents Courts, patentee win rate 12% (88% chance of success for German company).
- Greater opportunity to leverage better settlement in patentee-unfriendly forum.

If Objective Win Rate Data Had Been Available Then...

England patentee win rate				
2006	2007	2008	2009	2010
0%	8%	13%	30%	20%

Overall patentee win rate: 18% (13/73)(2006-10)

Germany patentee win rate			
2006	2007	2008	2009
55%	70%	56%	62%

Overall patentee win rate in Dusseldorf (infringement) 63% (213/340)(2006-009); and Federal Patents Court (57% validity challenge)

- Would have challenged patent portfolio in London, where patentee win rate is very low and can negotiate better \$ value settlement.
- Try to knock out competitors’ patents.
- London relatively fast, so decision before FDA approval likely.

Four key questions for any litigant in any country

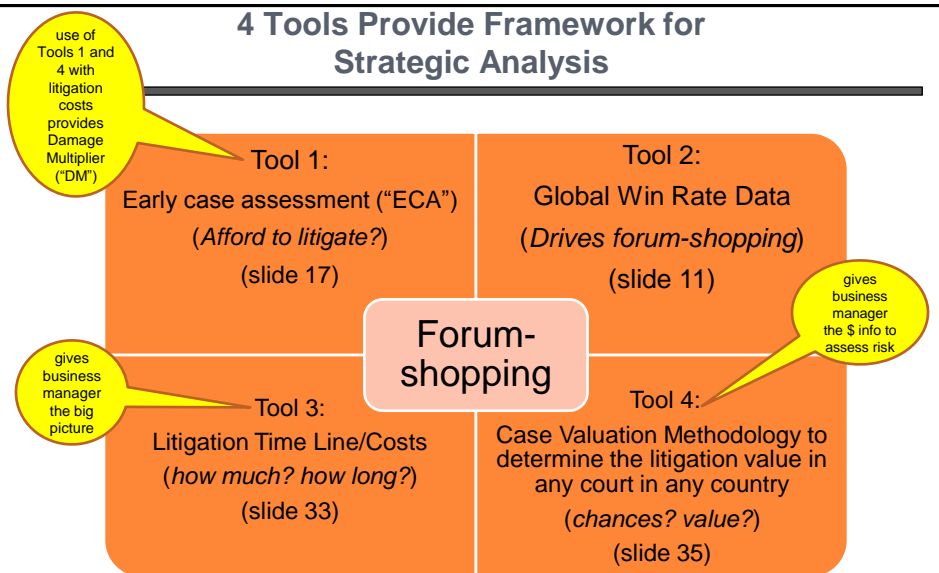
1. How much will it cost?
2. How long will it take?
3. How strong is our case? (what are our chances of success?)(win-rates); and
4. What will we get? (case valuation from early case assessment to final outcome)



...business managers do not like a “random walk through life.”
(Marshall Phelps)

Global IP Project developed 4 tools to answer these 4 questions with objective data using a hypothetical fact scenario.

4 Tools Provide Framework for Strategic Analysis



Global Case Study

- **Patentee NetUS**
 - California company that sells wireless phone chipsets worldwide
 - Owns a key chipset patent that is believed to be literally infringed by ChinaWireless, NetUS's biggest competitor
 - Has a licensing program for the patent; license rates are 10% of the net selling price of the entire chipset
 - Has sales offices worldwide
 - Has a 35% profit margin; has an incremental profit margin of 50%
 - Is willing to assert its patent in all countries
 - Would sue on January 1, 2013; Patent expires January 1, 2018

- **Infringer China Wireless**
 - Beijing company for whom litigation costs are not an issue
 - Has an office in each of the countries where NetUS has a patent
 - Has been selling the accused chipsets for at least 6 years
 - Has a profit margin of 40%; has an incremental profit margin of 50%

- **Non-Infringing Alternative**
 - London company which makes non-infringing chipsets
 - Sales in all countries where NetUS has a patent

- **Objective:**
 - **Determine what is the best global strategy for NetUS.**

Global Case Study

Table A

Country	Total Annual Sales (US\$M)	NetUS Market Share	NetUS Annual Sales (US\$M)	China Wireless Share	China Wireless Annual Sales (US\$M)	NetUS LEE Market Share	NET US LEE Annual Sales (US\$M)	NetUS license revenue (US\$M)	Non-inf alt market share	Non-inf alt annual sales (US\$M)
Canada	6	40%	2.4	40%	2.4	5%	0.3	0.03	15%	0.3
China	212	30%	63.6	50%	106	5%	10.6	1.06	15%	10.6
France	11	40%	4.4	40%	4.4	5%	0.55	0.06	15%	0.55
Germany	13	40%	5.2	40%	5.2	5%	0.65	0.07	15%	0.65
India	195	40%	78	40%	78	5%	9.75	0.98	15%	9.75
Japan	20	40%	8	40%	8	5%	1	0.1	15%	1
UK	10	20%	2	20%	2	5%	0.5	0.05	55%	0.5
US	50	50%	25	40%	20	2.5%	2.5	.25M	7.5%	2.5

Tool 2: Historical Patentee Win Rates For Countries Considered in Case Study

TIER 1 (U/B ⁴) (C/CO ⁵) (# trials required: V/I/D ⁶)	1997-2010 # of patent litigations filed	Approx. number of courts/number sampled/% cases sampled	% of cases going to trial (decision on the merits)	2006-09 Win Rate ¹	Combined win rate for bifurcated country
1 US (U)(CO)(1)	37,203	96/96/100%	3.7% (43% in US ITC)	67% jury/59% judge/35% overall (if include dispositive summary judgments); PI win rate 47% (84/178); 47% in US ITC (28/60)	
2 China (B)(CI)(2)	30,630 ^{2,3}	71/18/≈ 50%	Inf. Cases ≈ 20% Val. Chall. ≈ 67%	invention patents 71% (116/163) Design 80% (396/493) Utility models 74% (196/266) 57% invention patent validity challenge patentee win rate (42% design patents; 46% utility models)	.71 x .57 = 40%
3 Germany (B)(CI)(3)	12400 ² (≈ 225 nullity actions/year in FPC)	12/estimate based on 1 court (Dusseldorf)/≈25%	Inf. Cases ≈ 40% ² Validity challenges at FPC >50%	63% infringement case win rate, Dusseldorf only (213/340); 57% Fed Pat Ct validity challenge win rate Pre inj win rate 59% (24/41)	.57 x .63 = 35%
4 France (U)(CI)(2)	3400 ²	1/1(Paris)/100%	34%	40% (122/308) (2006-10)	
5 Japan (U)(CI)(1)	2864	2/2/100%	26%	22% (44/200) (2006-10)	
8 England (U)(CO)(2)	895	2/1/95%	16%	12% (5/43) (2006-10)	

¹ A "win" is defined as a case where at least one claim was found valid and infringed in a court of first impression.
² Indicates number is estimate based on discussions with GIP participants and incomplete data.
³ In China, utility model and design patent cases account for more than 80% of all patent litigation filed.
⁴ "U" stands for unified system, where validity and infringement are determined in one forum. "B" stands for bifurcated system, where validity and infringement are determined in separate fora. resulting in separate validity and infringement win rates.
⁵ "CI" stands for civil law jurisdiction, "CO" stands for common law jurisdiction; note fewer cases to trial in CO jurisdictions.
⁶ "V/I/D" stands for validity/infringement/damages.

Overall Global Expected Value ("EV") Equation for Any Country

$$EV = \text{Win Rate} \times (A+B+C+D) - \text{Lose Rate} \times (E) - F$$

- EV=Expected Value
- Win Rate=Probability Patentee Will Win
- A=Expected Value of Past Damages through trial (either lost profits or reasonably royalty and interest on those damages)
- B=Net Present Value of the Expected Value of the Future Remedy (either injunction or reasonable royalty): injunction almost a certainty and most important objective outside U.S.
- C=Expected Value of Reimbursed Litigation Costs: not important in U.S.; very important in Europe
- D=Expected Value of Post-Judgment Interest (from trial decision to actual payment)
- Lose Rate =Probability patentee will lose
- E=Expected Costs of Losing the Trial (including lost licensing revenues and accused infringers attorneys' fees)
- F=Costs of Going to Trial

Win/Lose Rates

- Win rate = chance the patentee will win
 - Patent must be found valid
 - Patent must be found infringed
 - Where infringement and validity determined in different fora, there are two separate win rates.

- Types of Win rates (see ND CA LegalMetric report at slide 53 in Appendix)
 - Prefer the attorney's own ad hoc case assessment
 - But attorneys are hesitant to offer concrete numbers
 - Historical win rates
 - Important to determine whether your case will be contested or uncontested
 - Not unusual for an *overall* win rate to be two times better than the *contested* win rate

- Lose rate = chance accused infringer will win

Whether and Where To Sue: Business Context (See April 9 Wall Street Journal re Microsoft)

- Patent Strategy is about obtaining optimum business result.
 - This usually translates to monetization or valuation.

- Strategic partnering and licensing are usually pursued first because of "opportunity costs" associated with enforcement.

- Litigation itself in US is expensive and associated business opportunity costs are often more important.
 - Those opportunity costs are:
 - Political ramifications of bringing suit in the market place on potential business partners
 - Cost of executive and key employee time because of litigation
 - Retaliatory counter suits, often on unrelated technologies
 - Impact of possible litigation loss of either
 - (1) existing licensing revenue streams; or
 - (2) ability to enforce patent against other infringers with similar products.

Global Patent Strategy

Global Patent Questions

- Evaluate overall business context
- Identify patent(s)
- Identify countr(ies) of issue and of market interest.
- Market size of key covered products of patentee and alleged infringer.

