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Protecting Innovative Technology: Global Patent Strategies: The Big Picture - The Enforcement of United States and Canadian Intellectual Property Rights in North America and Globally

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UNITED STATES SPEAKER

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While Kelly is pulling out my presentations so I don't have to look over his shoulder, at the risk of being presumptuous, so I can see some of these bigger slides, because this is a conference on innovation, I would like to tell you how I got involved in this global litigation. I feel like my perspective – I have been in the same firm – I am a dinosaur – I have been in the same firm for 34 years, and for the first over 25 years of my practice at Finnegan Henderson, I was exclusively focused on the United States. I thought it was simply a question of where in the United States did you sue. First day I walked in the office at Finnegan, Henderson, Farabow, one of my partners with whom I worked for the same number of years now said one of our clients, a steel company, a specialty steel manufacturer not that far from here, Crucible Steel Company, was sued in a declaratory judgment action in the Southern District of New York.[51] And my first job when I walked in the offices was to figure out where we should try to transfer that case so we would have a greater chance for success. Well, not surprisingly, I thought Pittsburgh would be a pretty good place. So we tried to move the case from the Southern District of New York to Pittsburgh, Pennsylvania. That was 30 years ago. Back then, there were no jury trials in U.S. cases.[52] I wasn't sure why because I had come out of the Army where I was a prosecutor, not a patent prosecutor, I prosecuted criminal cases, and I thought, gee, patent cases should go to juries. Now they do. And you will see in a little bit how that changed the landscape and how it has changed the win rates. Had the company that sued Cru-

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[51] *Mosley v. Crucible Steel Co.*, 42 A.D. 2d 653 (N.Y.S.2d 1973).

[52] *See, e.g., Blonder-Tongue Lab v. University of Ill. Found.*, 402 U.S. 313, 336 n. 30 (1971) (reporting that 13 of 382 patent suits were decided by juries in the period 1968 – 1970).

cible 30 years ago in the United States to try and have the patents declared infringed, known then what I know now from this global win rate data that I developed, I don't think they would have sued us in the United States. I think they would have sued us in the UK, which they could have done, but that was then and this is now.

I no longer think the world is flat. I think more globally, and in 2001, my world changed really, where my focus was exclusively on the United States. Two things happened: A client came to me, a German client that had a new innovative laser technology. It was in 2001. They wanted to bring that technology into the United States. At that time, the U.S. market was occupied by three big companies who had 95 percent of the market, and when our client had asked them for a license, and they all had sizable patent portfolios, they said not only no but hell no. So the client came, and they were two years away from getting someone – it may have been Mark, I am not sure who made reference to FDA approval taking a long time – well, they were two years away from getting their product approved before the FDA. And the German general counsel came to me and said, "I would like to have you figure out a global strategy for how we can get our product, our new innovation into the United States." I said, "I can tell you what you can't do. You can't afford to litigate in the United States." They weren't a startup company, but they weren't a fully funded big time company, and the companies that they would have had to go against to my way of thinking were. It didn't make a difference whether they had a good case or bad case. I said you can't afford to litigate in the United States, not necessarily because you don't have a good case, but you don't have the resources. You don't have the manpower. What these big companies are going to do, they are going to file a district court action against you, and they are going to file a companion ITC. There is this court – I know I am not talking to exclusively lawyers here, and I apologize for that – but there is something called the International Trade Commission in Washington, D.C., and I felt that in the face of this potential litigation there was no way that this client could try to bring their technology in. So the German general counsel asked me, "What do we do?" I said, well, I think we sue in your backyard. I think we sue in Germany, and I think we bring a declaratory judgment action in Dusseldorf. He asked me a question that changed my life. He said, "Do you have any basis for that? Do you have any statistics, or do you have anything to support that decision?" I said, "No. It is pure intuition," but I said, "I know what I am talking about in the United States." Well, we were fortunate with the strategy that we followed. We got the product in the United States. Their market share is now increasing. The strategy was fortunately successful, but had I known at the time what I now know with the win rate data that I am going to show you, I don't think I would have recommended that we bring that declaratory judgment action, asking that the patents be declared invalid in Germany. I would have brought

it in the UK, and I will try and show you some of the statistics that support that.

