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+ KNOWLEDGE MANAGEMENT
TOOLS FOSTER GLOBAL
COLLABORATION

23

PITFALLS AND
POSSIBILITIES OF
GLOBAL PATENT
MONETIZATION

36

DIRECTIVE: **DIVERSITY**

How the legal department
can spearhead diversity
initiatives that drive
business value

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Multinational monetization

The pitfalls and possibilities of international patent monetization

“THE UNITED STATES IS systematically destroying patents.”

Those are the bold words of Donald Merino, founder and managing director of Asia-based IP strategy and advisory firm TranspacificIP and former vice president and general manager at Intellectual Ventures (IV). Merino, who also worked in licensing at Intel, left IV to focus his efforts on international monetization strategies. And, as the world economy continues to evolve, the right monetization strategies will be essential.

“The U.S. is an important market, but not the biggest, so the emphasis is turning outward,” he says. He cites the example of Ericsson, which might sell 20 percent of its goods in the United States. Most of its factories are in Sweden or China, so having Swedish and Chinese patents would be more valuable.

Savvy companies are moving outside of the U.S. for other matters as well. Once again, Merino cites Ericsson, which sought an injunction against India’s leading Android device maker in New Delhi. Experts

might have given zero value to an Indian patent, not being certain it would be enforceable in that country, but Ericsson knew there would be a market in India.

Thus, in a world where patents are more valuable than ever, companies that play ball on an international level must take pains to examine their portfolios and strategies to assess whether or not they are approaching the international marketplace properly.

International strategy

Companies that are looking to enrich their international IP monetization strategies might be eager to spread their wings as far as they can, but they should be cautious about moving into too many markets too fast.

The first question to ask, says Tyron Stading, president and founder of Innography, is, “If I file somewhere, what is the benefit?” He suggests considering matters such as whether or not you have a customer base in that region and if

“None of the smartphone wars played out very much in China, and that’s not an accident. Companies don’t have the confidence, particularly when it comes to suing Chinese companies, which are often affiliated with or connected to the government.”

—Jon James, co-chair of the Intellectual Property practice, Perkins Cole

it is a market you want to protect. “Other matters you’ll want to consider are if you have manufacturing or suppliers in that area, and what your competitors are doing there,” he says.

He notes that companies should be looking closely at any region that can be described as a “nexus of transfer,” or a location through which a majority of imports and exports crosses. The Netherlands, he says, is a nexus point for shipping in Europe, so companies might want to consider getting protection there.

“I’ve worked with people who say they want to file everywhere, but no one does that,” explains Robert Fish, founding partner of Fish & Tsang. He notes that there are certain large markets, such as China and India, that are tempting for most companies, though those regions have their own pros and cons. In India, for example, filings are often cheaper because the process is done in English, but there are only 100 or so patent examiners in the entire country, so they often wait to see if a patent is approved elsewhere and just allow it in India as well.

With so many regional differences to keep in mind, companies must be sure to gather the right

information in order to make informed decisions about their monetization strategies. Start in house by figuring out what assets you already have. As Stading puts it, "I've never found a company that knows for certain what they own, which has a huge impact on who might be potential buyers or partners."

It is important as well, he notes, to be aware of patent family memberships, or patents filed in different jurisdictions. This information impacts which assets are owned and should be noted when assets are purchased. Companies should also note when patents expire and if they are considered standard essential patents. These can all have a "massive effect on the value" of a portfolio.