Global Injunction Evaluation

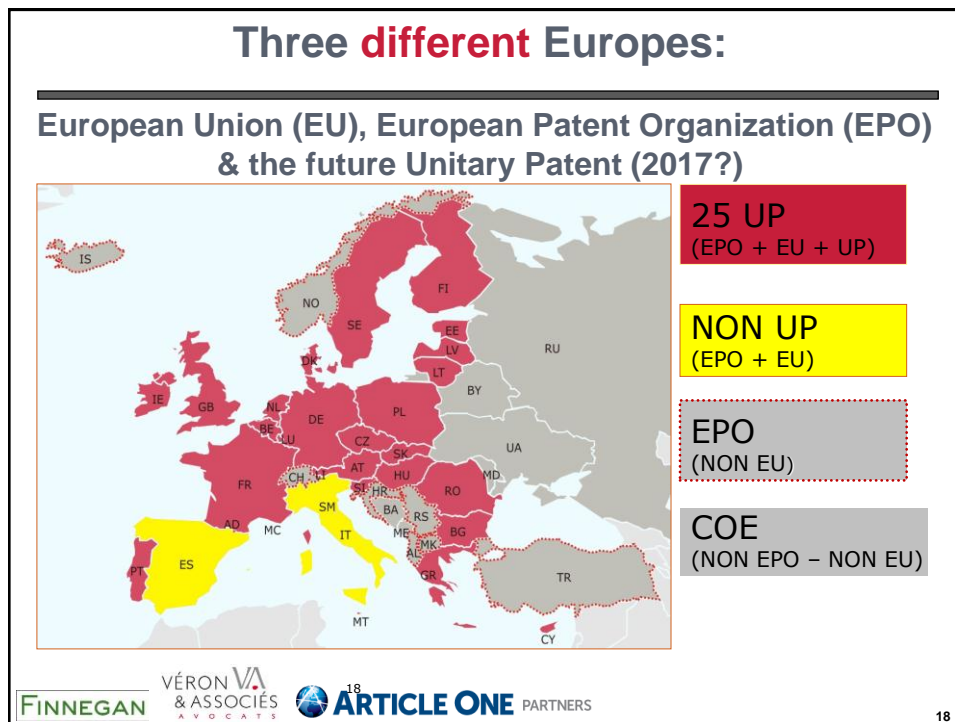
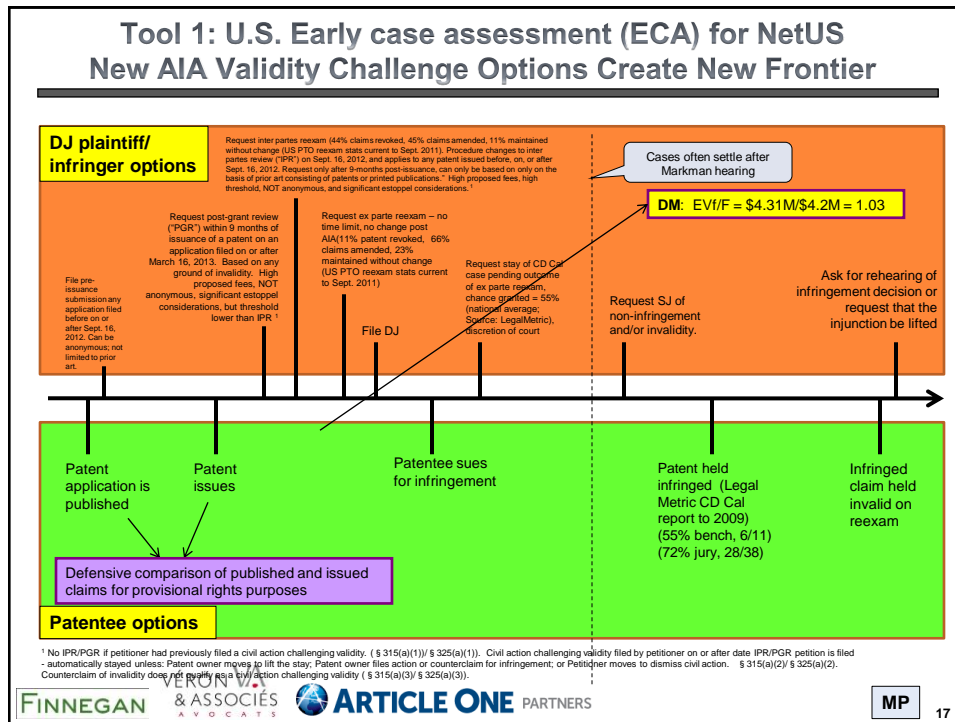
- Permanent Injunctions available and enforceable in all countries except for Russia and for small local companies in China.
- Where are preliminary injunctions available?
- Principal countries in order of market priorities.
- Identify available courts and select preferred.

Global Damages Evaluation

- ECA in each country; use of EV formula globally to determine damage multiplier and case value
- Tools 1-3 for identified countries of interest
- Cumulative chart answering four questions for patentee/alleged infringer
- Employ 5-factor analysis
- Recommended strategy for patentee/alleged infringer

Early Case Assessment (“ECA”) in U.S. and Globally

- In the U.S., patent litigation is expensive (\$4M through trial) and damages are usually important -> Early Case Assessment (“ECA”) is much more rigorous
- In Rest of World (“ROW”) patent litigation focus is usually on the injunction and damages are usually not as important -> In ROW, ECA is typically MUCH less rigorous.
- In Canada damage awards can be substantial, but are determined in a separate trial.
- In Europe, damages are not usually awarded in court:
 - A. Cases usually settle after a resolution on merits (Confidential)
 - B. Bifurcated countries are somewhat analogous to US Summary Judgment (SJ)
 - C. Damages trials are usually separate and rarely held
- In Asia damages are awarded more frequently but awards are generally very low.
- In BRICS the law of patent damages is not yet well developed.



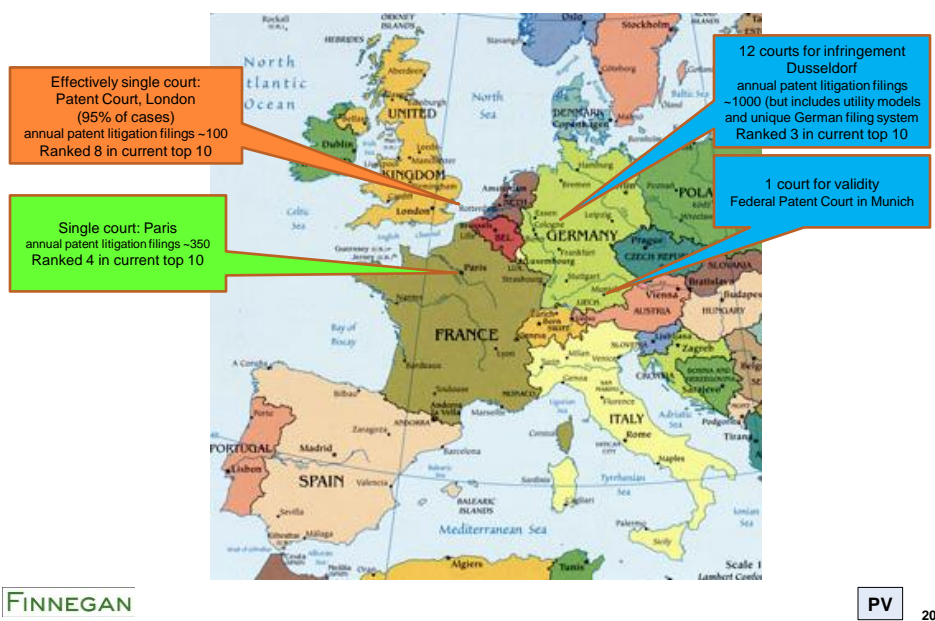
Patent battle in Europe: Microsoft moves its logistic headquarters from Germany to the Netherlands

***“We would have preferred to keep our European distribution center in Germany, but the risk of disruption from Motorola’s patent litigation is simply too high”
Microsoft said***


The New York Times



STRATEGY FOR NET US USING ECA ANALYSIS AS PERFORMED IN EUROPE WITH KEY DATA SLIDES AND GIP INFO




FRENCH COURT STRUCTURE




Cour de Cassation
(legal issues only, does not suspend enforcement of Court of Appeal decision, about 85% of requests for appeal are dismissed))

Court of Appeal of Paris
(rate of appeal 60%)
(de novo, on the merits, enforcement of lower court decision suspended except for provisional measures, about 40 decisions/year,

Tribunal de Grande Instance
Paris only (as of Dec. 1/09)
about 150 decisions/year



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21

High Level Take-Away Points For France

- Unified system: validity/infringement decided in court of first instance. Damages are separate hearing after liability determined.
 - Single court in Paris as of Dec. 1, 2009 (no forum-shopping).
- Patentee Win Rate (2006-2010): 40% (122/308)
- Issue: French courts only operate in French, like German courts in German (some other European courts, e.g., NL, accept exhibits, not pleading, in English)
- Sometime slower than other important European countries (not necessarily so with large, complicated case).

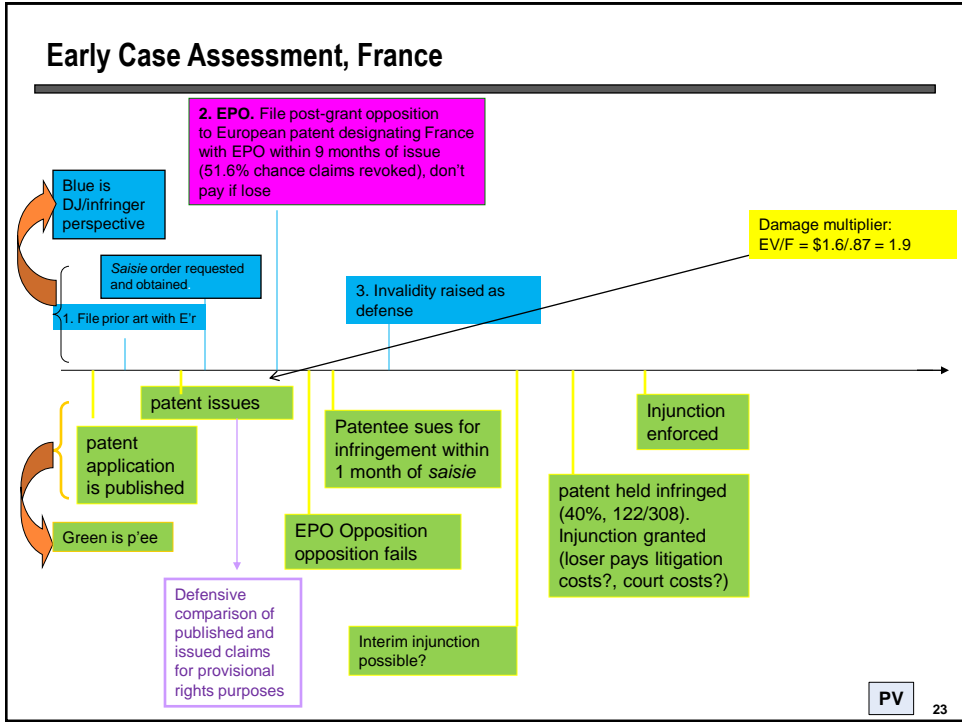


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GERMAN COURT STRUCTURE

→ 12 specialized courts, infringement courts. Most important are (1) Dusseldorf, (2) Mannheim and (3) Munich.