As a result of that meeting – and one other thing: I guess it was in the fall of 2001, one other thing happened to me. I went to China for the first time. I had never been to China. I couldn't believe the size of the buildings, and I couldn't believe how the infrastructure had built out, and it changed my world. I just started thinking about things there are different, and they are. So I started developing a project where I found the firm of Gowling and Henderson. I didn't know Kelly at this time, but I was working with one of his partners, Gary O'Neill, trying to find good litigating firms in what I thought were the 30 most IP rich countries in the world. And I wanted to find out what the success rate was or what the win rate was for patent infringement cases in those jurisdictions so we could formulate intelligent decisions on where to file and why. So that started beyond this project, and I have been swallowed up in it ever since, and I have been having a bunch of fun with it. And I think, most importantly, substantively, it helped us formulate strategies. The win rate data I will show you is useful.

Kelly was showing where countries are filing applications. I thought it was kind of interesting, and I was trying to compare, as he was showing the top ten filers in the United States, with the countries that I found are the ten most patent litigious countries in the world, and with two exceptions, they were the same, which I thought was kind of interesting. But I think your win rate data is helpful for companies to determine where they want to innovate or where they want to protect their innovative technology because you don't want to file in countries if patents aren't being litigated and if they are not being successfully litigated because, otherwise, you are wasting a lot of time and money. Litigation is very expensive. So the win rate data is helpful for three things. It helps you determine where you should pursue your protection. It helps you determine where you are going to file your suit and why, and I will show you with some of the statistics Kelly was saying in Canada only ten percent of the cases go to trial that are filed, and he was saying that the factor of difference between the United States and the UK or United States and Canada is ten. Well, if there are 100 cases a year filed in Canada, there are about 3,000 a year that are filed in the United States.[53] So that's a factor of 30, but whereas ten percent of the cases go to trial in Canada, according to those numbers, less than four percent of the cases filed in the United States go to trial.

So to me, I have developed a strategy that I call the first strike strategy. You want to bring your first strike, whether you are a plaintiff, patentee

[53] *See generally* Industry Canada, Canada: North America's Choice Location for Chemical Production, http://www.wintranslation.com/samples/CanadianFrench01s_smith.pdf (Describing how US tort litigation costs are well under half the US rate).

owner, or whether you are the defendant alleged infringer. You want to bring your litigation in the country where you are going to have the greatest chance for success. Why? Because if you are winning the litigation and if you have the leverage of historical win rate data on your side your case is going to get settled, which is going to happen in 96 percent of the cases in the United States, because they are not going to trial, because they are very expensive.[54]

And it was Marshall Phelps, he was the formulator of the patent policy at IBM; he is now with Microsoft.[55] I was on a panel with him one time, and he said something I will never forget: he said a patent litigation in the United States is like a random walk through life. When you take a case to a jury – I don't know if I would say that if I were the head of Microsoft because I think that encourages litigation – you are basically saying you have got a 50-50 chance of prevailing. But with the data I tried to develop, this first strike strategy and to my way of thinking, it is extremely important. I mentioned the Crucible case 30 years ago, the first case I worked on. Having this data back then, the plaintiff that sued us in the Southern District of New York sure as hell would have brought that case in the UK because where they have about a 33 percent chance of prevailing in the United States, if the win rate in the UK is 25 percent for the patentees, the inverse is true for the alleged infringer. It is a 75 percent chance win rate.

Now, while the landscape has changed over the 30 years, plus years I have been practicing law, there are four questions that have remained the same. There are only four things that a businessman wants to know: How much is my case going to cost? How long is it going to take? What are my chances for success? And what am I going to get? He usually says on a scale of 1 to 10, Mr. Elmer, what are our chances of winning this thing, because we are going to pay a bunch of money for it? So I have created three tools, and I am not going to go into all of the slides, but I would like to show you and give you an overview of the methodology that I use to try and determine where to bring a case under a given set of facts. I have three tools: One is the global database of information, and it is the win rate data; secondly, a businessman wants to know how much and how long, and he is not interested in a real long lawyerly like answer about what's going to happen, so I have created a template. That's a second tool where you try and show the businessman how much it will cost and how long it will take. The third tool I have is a decision tree. If any of you are interested, I could send you the power point,

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[54] *See generally* Michael Albert & Ilan Barzilay, *Is Patent Litigation Worth the Headaches?*, MASS HIGH TECH, Sept. 29, 2006, *available at http://masshightech.bizjournals.com/masshightech/stories/2006/10/02/focus4.html* (stating that the percent of patent cases in the US that actually go to trial is only 3.6%).