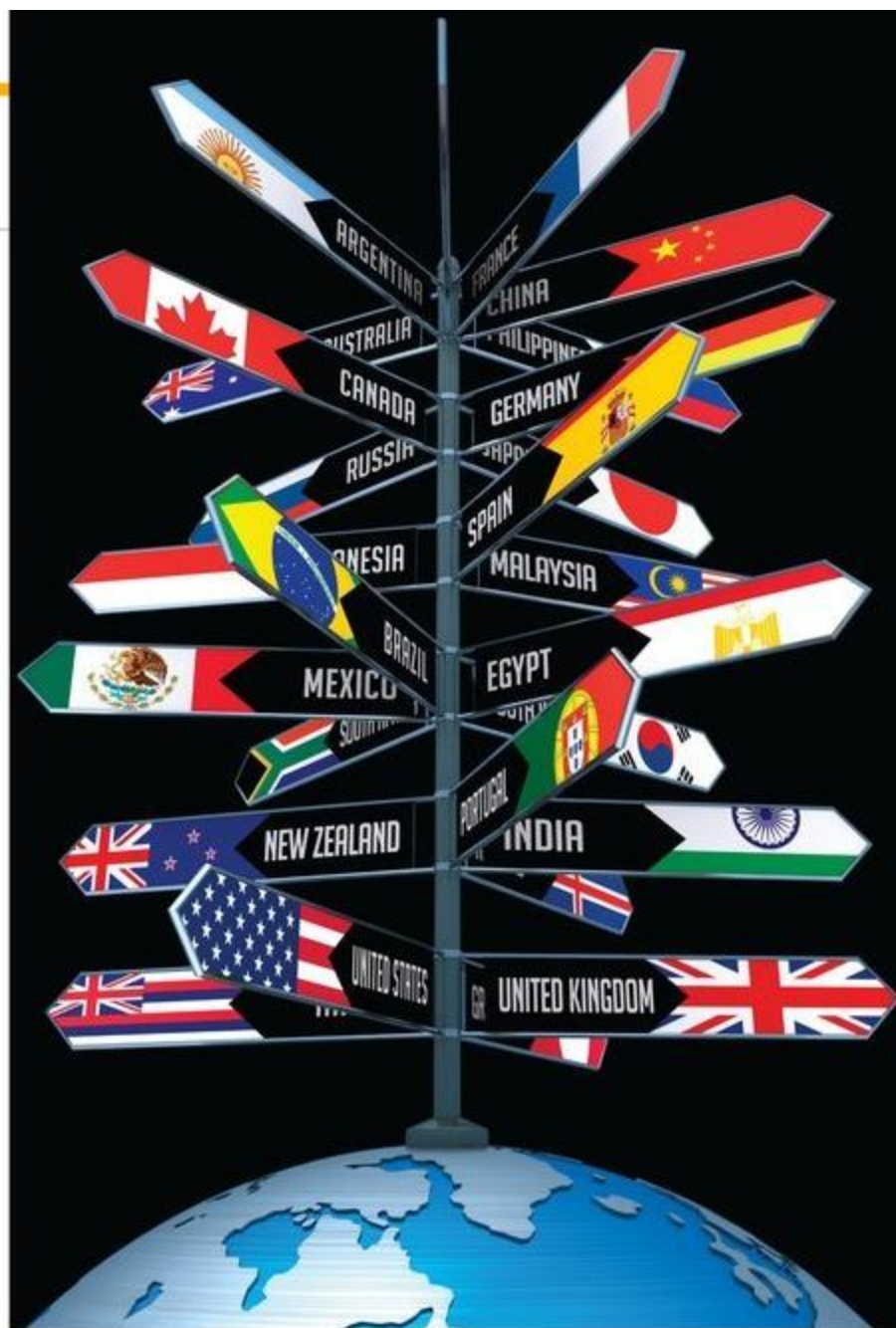
Challenges

Of course, once you have developed your strategy for monetizing your patents on an international stage, there are a number of challenges you must overcome in order to succeed in this endeavor.

First, it's important to know that the filing process for patents in other countries can be both expensive and time consuming. "It takes a long time," explains Fish. "It can take 30 months in most countries to file."

In addition, filing in foreign countries can be costly. Fish estimates costs ranging from \$15,000 to \$100,000 or more for each filing, which can add up quickly. Plus, there may be annual maintenance fees in certain countries, and those can add up fast. "It's not unusual for me to see a company spending more on maintenance fees than on actual new patenting," Fish says.

While it may be more expensive to file for patents in foreign countries, litigation of patent cases is often faster and cheaper abroad than it is in the U.S. One reason for this, says Merino, is that most countries don't have the same extensive discovery burdens that you see in the United States. "In places like



Germany, it's two-to-three times less expensive; looking at a case in Taiwan, start to finish, it's about \$30,000," he says. "The time frame is quicker, too. In Taiwan, the average is 259 days from filing to judgment; in Germany, it's under a year."