→ **No connection between infringement and validity proceedings.**

→ No nullity defense in infringement proceedings, only request for stay possible.

63% patentee win rate

Federal Patent Court (validity) also in Munich. 57% patentee win rate.

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High Level Take-Away Points For Germany

- Forum-shopping possible with 12 trial courts (*Landgericht*)
 - Not as developed as in US
 - Majority of cases in Dusseldorf (some patentee win rate data available)
 - Mannheim, Munich, and Hamburg gaining in importance

- Appeal possible before 12 *Oberlandesgericht* ; further appeal on points of law before the *Bundesgerichtshof*

- Damages, when tried (about 5%), are tried in a separate hearing from infringement.

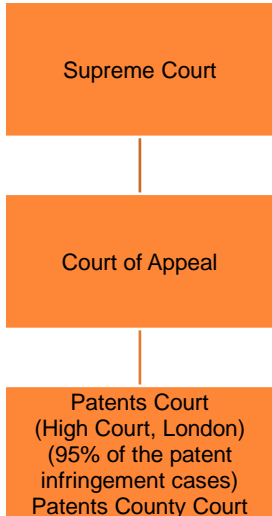
- German filing fees tied to patentee case valuation and are substantial (paid by the plaintiff up front, \$95K for Case Study)

- Issue: German courts only operate in German (some other European courts, e.g., NL, accept exhibits, not pleading, in English)

- Litigation comparatively inexpensive IF WIN (loser pays); However, note that in Germany, 3 separate trials are required if validity, infringement, and damages are contested.

- German privacy laws and manner of “naming” case decisions make German databases unfriendly to search and more difficult to access.

ENGLISH COURT STRUCTURE

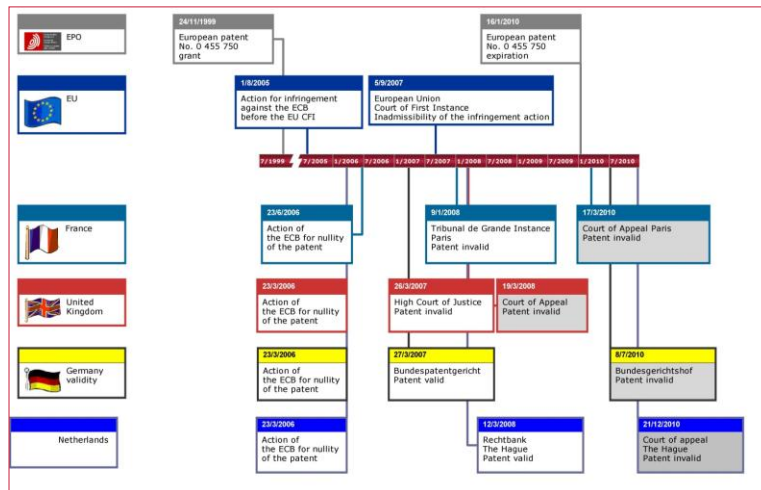


High Level Take-Away Points For England

- Currently very patentee-unfriendly (“revocation capital of Europe”). Consistently low patentee win rate over past 10 years.
- Rarely get to damages trial.
- Relatively expensive, although low filing costs.
 - Loser-pays still an issue.
- Relatively fast with newer expedited procedure.
- Loser pays some winner’s litigation fees.
- 95% of cases heard in London Patents Court (IP-experienced judges); Historically no forum-shopping; new County Court procedure and judge offers alternative for smaller cases.

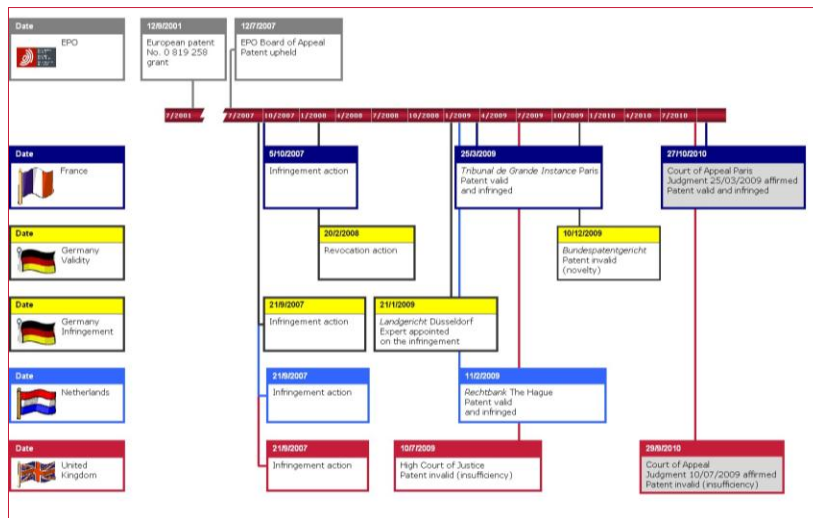
Multi-jurisdictional case 1 (nullity)

ECB v. Document Security Systems, banknotes



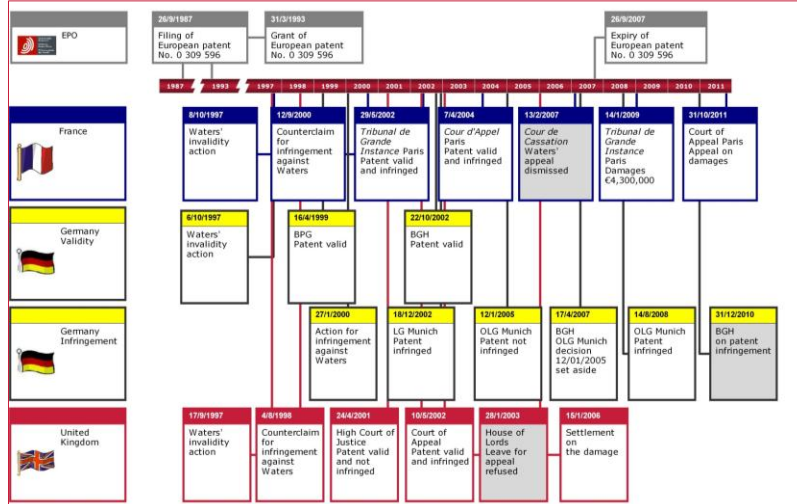
1st instance: UK & DE: 12 mths. - FR: 18 mths. - NL: 24 mths.

Multi-jurisdictional case 2 (infringement) Novartis v. Johnson & Johnson, contact lenses



FR & UK: 36 mths. - NL: 40+ mths. - DE: 40+ mths.

Multi-jurisdictional case 3 (damages) Agilent v. Waters, chromatographs



UK: 9 yrs - FR: 11 yrs - DE: 12 yrs +

EARLY CASE ANALYSIS USING 4 TOOLS TO ANSWER 4 QUESTIONS AND FORMULATE STRATEGY

Forum	Cost?	Time?	% of filed cases going to trial	Patentee win rate?	Damage Multiplier ("DM")	EV _i EV _{inj} EV _{win}
Germany Dusseldorf FPC	\$1M or 0	18 mos	Inf. Cases ≈ 40% ² ; Validity challenges at FPC >50%	63% infringement case win rate, Dusseldorf only (213/340); 57% Fed Pat Ct validity challenge win rate	1.7	\$1.109M
				Pre inj win rate 59% (24/41)	7.5	\$5.007M
France	\$530 K	24 mos	34%	40% (122/308) (2006-10)	1.9 6.9	\$1.486M \$5.982M
England	\$1M	<12 mos	16%	12% (5/43) (2006-10)	1.8	\$2.7M
					2.1	\$3.116M

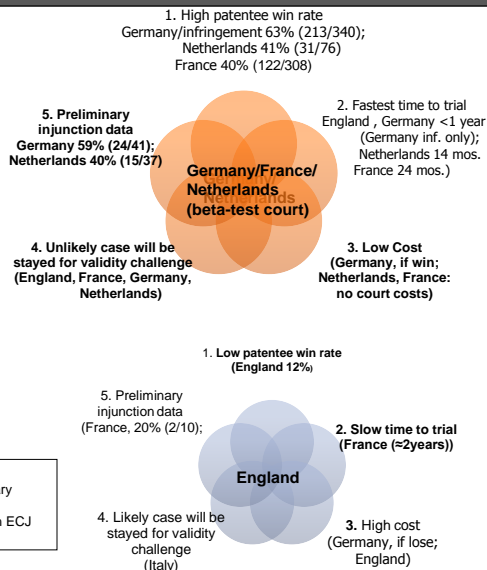
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31

Inter-country Forum-Shopping In Europe Based Upon 5 Objective Factors^{1,2,3}

- Best European court of first instance in which to initiate patent litigation as **patentee**:
Germany (pretty good chance of winning infringement (prelim and perm), and costs paid by other side); France; Netherlands
- Best European court of first instance in which to initiate patent litigation as **alleged infringer**:
England (expensive, but very good chance of winning.)