[55] *See generally* Marshall Phelps: Corporate Vice President and Deputy General Counsel, Intellectual Property, Microsoft, http://www.microsoft.com/presspass/exec/mphelps/default.mspx (Documenting the career of Marshall Phelps from IBM to Microsoft).

or I think there are handouts here. It looks complicated but as IT challenged as I am, if I can do this, you can do it, and you can clearly understand it. It looks more complicated than it is.

These are the ten most litigious countries. Kelly had the ten top filers in the United States, and on that slide were Italy and Sweden. I was sort of surprised that they are in the top ten. Well, when I did my survey, I looked at the number of patent litigations that are filed around the world. I had never seen this data before. I had no idea what it was going to turn up. Not surprisingly, the United States is number one, most litigious country in the world until two years ago.[56] You would be shocked to know that the most litigious patent infringement active country in the world is now China as of 2003.[57] I was shocked to learn that. A lot of people say, well, so what. You bring litigation in China, and you can't enforce the litigation, and that's not true, and I will show you why in a little bit. Number ten, that's Canada.[58] They are number ten on the list filing about 100 cases a year.[59] What shocked me was China. When I saw that data, I was just flabbergasted; I was sure that it would be Germany. Number three is Germany.[60] Number four is France,[61] I think, for different reasons. Well, of what importance is this information? It tells me that's where patents are being litigated. So if I have a client who has a product, that's where I want to file to protect my patent rights.

Here is the win rate chart, which I think is sort of the tip of the iceberg, it is really the results of the analysis. The win rate in the United States shows 60 percent.[62] That's unrealistically low because that's over a 25-year time period, and that accumulates the win rates for both bench trials, which is what lawyers say for trial by judge alone or jury trials. And now every case is going to a jury in the United States because it is a random walk through life in many respects. Jurors, I hate to say this, but sometimes have no idea of what the case is all about, and it is a question of how the case is packaged. The win rate really should be more like 67 percent.[63] What I think – what

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[56] *See* Urvasi Naidoo & Neil Sarin, *Dispute Resolution at Games Time*, 12 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 489, 519 (2002) (Describing how the US had the reputation of being the most litigious society in the world at the time of publication).

[57] See generally Tony Chen & Helen Cheng, China: How to Product Pharmaceutical Products in China Without a Patent, JONES DAY COMMENTARIES, Apr. 20, 2006, available at http://www.jonesday.com/pubs/pubs_detail.aspx?pubID=S3291 (Explaining that China surpassed the United States as the most litigious country for intellectual property disputes in 2005).

[58] Gary O'Neil & Michael Elmer, The Reality of Global Patent Litigation, Ottawa, Can. (Mar. 2004) *available at* http://www.ocri.ca/events/presentations/45th/ONeil45.htm.

[59] *Id.*

[60] *Id.*

[61] *Id.*

[62] *Id.*

[63] *See, e.g.*, Deborah M. Altman, *Defining the Role of the Jury in Patent Litigation: The*

was shocking to me on this chart was that the win rates in the UK, in Japan, and in Korea are 20 percent.[64] You have a one in five chance of prevailing in a patent infringement case. Well, that's not very good and Richard Price, who is the UK lead litigator from Taylor Vesting, a firm that participated in the survey, he was all upset with me. He said this is terrible. Nobody is going to want to bring patent infringement cases in the UK. I said I disagree. First of all, we are good lawyers. We are trying to formulate global strategies. We have to know this information to make intelligent decisions, but more than that, there is one statistic I know for sure and don't have to take a survey on, and that is that 50 percent of all litigants are defendants. So if that's a bad forum for the plaintiffs, it is a good forum for the defendants.

And that is something you need to know, and at least in our firm, we are changing our practices. It is no longer a question of where in the United States you sue. It is a question of where in the world do you provoke your dispute to get the best result, and you use this first strike leverage to get yourself in a position to get the resolution you want.

This is a case study, ADSL, means Asynchronous Digital Service Line. I created a hypothetical, and it is actually – it was a real case, and there is real market data, and with this, this is the second tool. I tried to use that hypothetical with actual market data. We sent it to all of the 30 most IP rich countries around the world, and we get the answers to those four questions, how much, how long. This is tool No. 2. Tool No. 2 is a template, and with this, I am trying to answer the businessman's question of how much does it cost and how long does it take?