In addition to differences in length and cost of litigation, there are different enforcement paradigms in each country as well. "Many countries don't have a ready path to enforcement, or damages are so low it does not make sense to enforce proactively," explains

John F. Martin, chairman and CEO of Innography. Martin also sees issues with enforcement in certain countries, noting that India has a backlog of patent applications. He also brings up China. "In China, the patent infrastructure is evolving quickly. The courts are focused on patent litigation, and they are working on another amendment to their patent regulations," he says.

Destination: China

It's no surprise that so many experts are focused on China. It is perhaps the most important—and trickiest—country in the world when it comes to international patent monetization.

"Look at the way the economy has changed. In the past, 10 to 15 years ago, the U.S. was the largest market. But not anymore. Everything is being made in China," says Merino.

While China is a huge and potentially lucrative market, it presents a number of challenges. First, it has a legal system based on civil law and a "still developing judicial system," according to Jon James, co-chair of Perkins Coie's Intellectual Property practice. For that reason, you don't see companies choose China as a venue of choice for patent disputes.

"Think of the smartphone wars between Apple and Samsung. You didn't see either sue the other in China," he says. "They sued each other in Australia and in other places, but none of the smartphone wars played out very much in China, and that's not an accident. Companies don't have the confidence, particularly when it comes to suing Chinese companies, which are often affiliated with or connected to the government."

Merino has studied patent litigation in China and has noticed that a vast majority of such cases involve Chinese companies suing other Chinese companies. But, he says, China is looking to "crack down on corruption." He explains, "China has a desire to be seen as a first world country, so it needs a lot

of inventions and patents to do so. They need to have IP laws and a system that makes sense."

For this reason, he believes that a Western company litigating in China could indeed get a fair shake in a case against another Western company, though there would be a home-field advantage for a Chinese company involved in a suit against a Western business.

This, Merino points out, is not that different from the United States. "The home-field advantage in China is not that different from the Eastern District of Texas a few years ago. That's where U.S. companies would go after Asian companies where they could not get a fair hearing. The Chinese system is where the Eastern District of Texas was 10 years ago." Though, if China wants to be seen as a fair and reasonable place, it may make efforts to change that paradigm.

Asia and beyond

While China is the biggest market on the planet and therefore one of the most important, other parts of Asia are garnering a lot of attention in the patent space as well. While Korea and even Thailand are becoming interesting players, there is one other Asian nation that is a significant player in international patent monetization.

Though it has had economic ups and downs in recent years, Japan is still a market that can be a keystone of monetization in Asia. "For Japanese companies, it's about prestige, and patents are a proxy for innovation. But there, they largely use patents for cross licensing or as deterrents," says Merino. "A number of companies in Japan sell patents because they have an excess, often in industries they have failed in, so they have sold off patents to 'have nots': companies in the U.S. needing patents and even to NPEs." He also notes that Japanese companies are quite active in the U.S., as several Japanese companies commonly recur on the annual list of top

patent filers in the United States.

Stading agrees that Japan is an important market to look at when developing an international strategy. "Japan is a mega market for patent activity," he says. "They tend to be more formal in how they approach patents, but most multinationals headquartered in Japan are looking at different patent strategies."

Another region to keep an eye on is Europe, as the European Union is currently developing a unified patent court that would hear infringement cases, allowing a single court ruling to be applied over a swath of countries. This would alter the patent landscape in the EU considerably, and it's something that companies looking to monetize in Europe should monitor closely.

Putting it together

"Companies are thinking about patents as a financial asset," explains Stading. "The U.S. is more advanced in this regard in terms of understanding these assets."

While the United States is perhaps ahead of the game when it comes to patent monetization, it's clear that the international market is more important than ever. While the U.S. Congress considers yet another round of potential patent reform, opportunities to expand monetization programs abroad are growing.

But, in the final analysis, international patent monetization comes down to asking some frank questions and using the right data to come up with the right answers. "If you want to monetize, you have to look at what will come back to you. Are you so superior that you'll be the net recipient of money, or will things devolve and end with a cross licensing deal and a modest balancing payment in your direction?" asks James.

If your patents are strong enough, then you can take the bold step into international patent monetization, and perhaps reap significant financial rewards. ●

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