¹ More limited data than for U.S. (work-in-progress)
² 3rd and 5th factors different from U.S.; costs vary and preliminary injunctions are more frequent.
³ Single European Patent Court dealt blow March 8, 2011, when ECJ said would break EU laws, but seems to be back on track now.

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32

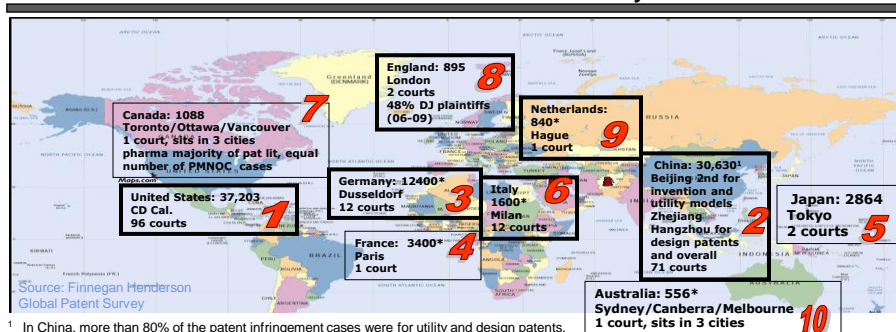
STRATEGY FOR NetUS USING ECA ANALYSIS IN EUROPE

File infringement in the court of the largest markets and reasonable prospect of success:

1. File infringement in most-experienced German trial court: Dusseldorf.
2. File parallel infringement lawsuit against ChinaWireless in France.

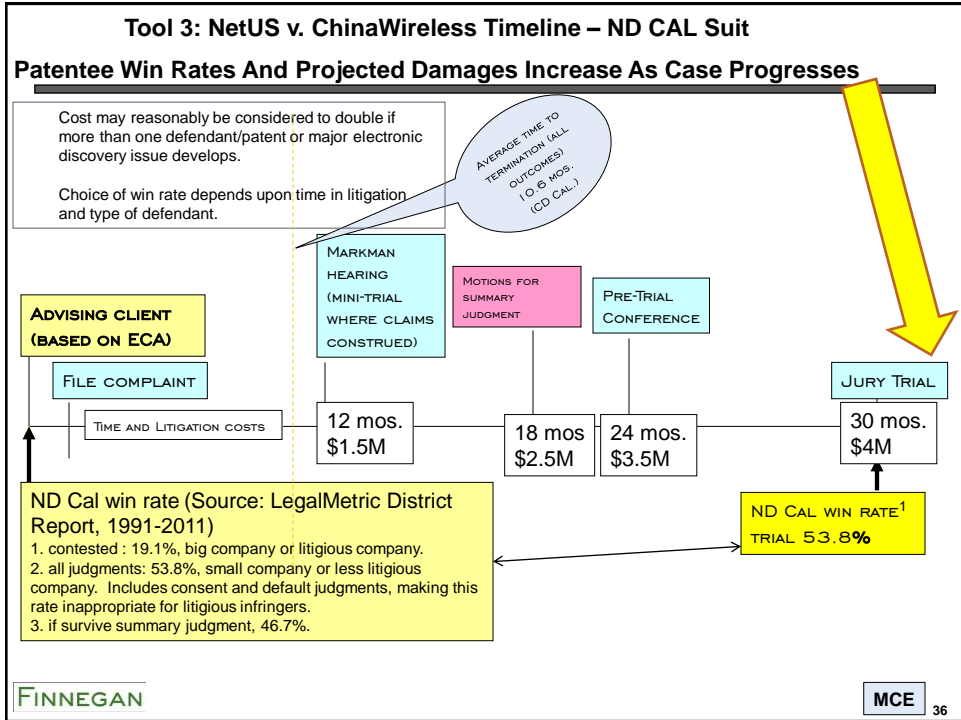
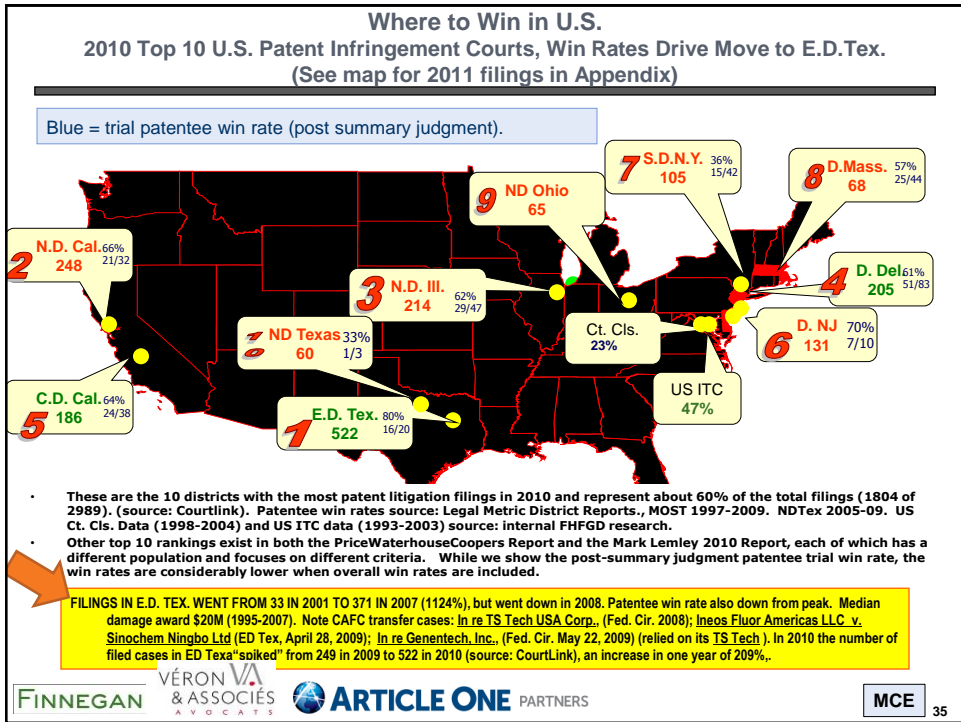
Note: early case assessment is much less rigorous in Europe than it is in the United States.

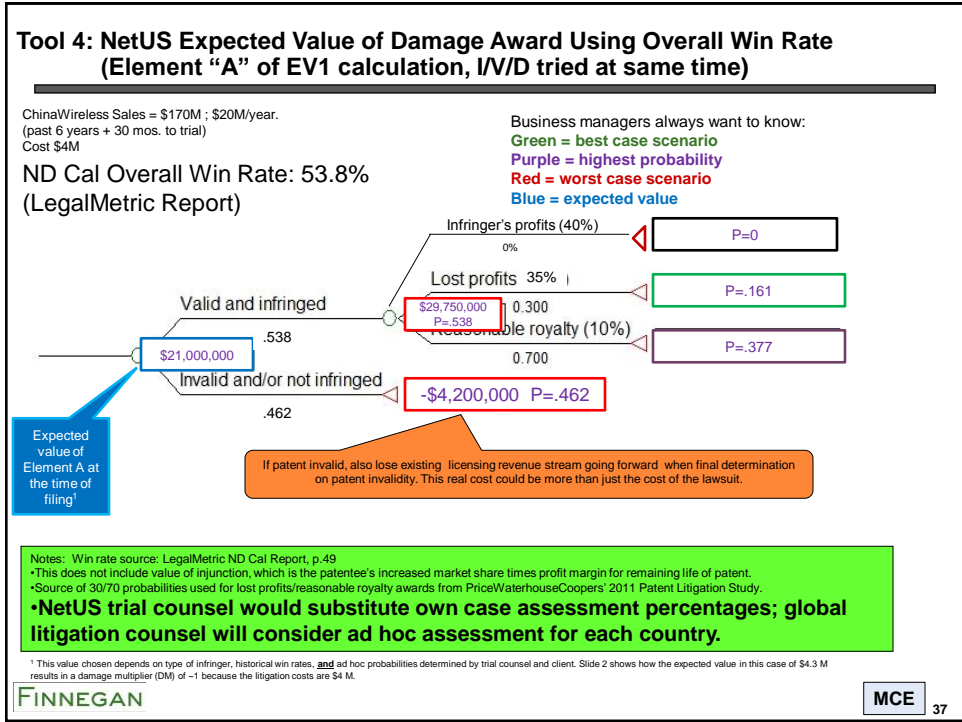
Where To Win And Leverage Best Business Result 10 Most Litigious Countries With # Of Patent Litigation Filings (1997-2010); Most Active Court In Each Country*



* In China, more than 80% of the patent infringement cases were for utility and design patents.

- Estimate or partially estimated/partially hard. Numbers in some countries (e.g. Italy, Germany, China) represent invention patents, utility model, and/or design patent litigations filed. Note that in Germany's most active court, Dusseldorf each patent at issue is assigned a separate case number.
- NOTE, FOR LAST 2 YEARS, TAIWAN, S. KOREA, AND INDIA ENTER THIS TOP 10 LIST, WITH ESTIMATED ANNUAL PATENT INFRINGEMENT LITIGATION FILINGS OF 150-200. ENGLAND, NETHERLANDS, AND AUSTRALIA DROP OFF.
- Europe:
 - Most patentee friendly: Germany; Netherlands; France
 - Least patentee friendly: England (over half of plaintiffs in recent years are alleged infringers).
 - Fastest: England, Netherlands
 - Slowest: Italy, France
- Asia:
 - Most patentee friendly: China
 - Least patentee friendly: Japan, Taiwan (new specialty IP court started July 1, 2008; limited data)
 - Fastest: China
 - Slowest: Japan
- BRICS: Only China in top 10; India





EARLY CASE ANALYSIS USING 4 TOOLS TO ANSWER 4 QUESTIONS AND FORMULATE STRATEGY

Forum	Cost?	Time?	% of filed cases going to trial	Patentee win rate?	Damage Multiplier ("DM")	EV _f EV _{asq} EV _{win}
U.S. ND CAL	\$4.2M	23.6 mos.	2%	Contested win rate 19.1%	1.03	\$4.31M
				Trial win rate 54%	5.02	\$21.1M
				Winning 100%	10.3	\$43.21M
U.S. ED TEX	\$4.2M	25.9 mos.	2%	Contested = 37.8% Trial = 76.9% Winning = 100%	2.96 7.14 9.61	\$12.5M \$30M \$40.4M