Well, if this case were brought in the Eastern District of Texas, it would take three and-a-half million dollars to get there at the trial level only, and it would take about 20 months. Now, why do I show the Eastern District of Texas? The win rate there over the last ten years has been 83 percent.[65] So if you are going to file in the United States, if you can shoehorn your case into the Eastern District of Pennsylvania, you want to hightail it there as quickly as you can. I have showed this dotted line. The statistical data in our study shows that the average patent case gets resolved after 13.6 months.[66] There are a lot of reasons for that, but we are not going to go into that.

Here is the big picture of high-level data with sort of high-level statistics in the United States. If you just want to look at the macroscopic level, you

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Court Takes Inventory, 35 DUQ. L. REV. 699, 699 (1997) (Describing the complexity of modern patent litigation and how the issues in a given patent lawsuit might be far beyond the grasp of the ordinary individual).

[64] *Id.* at 65.

[65] *See generally* Julie Creswell, *So Small a Town, So Many Patent Suits*, N.Y. TIMES, Sept. 24, 2006, at § 3 (Money and Business), at 1 (Describing how patent holders win more than a quarter of a time in the Eastern District of Texas).

[66] *Id.* at 65.

have got 3,000 cases a year, about 30 times the number of cases that are filed per year in Canada,[67] not a factor of ten. Instead of the ten percent that go to trial, there are about 3.6 percent that go to trial,[68] as I mentioned earlier. When I learned that statistic about five years ago, it changed the way I think because that means that 96 percent of the cases are going to get settled, and you want to put yourself into a first strike leverage position where you can get the case settled. You do that by bringing your litigation where you have the greatest chance for success.

There is the 67 percent jury trial figure,[69] which I think is the realistic figure in the United States today, because if you are a patentee, you are going to ask for a jury, and if you are a defendant who is trying to pick a more friendly forum, you are not going to ask for a jury, but the defendant can ask for it anyway, and he is the patentee. So you are going to end up with a jury in almost all cases today, very few cases is that not the case. I mentioned the Eastern District of Texas win rate, the most active in the United States, and for purposes of our template tool where we tried to compare the times and costs for the different countries of the world. In each country, we picked the most active patent infringement court, which in the United States is the Central District of California.[70] This is a relatively new statistic for me. I have never had this on the chart before, and this is not my data, but I came across this in another study. There are 14 percent of the cases filed in the United States that are brought not by the patentee but by the alleged infringer[71] who is trying to get the first strike so he can pick a forum more friendly to him and or her, and in that case, the win rate is 50 percent.[72]

This is a chart where I tried to explain how you use this decision tree, which is my next tool. This is tool number three in the methodology. Remember the businessman wants to know how long is my case going to take? What's it going to cost me? Template tool number two explains that. This is tool number three, and I don't know if you can see this from where you are, and I don't have my glasses on so I am at a total loss here, but I know what this chart shows. Basically, this is using some Triage software, which is

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[67] *See, e.g.*, Invest in Canada, Cost Advantages, http://www.investincanada.gc.ca/en/922/Cost_Advantage.html (last visited Oct. 15, 2006) (describing how less litigation leads to lower legal costs which, in turn, makes Canada's chemical sector more competitive than the US).

[68] *See* Michael Albert & Ilan Barzilay, *Is patent litigation worth the headaches?*, MASS HIGH TECH, Sept. 29, 2006, http://www.bizjournals.com/masshightech/stories/2006/10/02/focus4.html (last visited October 10, 2006).

[69] *See* John Allison & Mark Lemley, *Empirical Evidence on the Validity of Litigated Patents*, 26 AIPLA Q.J. 185, 212 tbl. 3 (1998).

[70] *See* Julie Creswell, *So Small a Town, So Many Patent Suits*, *supra* note 65.

[71] Kimberly A. Moore, *Forum Shopping In Patent Cases: Does Geographic Choice Affect Innovation?*, 79 N.C.L. Rev 889, 921 (2001).

[72] *Cf. id.*

software I use. It looks complicated, but what does a businessman want to know? He wants to know, in addition to the famous four questions, how much, how long, what am I going to get and whatever the fourth one is that I missed, he wants to know: What's my best case scenario?; What's my worst case scenario?; and What's going to happen, Mr. Elmer, if you are litigating this case for me?