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U.S. District Court Forum-shopping: 6 Data Metrics

- Best U.S. district courts in which to initiate patent litigation as **patentee**:

change with new challenge options under AIA

- Best U.S. district courts in which to initiate patent litigation as **alleged infringer**:

Patentee Metrics:

- High trial patentee win rate (MD Fla, **CD Cal**, **ED Tex**, ND Tex, **D Del**)
- Fastest time to trial (ED Va, WD Wis, MD Fla, **D Del**, SD Tex.) (**CD Cal 7th**, ND Cal 13th)
- High damage awards (ED Va, **D Del**, D NJ, **ED Tex**, SD Tex, ND Cal, **CD Cal**)
- Low alleged infringer win rate on summary judgment (D NJ, D RI, WD PA, ED NC, **ED Tex**) (ND Cal 14th, CD Cal, 20th)
- Low rate of granting stay pending reexam (**ED Tex**, D Ariz, D Mass, SD Fla, ED Va)
- High chance of case filed going to trial (**D Del**, **ED Tex**, WD Wis, ED Va, D Mass)

Alleged Infringer Metrics:

- Low trial patentee win rate (**SD Fla**, **D NJ**, **ND Cal**, ND Ill, SD Tex)
- Slow time to trial (D Mass, ND Ill, **ND Cal**, **D NJ**, **SD Fla**)
- Low damage awards (MD Fla, D Minn, ND Tex, **SD Fla**, SDNY)
- High alleged infringer win rate on summary judgment (NDNY, WD Tenn, WDNY, WD Ark, ED Cal)
- High rate of granting stay pending reexam (ND Ohio, **WD Wash**, SD Cal, ND Ga, **D NJ**)
- Low chance of case filed going to trial (D DC, SD Ohio, D Utah, **WD Wash**, ED Wis)

*Source of Number 1: PwC 2011 Litigation Report, Charts 8b and 9c (1995-2010)
 *Source of Number 2: PwC 2011 Litigation Report, Chart 7d (1995-2010)
 *Source of Number 3: PwC 2011 Litigation Report, Chart 8a (1995-2010); Source of Number 4: Legal Metric District Reports; Source of Number 5: LegalMetric Report: Stay Pending Reexam, June 1991-October 2011 (ND Cal 7th 61.8%; CD Cal 1st 53.5%; Source of Number 6: Mark A. Lemley, "Where to File Your Patent Case," 38 AIPLA Q.J., Fall 2010, Table 4 (ND Cal 12th 3.1%, CD Cal 25th 1.5%)

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STRATEGY FOR NET US USING ECA ANALYSIS IN US AND ASIA

- File against ChinaWireless in ED TEX if at all possible.
- If not possible, file in either ND CAL or CD CAL (where transfer not likely) to put pressure on China Wireless.
 - ITC is a less-preferred option here because of the significant past damages in the U.S.
 - If multiple infringers, and market just building out, consider US ITC where speed and high win rates are factors.

MCE 40

High Level Take-Away Points For Japan

- In recent past, Japan has not been a patentee-friendly jurisdiction.
 - Win rate for a patentee is relatively low.
- File a DJ action— DJ win rate very high, but rarely filed.
- Winner can execute decision immediately.
- Only specialized divisions or experienced judges handle patent litigation in both the first and second instances.
- Market size makes it a major player both from a manufacturing perspective and as a consumer market.
- Litigation is expensive and not very fast, but efforts to decrease time to trial.
- Japanese win rate data supports forum-shopping between Tokyo and Osaka
 - Tokyo more patentee-friendly by 10%.
- Cultural bias against conflict; may be a reason for low number of DJ actions; also concern about triggering counter-litigation in U.S. (or elsewhere).
- Double-tracking with JPO validity challenge.

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41

High Level Take-Away Points For China

- Bifurcated system, but no filing costs and attorney cost barriers as in Germany. Both filing costs and awarded fees are low.
- As of 2009, China surpassed U.S. in number of total patent infringement litigations filed per year.
- Three different kinds of patents: invention patents, utility models (“UM’s”), and design patents (“DP’s”). UM’s and DP’s make up 80% of the patent infringement litigation. 20% cases filed for “invention” patents.
- Litigation cost is low and time to decision is short. Average damage award country-wide is less than US\$10K; this will change.
- Forum-shopping is available and win rates vary significantly.
- May face local bias and important cases always include a 3rd lay juror.
- Enforcement of court decision, including a resultant injunction, remains an issue for non-global defendant.

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42

EARLY CASE ANALYSIS USING 4 TOOLS TO ANSWER 4 QUESTIONS AND FORMULATE STRATEGY

Forum	Cost?	Time ?	% of filed cases going to trial	Patentee win rate?	Damage Multiplier ("DM")	EV _f EV _{asj} EV _{win}
China	\$260K	<12 mos.	Inf. Cases ≈ 20% Val. Chall. ≈ 67%	(2007-09) Invention patents 71% (116/163) Design 80% (396/493) Utility models 74% (196/266) 57% invention patent validity challenge patentee win rate (42% design patents; 46% utility models)	155 414	\$42M \$111.761M
Japan	\$600K	16 mos.	26%	22% (44/200) (2006-10)	.8 16.7	\$.560M \$11.636M

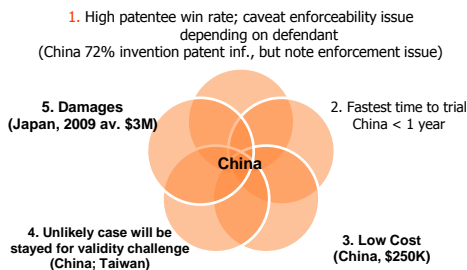
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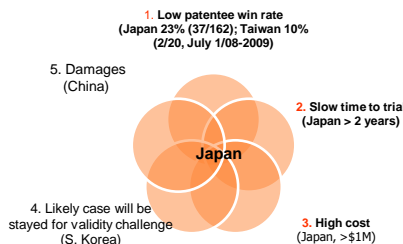
43

Inter-Country Forum-Shopping in Asia Based Upon 5 Objective Factors¹

•Best court of first instance in which to initiate patent litigation as **patentee**:
China, but note possible enforcement issue



•Best court of first instance in which to initiate patent litigation as **alleged infringer**:
Japan and Taiwan²



¹More limited data than for U.S. (work-in-progress)
² See Taiwan slides in Appendix.

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44

STRATEGY FOR NET US USING ECA ANALYSIS IN ASIA

1. File suit against ChinaWireless in China because of relatively low cost and chances for large damages.
 - Select court based on invention patent win rate and manufacturing considerations (avoid local bias).
 - Consider India for the same reasons.
2. Avoid Japan and Taiwan because of low win rates.

GLOBAL STRATEGY FOR NetUS AND WHY

Forum	Cost?	Time?	% of filed cases going to trial	Patentee win rate?	Damage Multiplier ("DM")	$\frac{EV_i}{EV_{inj}} \frac{EV_{inj}}{EV_{win}}$
U.S. NDCAL	\$4.2M	23.6 mos.	2%	Contested win rate 19.1% Trial win rate 54% Winning 100%	1.03 5.02 10.3	\$4.31M \$21.1M \$43.21M
Germany Dusseldorf FPC	\$1M or 0	18 mos.	Inf. Cases = 40% Validity challenges at FPC >50%	63% infringement case win rate, Dusseldorf only (213/340); 57% Fed Pat Ct validity challenge win rate Pre inj win rate 59% (24/41)	1.7 7.5	\$1.109M \$5.007M
France	\$530K	35 mos.	34%	40% (122/308) (2006-10)	1.9 6.9	\$1.486M \$5.982M
England	\$1	<12 mos.	16%	12% (5/43) (2006-10)	1.8 2.1	\$2.7M \$3.116M
China	\$260K	<12 mos.	Inf. Cases = 20% Val. Chall. = 67%	(2007-09) Invention patents 71% (116/163) Design 80% (396/493) Utility models 74% (196/266) 57% invention patent validity challenge patentee win rate (42% design patents; 46% utility models)	155 414	\$42M \$111.761M
Japan	\$600K	16 mos.	26%	22% (44/200) (2006-10)	.8 16.7	\$.560M \$11.636M

EURO STRATEGY FOR CHINA WIRELESS AND WHY

- File an invalidity or DJ action against NetUS in English Patents Court and use historical low win rate to leverage negotiations.
- Prepare nullity action for POSSIBLE filing in Federal Patent Court in Germany.

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47

US AND ASIA STRATEGY FOR CHINA WIRELESS

1. After Sept. 16, 2012, can initiate “first-strike” “stake in the ground” defensive strategy under the new AIA in U.S. with request for inter partes review, especially where cost is an issue (even though AIA proposed fees are very high)(requires careful consideration of estoppel issues).
 - Can be withdrawn.
 - PTAB can approve settlement by parties.
2. File a DJ action in SD FLA or other U.S. low patentee win rate district courts to preempt action by NetUS in high win rate courts.
3. File a DJ action in Osaka and Taiwan and use low win rate to leverage negotiations.
4. Prepare nullity action for POSSIBLE filing in JPO, SIPO, and TIPO. In each country use possible filing for leverage with NetUS and consider settlement ramifications IF the nullity/opposition proceedings can be withdrawn.

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48

GLOBAL STRATEGY FOR CHINA WIRELESS AND WHY

Forum	Cost?	Time?	% of filed cases going to trial	Patentee win rate?	Damage Multiplier ("DM")	EV _{inj} EV _{val} EV _{inj}
U.S. NDCAL	\$4.2M	23.6 mos.	2%	Contested win rate 19.1% Trial win rate 54% Winning 100%	1.03 5.02 10.3	\$4.31M \$21.1M \$43.21M
Germany Dusseldorf FPC	\$1M or 0	18 mos.	Inf. Cases ≈ 40% Validity challenges at FPC >50%	63% infringement case win rate, Dusseldorf only (213/340); 57% Fed Pat Ct validity challenge win rate Pre inj win rate 59% (24/41)	1.7 7.5	\$1.109M \$5.007M
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China	\$260K	<12 mos.	Inf. Cases ≈ 20% Val. Chall. ≈ 67%	(2007-09) Invention patents 71% (116/163) Design 80% (396/493) Utility models 74% (196/266) 57% invention patent validity challenge patentee win rate (42% design patents; 46% utility models)	155 414	\$42M \$11.761M
Japan	\$600K	16 mos.	26%	22% (44/200) (2006-10)	.8 16.7	\$.560M \$11.636M

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49

"First-Strike" Strategy

- **IN THEORY:** no res judicata effect of litigation outcome in one country on litigation outcome in another country (limited collateral estoppel).
- **IN PRACTICE:** leverage power of first litigation outcome to settle disputes globally/other jurisdictions. Clients want to settle conflict globally; exception is pharma.
 - Leverage historical win rate to increase case value.
 - First litigation outcome to settle dispute globally.



Develop patent enforcement strategies ("where sue first") with patentee win rate in mind.

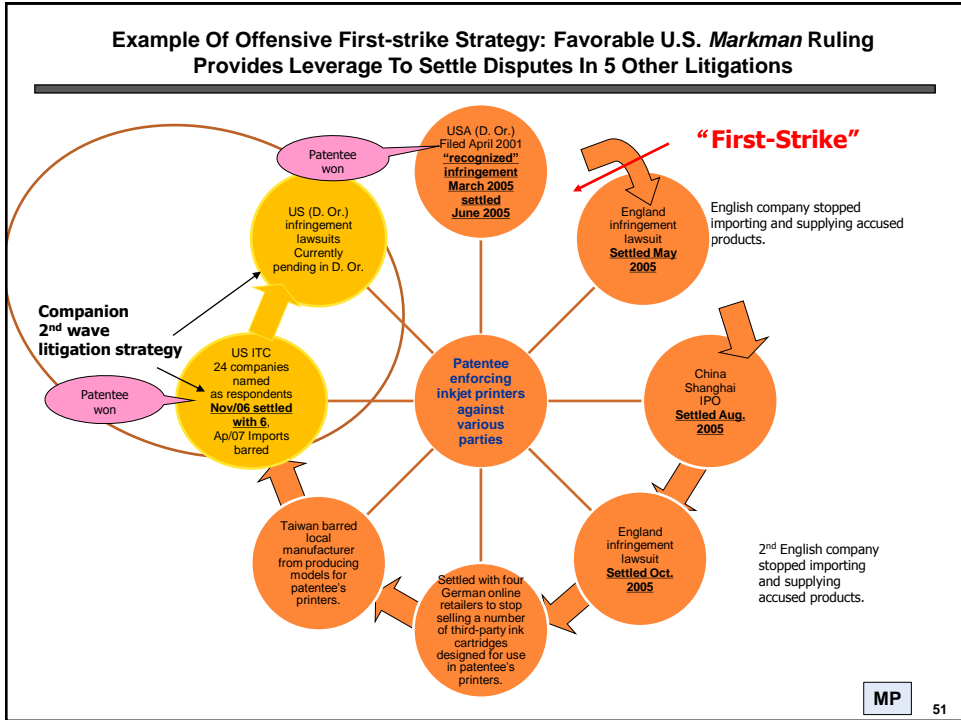
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VÉRON VA
& ASSOCIÉS
AVOCATS

ARTICLE ONE PARTNERS

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50



Q&A

Presenters answer questions with time remaining

Moderator/coordinator to assemble and prioritize chat questions

If no time remaining, presenters will make best efforts to provide written responses to questions received during or after presentation

ALL 52

THANK YOU!



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For copy of Managing IP article "Where to Win," or for further information or data inquiries, please contact *Mike Elmer* at michael.elmer@finnegan.com



Appendix



Win/Lose Rates

- Global Case Study – US Example
 - ND CA Legal Metric Report from 1991-2011
 - Overall Win rate = 53.8%; Contested Win rate = 19.1%

The number of cases, judgments, contested judgments, and trials for this court are shown below.

	Number
Total Cases	2802
Open Cases	204
Closed Cases	2308
Judgments	398
Contested Judgments	225
Trials	50
Bench	15
Jury	35

The overall win rate, contested win rate, and trial win rate for the patentee are shown below. Note that contested win rate does not include consent and default judgments.

	Pat. Win Rate
Overall	53.8
Contested	19.1
Trial	54.0
Bench	26.7
Jury	65.7

Year	Percentage
1991	100
1992	90
1993	70
1994	60
1995	50
1996	55
1997	50
1998	75
1999	50
2000	55
2001	55
2002	55
2003	55
2004	75
2005	45
2006	45
2007	45
2008	35
2009	45
2010	40
2011	55

55

Use Of Damage Multiplier To Assist In ECA

- Damage multiplier ("DM") = EV/F (measure of litigant's risk tolerance).
 - In U.S., for example, $EV_i/F = \$4.31M/\$4.2M = 1.03$ or $EV_i/F = \$21M/\$4.2M = 5$ (depending on whether use contested or overall win rate to calculate EV_i)
- For conservative ECA and DM analysis, use contested win rate.
 - Usually to 1/3-1/2 of overall win rate.
- For more aggressive ECA and DM analysis, use overall win rate.
- Some litigants use reciprocal rule:
 - If $WR = 50\%$ or $1/2$, $DM = 2$ (at least)
 - If $WR = 25\%$ or $1/4$, $DM = 4$ (at least)
- Contingent fee law firms usually have a higher confidential DM.
- EV calculations always take into account trial counsel's assessment of case, which is usually something between EV_i and EV_{asj} . Typically closer to the overall win rate or the ASJ win rate.

56

Global Patent Data History

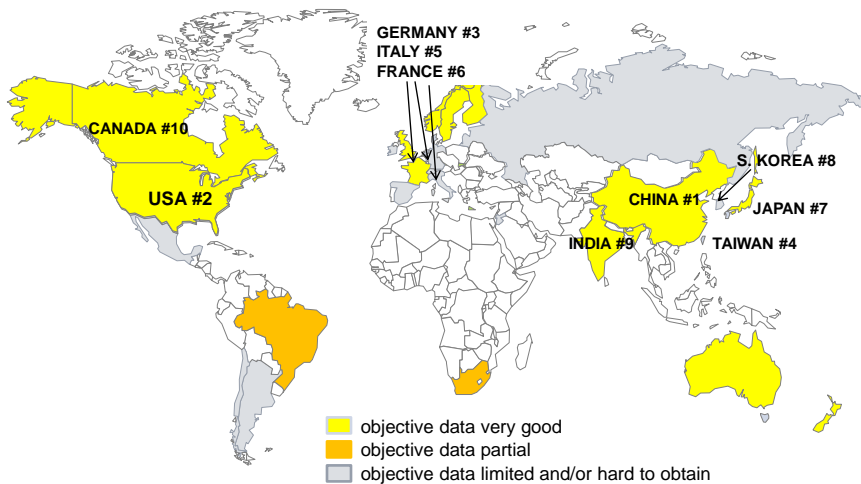
- ❖ 2002: 30-country global data project founded by Michael Elmer of Finnegan (including Pierre Veron from France, who started French patent litigation data collection in 1996)
 - ❖ Patent litigation statistics from 1997 to present
 - ❖ Creation of LegalMetric (US patent litigation database; www.legalmetric.com)
 - ❖ Creation of DARTs-ip European **TRADEMARK** litigation database only; www.darts-ip.com)
- ❖ 2007: PriceWaterhouseCoopers annual U.S. Patent Litigation Damages Study begins
- ❖ 2008: Publication of objective Chinese patent litigation data in English; launch of Lex Machina (US patent litigation database; www.lexmachina.com) and DARTs-ip expands to European patent data. (www.lexmachina.com)
- ❖ 2010: Cover story, Managing IP Fall issue, "Where to Win: Patent-Friendly Courts Revealed," by Michael Elmer and Stacy Lewis
- ❖ 2011: Elmer, Phelps, Veron join advisory board of DARTs-ip, first commercial global database of patent litigation (Europe only to date)



Global IP Project DATA

Countries Ranked By Patent Litigation Filings* 2009-2010

Top 10 Shifts to Asia



*Only countries with hard numbers on patent litigation filings; US, Canada, Japan.



Global Patent Litigation Filings

1997-10			2009-2010		
Rank	Country	total	Rank	Country	total
1	USA	37,203	1	China	8520
2	China	30,630	2	USA	5785
3	Germany	12,400	3	Germany	2750
4	France	3400	4	Taiwan	500
5	Japan	2864	5	Italy	450
6	Italy	1600	6	France	400
7	Canada	1088	7	Japan	375
8	England	895	8	S. Korea	300
9	Netherlands	840	9	India	300
10	Australia	556	10	Canada	148

- Comparing 1997-2010 to 2009-2010
 - China overtakes the US as the number one country for patent litigation filings; however, the number of invention patent infringement cases still lags far behind the U.S.
 - England, Netherlands, and Australia drop off the top 10 list, and the new entrants are S. Korea, Taiwan, India.