And I put it in green up there based on that hypothetical, and based on the sales that we have, that's when Mr. Net United States who is the plaintiff in this case hits a home run; he will get $167 million dollars. And how do we get this information? Down here in the red, the worst case scenario, remember the case will cost him $3 and-a-half million dollars so his worst case scenario he spends $3 and-a-half million dollars with Finnegan Henderson, he loses the case, which, of course, we hope is not going to happen, and his patent portfolio has gone down the tubes. Well, that's his worst case scenario. Well, what's my most likely trial outcome? And I realize this is not a statistically appropriate term, but I know what it means to me. It means if you go to trial – remember we put these win rates. We have got these in the Eastern District of Texas where the win rate is 83 percent and a win, as Kelly was saying, to win a patent infringement case, you have to win on the issue of infringement and validity. If you win on both of those, your chances are 83 percent. Then it is a question of what your measure of damages will be, lost profits, or reasonable royalty. Well, you factor in these numbers. You run through the analysis, and the only other factor you need to know is: What do you think your infringer is selling? You need that information. You plug that in, and this comes out. And this is what I use to put a value on a case. At each block, if you win on validity and infringement, the value of your case goes up. If you win on lost profits, which has a return in this hypothetical of 40 percent as opposed to a five percent royalty, obviously, your value will go up.

So here is the Canadian federal court time line. Now, I heard Kelly say the time to trial is longer than the United States. I don't know that's necessarily true. It is longer in some cases.[73] You have 100 different federal districts in the United States.[74] Some are like the Eastern District of Virginia or the rocket docket where you go to trial in a year; others you go to sleep because

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[73] *Compare* Isis E. Caulder , *Patented in Canada: Practical Prosecution Strategies and Tips*, AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION ANNUAL MEETING, Oct. 17, 2002, http://www.bereskinparr.com/English/publications/art_html/patent-aipla-caulder.html (last visited October 12, 2006) *with* Michael D. Kaminski, Foley & Lardner LLP, *Effective Management of U.S. Patent Litigation* (Oct. 26, 2005), http://www.foley.com/files/tbl_s31Publications/FileUpload137/2941/Effective%20Management%20of%20US%20Patent%20Litigation.pdf (last visited October 12, 2006).

[74] *Cf.* UNITED STATES DISTRICT COURTS, http://www.uscourts.gov/districtcourts.html (last visited October 11, 2006).

the judges hate patent cases and hope the parties will settle, you know, one of those 96 percent of the cases where they don't have to write an opinion, listen to patent lawyers like me. But basically, the cost, at least Gary O'Neill in our hypothetical estimated the average cost in U.S. dollars to be about it a million and-a-half.[75] Here is the decision tree you use the same analysis. You use the three tools in each of the three countries.

Here is the tree in China, and I am not going to go through that, but in China, if any of you are interested, it is a bifurcated country. The issue of validity is tried in a district court.[76] The issue of validity has to go back to the Chinese Patent Office.[77]

So you have two different forums. There it is going to cost about a half million dollars, and it is going to take about two years. Here is the decision tree, and on this chart, I showed the comparative results. Whatever your fact situation is, you are going to look at those different countries and the win rates and your best guesstimate to sales. And here you see that your chances for success in these countries are as we have talked about, your most likely trial outcome looks like the United States in this case, and Beijing is a good place to drop, so what's your strategy? Bottom line is your strategy is going to be you are going to file companion cases in both the IT and the district court to apply maximum pressure. Conversely, if you are the defendant – and I have got a mistake up here on the slide – and post RIM, everybody knows about the RIM Blackberry case, it has changed the strategies in the United States in my view, or will change the strategies with respect to a process called reexamination. So if I were an access to Canada in this case, what I would do is file a reexamination in the U.S. Patent Office. I would file a DJ action in both the United States and UK and try and put maximum pressure on the defendant and attempt to negotiate a global settlement. Thank you.

DISCUSSION FOLLOWING THE REMARKS OF A. KELLY GILL AND MICHAEL C. ELMER

MR. TAYLOR: So do we have –

DR. KING: I can go ahead. I was reviewing what you had come up with, Mr. Elmer. I wonder if arbitration has any role to play in this whole operation, are there any advantages to arbitrating these disputes. My second question to both of you is: Is there any advantage to amalgamating the two sys-

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[75] *See Contra* Kevin C. Hunsaker, *Patent reform should promote innovation, not imitation*, S.F. CHRON., Aug. 30, 2005, at B7 (stating that average patent litigation costs are around four million dollars.)

[76] *See Generally* Hon. Jiang Zhipei, *Patent Litigation in China* (Sept. 1999), http://www.chinaiprlaw.com/english/forum/forum4.htm (last visited October 10, 2006).

[77] *Id.*