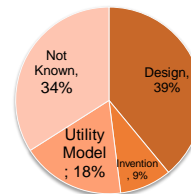
Compare Litigation Just in U.S. and China

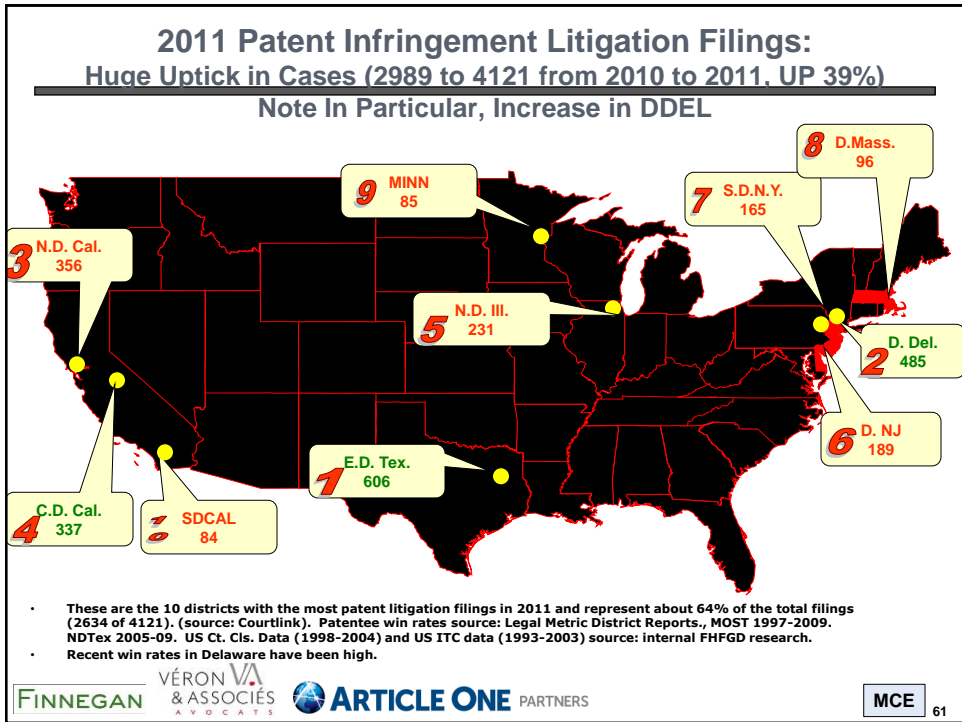
Patent infringement litigation filings	2007-09
China	9584
U.S.	8625

- US: patent litigation filings virtually 100% invention patents.
 - no utility models in U.S.
 - design patent infringement litigation minimal

China: filings still dominated by design and utility models; invention patent filings only 9% of total

Design	Invention	Utility Model	Not Known	Total sample
1452	336	662	1290	3740





Evolution of Damages Globally

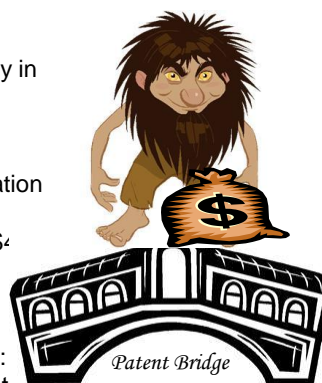
- Patent litigation focus outside the US is usually on the preliminary/permanent injunction and damages are usually not as important -> "ECA" is typically MUCH less rigorous.
- In Europe, damages are not usually awarded in court:
 - France and UK have established damages law, but cases rarely tried.
 - Germany has cases, rules, but cases rarely decided
 - Cases usually settle after a resolution on merits (Confidential)
 - Some bifurcated countries are analogous to US Summary Judgment (SJ); e.g. Germany
- In Asia damages are awarded more frequently.
 - Awards vary from de minimus in China to occasional large awards in Japan and Taiwan
- In BRICS the law of patent damages is not yet well developed; first case in India will be decided this year.

Global IP Project Methodology

- Collect summaries of first-instance final decisions of inter partes patent infringement cases by calendar year from participating countries using a standardized case summary sheet. Started in 2006.
- Calculate patentee win rate for each country by year.
 - A patentee “win” = at least one claim held valid and infringed at court of first instance in a final decision on the merits.
- In “bifurcated” countries, calculate patent infringement litigation patentee win rate and validity challenge patentee win rate.
 - For infringement litigation, a patentee “win” = at least one claim held infringed.
 - For validity challenge, a patentee “win” rate = the claims maintained + ½(at least one claim amended).

How NPE’s (“Patent Trolls”) Have Changed the U.S. Landscape

- A legal entity that buys a patent to sue for damages (Non-practicing entity, “NPE”)*
- Since 2000, 20% of 3000 cases filed annually in U.S. are by NPE’s (usually multi-defendant cases)
- PriceWaterhouseCoopers 2011 Patent Litigation Study: average median damage awards for NPE’s about \$7M (2006-2010, between \$3-\$4 for PE’s . See also, Lemley 2011 article regarding repeat litigants.
- Higher median damages are counterintuitive: Because “Trolls” get no injunction and no lost profits-so?
- How can that be?



**CAFC Chief Judge Rader definition: “any party that attempts to enforce a patent far beyond its actual value or contribution to the prior art.”*

Why are NPE Damage Awards 3X As PE's?

1. PE's inclined to sue competitor early for the injunction because of business drive for increased incremental profits.
2. NPE's inclined to sue only high \$-value targets and perhaps later, when damages are greater and NPE will usually require a higher DM ("damage multiplier")¹ (taking into account lower value of element "B" and laches and estoppel considerations).
3. PE's do not forum-shop to the same extent as NPE's (who are only interested in money damages), and are usually not as concerned about time to trial.
4. PriceWaterhouseCoopers' datasource (2010 Patent Litigation Study; 2011 Report indicates may be 2X larger now). Comparison of 3x does not tell entire story because database of court-ordered damage awards does not take into account element B (value of the injunction). Element B will usually be lower for NPE's, who cannot get LP.
5. Many NPE's represented by contingent fee lawyers, where litigation costs are usually substantially less, and who also have sole damages objective of high \$-value targets.

¹Each PE and NPE will have its own DM depending on its risk tolerance, portfolio value, and availability of other patents, and other factors such as danger of repeated litigation. See Lemley 2011 article, *supra*, with its counter-intuitive win rate results for repeat litigants.

Value of Case – PE vs. NPE

PE's can be awarded lost profits and injunctions

- Expected Value Element A_{inj} = \$33.26M
- Expected Value Element B_{inj} = \$13.83M
- Expected Value Element D_{inj} = .09M
- **Expected Value with Injunction (EV_{inj}) = \$4.31M**

NPE's can only be awarded reasonable royalties

- Expected Value Element A_{rr} = \$17.2M
- Expected Value Element B_{rr} = \$4.4M
- Expected Value Element D_{rr} = \$.05M
- **Expected Value with Reasonable Royalties (EV_{rr}) = \$-.56M**

Historical data exists showing the different win rates for PEs and NPEs. Price WaterhouseCoopers Patent Litigation Study 2011. This is not taken into account here. This slide illustrates how the PwC PE v. NPE damage comparisons **DO NOT** take into account value of injunction.

Before AIA, USPTO Reexam Could Derail Patent Damages Claim



- Stays discretionary with court.
- Reexam relatively less expensive option than litigation.
- Could be anonymous (file ex parte)
- District court different “stay rates.”
- Forum-shopping took this data metric into account.
 - See comparison of ND CAL and CD CAL on slide 52.

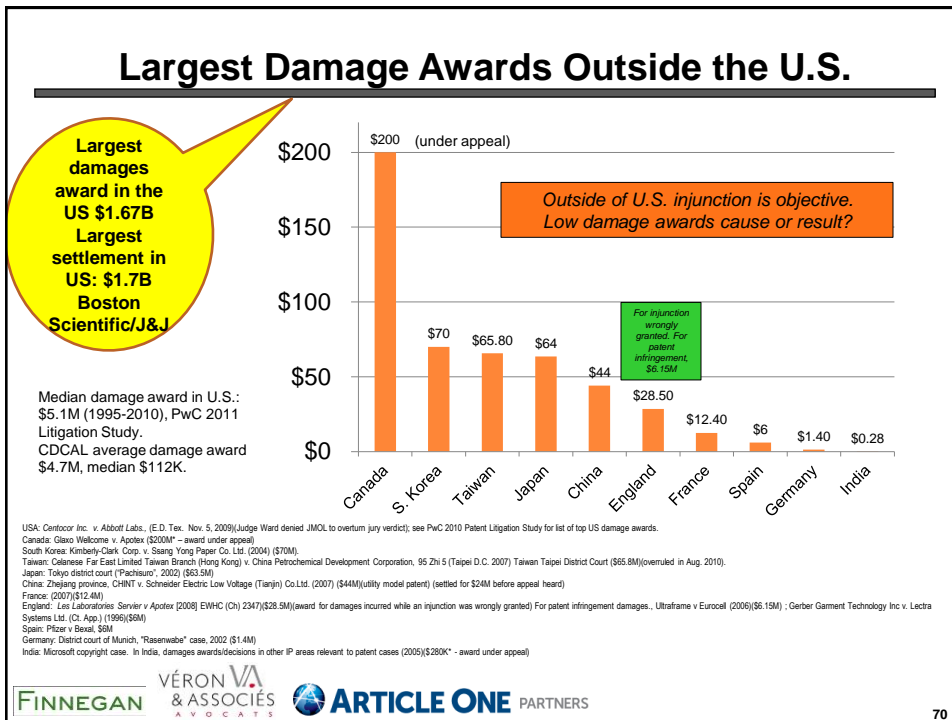
New Frontier Will Influence First-Strike Decisions

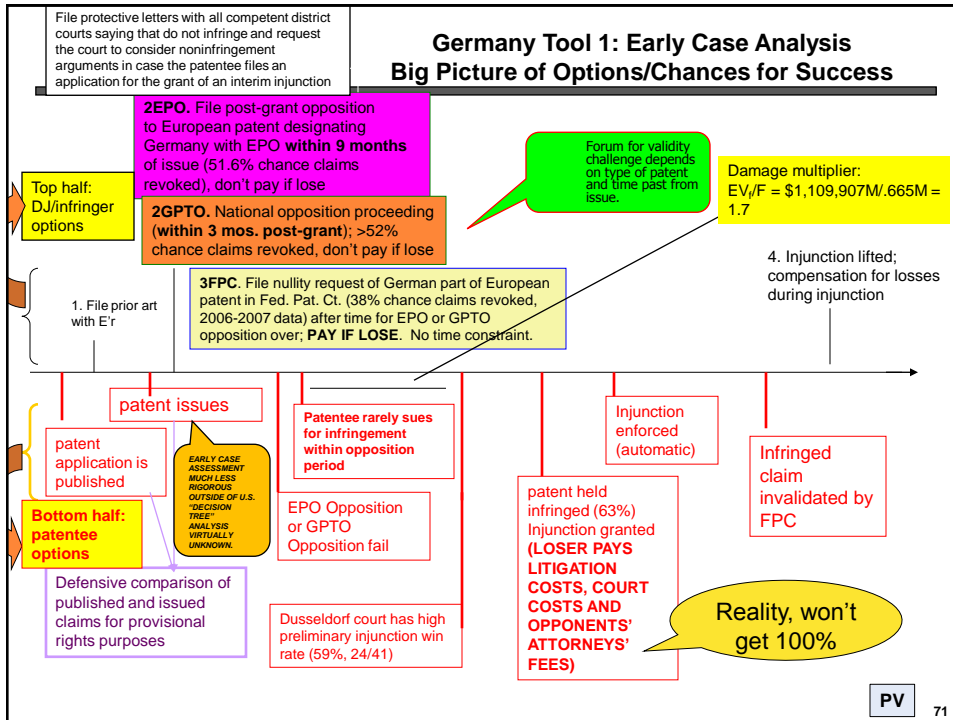
- AIA changed ground rules.
- Validity challenge options as of Sept. 16, 2012:
 - pre-issuance submissions (art plus arguments)
 - ex parte reexamination
 - post-grant review (within 9 months of issuance)
 - for claims with effective filing date on or after March 16, 2013
 - inter partes review options (after 9 months of issuance)
- Proposed fees VERY high!
- PGR/IPR: real party in interest identified, estoppel (“raised or reasonably could have raised”), automatic stay provisions, heard by PTAB (100s of new judges being hired)
 - Fundamental workings of reexamination could change.
- Will have to see final rules and how new processes evolve.

Challenge Options Before and After AIA

	Preissuance Submissions	Ex Parte Reexam	Inter Partes Reexam	Post-Grant Review	Inter Partes Review
When?	Limited time before allowance	After grant	After grant (until Sept. 15, 2012, then replaced by inter partes review)	No more than 9 months after grant (Sept. 16, 2013, but of a patent with an effective filing date of the claimed invention on or after March 16, 2013)	After 9 months from grant (Sept. 16, 2012, replaces inter partes reexam)
Threshold Showing	N/A	SNQP	"reasonable likelihood that the petitioner would prevail" (as of Sept. 16/11)	"more likely than not that at least 1 of the claims challenged in the petition is unpatentable" or important novel/unsettled legal question	Reasonable likelihood of success
Anonymity	Yes	Yes	No	No	No
Estoppel	None	None	Issues raised or could have been raised	Issues raised or reasonably could have been raised by the petitioner ; PTO, district court, and ITC	Issues raised or reasonably could have been raised by the petitioner ; PTO, district court, and ITC
Before Whom?	Examiner	CRU	CRU	Patent Trial and Appeal Board	Patent Trial and Appeal Board
Discovery/ Evidence?	N/A	Declaration	Declaration	Declaration and discovery	Declaration and discovery
Speed within PTO	Case dependent	Possibly Many Years	Possibly Many Years	1 to 1½ years	1 to 1½ years
Appeal	Only patentee can appeal to Board and then Federal Circuit	Only patentee can appeal to Board and then Federal Circuit	Both parties can appeal to Board and then Federal Circuit	Both parties can appeal to Federal Circuit	Both parties can appeal to Federal Circuit
Settle		No	No	Yes	Yes



69





Overall Calculation – US Example

EV = Win Rate x (A+B+C+D) – Lose Rate x (E) – F

- EV=Expected Value
- Win Rate=19.1%
- A=\$33.26M
- B=\$13.83M
- C=\$.23M
- D=\$.09M
- Lose Rate= 81.9%
- E=\$.66M
- F=\$4.2M

EV = \$4.31M

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Increasing Value of Case

Expected Value at the time of filing (EV_f):

-contested win rate most appropriate for a larger company likely to contest

Contested Win Rate 19.1% => $EV_f = \$4.31M$

-overall win rate most appropriate for smaller companies who may settle early or submit to a consent judgment

Overall Win Rate 53.8% => $EV_f = \$21.0M$

Expected Value after summary judgment (EV_{asj})

-trial win rate is most appropriate

Trial Win Rate 54.0% => $EV_{asj} = \$21.1M$

Expected Value of winning judgment (EV_w)

- 100% win rate is appropriate

Winning win rate 100%=> $EV_w = \$43.21M$

France Calculation (Using Data Points from Slide 12)

$$EV = \text{Win Rate} \times (A+B+C+D) - \text{Lose Rate} \times (E) - F$$

EV_f =Expected Value at time of filing

Win Rate= 40%

A=\$3.598M

B=\$2.604M

C=\$.433M

D=\$.213M

Lose Rate= 60%

E=\$.387M

F=\$.866M

$EV_f = \$1.641M$

DM:
 $EV_f/F =$
 $\$1.641/.866 = 1.9$

France Calculation

$$EV = \text{Win Rate} \times (A+B+C+D) - \text{Lose Rate} \times (E) - F$$

EV=Expected Value

Win Rate= 100%

A=\$3.598M

B=\$2.604M

C=\$.433M

D=\$.213M

Lose Rate= 0%

E=\$.387M

F=\$.866M

$$EV_{\text{win}} = \$5,982,000$$

$$\text{DM: } EV_{\text{win}}/\text{costs} = \\ \$5.98/.866 = 6.9$$

Germany Calculation

$$EV = \text{Win Rate} \times (A+B+C+D) - \text{Lose Rate} \times (E) - F$$

EV_f=Expected Value at time of filing (conservative ECA valuation taking into account win rate, in this case, overall win rate)

Win Rate= 35.91% (combination of validity and infringement win rates)

A=\$3,509,459

B=\$1,653,310

C=\$457,500

D=\$52,642

Lose Rate= 64.09%

E=\$409,167

F=\$665,000

$$EV_f = \$1,109,907$$

$$\text{Damage multiplier: } \\ EV_f/F = \\ \$1,109,907M/.665M = 1.7$$

Germany Calculation

$$EV = \text{Win Rate} \times (A+B+C+D) - \text{Lose Rate} \times (E) - F$$

EV_{win} = Expected Value at win, assumes probability of success to be 1.

Win Rate = 100%

A = \$3,509,459

B = \$1,653,310

C = \$457,500

D = \$52,642

Lose Rate = 0%

E = \$409,167

F = \$665,000

$$EV_{\text{win}} = \$5,007,911$$

Damage multiplier:
 $EV_{\text{win}}/F =$
 $\$5,007,911 / \$665,000 = 7.5$

England Calculation

$$EV = \text{Win Rate} \times (A+B+C+D) - \text{Lose Rate} \times (E) - F$$

EV_f = Expected Value at time of filing

Win Rate = 18%

A = \$2.944M

B = \$.429M

C = \$1.125M

D = \$117,740

Lose Rate = 82%

E = \$2,445,833

F = \$1,500,000

$$EV_f = (2,674,884)$$

$EV_f/F =$
 DM: $\$2.7 / \$1.5 = 1.8$

England Calculation

$$EV = \text{Win Rate} \times (A+B+C+D) - \text{Lose Rate} \times (E) - F$$

EV=Expected Value

Win Rate=100%

A=\$2.944M

B=\$.429M

C=\$1.125M

D=\$117,740

Lose Rate= 0%

E=\$2,445,833

F=\$1,500,000

$$EV_{\text{win}} = \$3,116,000$$

$$EV_{\text{win}}/F = \\ DM: \$3.116/\$1.5 = 2.1$$

Japan Calculation

$$EV = \text{Win Rate} \times (A+B+C+D) - \text{Lose Rate} \times (E) - F$$

EV_f=Expected Value at time of filing

Win Rate=12% (overall win rate incorporating invalidity and noninfringement rates)

A=\$8.136M

B=\$3.820M

C=\$.070M

D=\$.305M

Lose Rate= 88%

E=\$.270M

F=\$.695M

$$EV_f = \$560,000$$

$$DM: \\ EV_f/\text{costs} = \\ \$.560M/\$.695 = .8$$

Note: infringement litigation filing costs are substantial. For this case, \$35K.

Japan Calculation

$$EV = \text{Win Rate} \times (A+B+C+D) - \text{Lose Rate} \times (E) - F$$

EV_{win} = Expected Value

Win Rate = 100%

A = \$8.136M

B = \$3.820M

C = \$.070M

D = \$.305M

Lose Rate = 0%

E = \$.270M

F = \$.695M

$EV_{\text{win}} = \$11,636,000$

DM:
 $EV_{\text{win}}/\text{costs} =$
 $\$11,636,000M/\$.695$
 $= 16.7$

Note: infringement litigation filing costs are substantial. For this case, \$35K.

Example: China

Win Rate = 40%*; Lose rate = 60%

Element A = \$31.8M

Element B = \$80.23M

Element C = \$0.001M

Element D = \$0

Element E = \$4.24M

Element F = \$.27M

* This is a combined win rate for both validity and infringement, as required by the assumptions of the case study. If, in a given case, only one issue were litigated, the win rate for only that forum should be used.

Patentee must choose damage theory (infringer's profits, reasonable royalty, or statutory damages); based on restitution, not punitive damages. If court were to award infringer's profits, award would be higher (as the infringer has a 40% profit and the patentee only a 35% profit).

Value of case determined by sales in China assuming 12 months to trial (validity action running simultaneously; assume infringement action is not stayed).

$EV_f = \$42.0M$

DM:
 $EV_f/F =$
 $\$42/.27 = 155$

Example: China

Win Rate = 100%; Lose rate = 0%

Element A = \$31.8M

Damage multiplier,
 $EV_{win}/costs =$
 $\$111.761M/\$.27M = 414$

Element B = \$80.23M

* Reality check – highest
damage award to date in
China is \$44M. Therefore,
the theoretical EV may need
to be adjusted.

Element C = \$0.001M

Element D = \$0

Element E = \$4.24M

Element F = \$.27M

$EV_{win} = \$111,761,000^*$



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83