

Lessons Learned from Fifteen Years in the Trenches of Patent Litigation

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ANNUAL INTELLECTUAL PROPERTY LAW REVIEW BANQUET SPEECH[†]

LESSONS LEARNED FROM FIFTEEN YEARS IN THE TRENCHES OF PATENT LITIGATION

RICK MCDERMOTT*

I would like to thank Professor Irene Calboli, Professor Michael O’Hear, and the staff of the *Marquette Intellectual Property Law Review* for inviting me to speak at this year’s banquet. When Professor Calboli first extended the invitation, I gladly accepted, thinking what a great opportunity to speak to a group of people—primarily students interested in intellectual property law—about a substantive IP law topic. Then, I started thinking about the possible IP law topics that a group of law students might want to listen to on a Friday night. While I have been out of law school over fifteen years, which was not that long ago, I soon realized that the universe of possible topics was quickly dwindling.

If nothing else, perhaps my fifteen years practicing in the IP field, primarily focused on patent infringement litigation, can impart one or two lessons, and a few good stories, all of which I thought you might enjoy tonight, and which might also enlighten your path as many of you proceed with your own legal practice, in the IP field or otherwise. In that regard, I thought I would comment on a few things that have impacted the nature of my practice over the past fifteen years, including several court decisions as well as the economics of IP, and the economy itself. While I am sure that the word “economy” has become a four letter word to many of you, stick with me on this one—its impact on IP might not be as obvious or perhaps as negative as you might think.

[†] This speech was given March 5, 2010, at the Wisconsin Club in Milwaukee, Wisconsin.

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Just over fifteen years ago, and fresh out of law school, I started practicing law in Charlotte, North Carolina, at Bell Seltzer Park & Gibson, a mid-sized IP boutique with just two offices—both in North Carolina. Being the high-tech, electrical IP lawyer that I was, it was only appropriate that the first case I was assigned concerned patents relating to the ultra-pasteurization of egg product. That is right, egg product—egg product that is pasteurized at a sufficiently high temperature so as to impart a shelf life of up to about thirty-five weeks so that your favorite restaurant or fast food joint can safely keep sufficient quantities of the egg product around to serve you and their other customers without fear of salmonella or other harmful bacteria. While the technology was not quite “up my alley,” I learned a lot working on that case. We dealt with claim construction issues, infringement issues, invalidity issues, damages issues, reexamination proceedings, reissue proceedings, trial preparation, and more. And by the way, we did most of that without the use of e-mail, the Internet, electronic filing, etc.

I learned one of my first, and perhaps most valuable lessons working on that case—that knowledge and experience comes in all shapes and sizes, and to fully appreciate and take advantage of that knowledge and experience, you have to be open to the various shapes and sizes. While it seemed at first like my four undergraduate years learning about circuits, transistors, capacitors, and the like were going to be wasted as I started swimming in egg product, the experience was invaluable and a great way to kick-off my career as a patent lawyer.

Within a year or so after I started working, the Court of Appeals for the Federal Circuit issued its en banc decision in *Markman v. Westview Instruments*,¹ which upheld the decision of a district court judge, which overturned a jury verdict based on the jury’s improper claim construction. By upholding that decision, the court determined that claim construction is a matter of law, thereby assigning to the judge, not the jury, the sole responsibility for construing or interpreting the meaning of patent claims. While there was a strong dissent within the en banc panel at the Federal Circuit, the Supreme Court unanimously affirmed the decision of the Federal Circuit, indicating that the “decisionmaker vested with the task of construing the patent is in the better position to ascertain whether an expert’s proposed definition fully comports with the specification and claims and so will preserve the

1. *Markman v. Westview Instruments, Inc.*, 52 F.3d 967 (Fed. Cir. 1995) (en banc), *aff’d*, 517 U.S. 370 (1996).

patent's internal coherence," and thereby also ceding to the judge the determination of evidentiary underpinnings relating to issues of claim construction.² Prior to *Markman*, claim construction determinations generally were made at trial, or sometimes during summary judgment proceedings, well into the timing of the case.

The *Markman* decision has brought about several procedural changes that over the years have impacted generally the practice of patent infringement litigation and my practice in particular. Shortly after the decision, district courts started holding what have been coined as *Markman* hearings, or claim construction hearings, typically a pre-trial hearing, where a judge, or sometimes a special master assigned by the judge, hears evidence presented by the parties regarding the meaning or construction of disputed terms within the asserted patent claims. During such *Markman* hearings, a court usually hears intrinsic evidence relating to the patent, its claims, its specification, its file (or prosecution) history. A court also may hear extrinsic evidence, such as expert or lay witness testimony, or evidence from treatises, other publications or documents, etc. A court's decision regarding the meaning of the claim terms often will be determinative of many, if not all, of the disputed issues in the case. Since these hearings often are held as pre-trial hearings, which can be conducted at any time during the schedule of a patent case, they often will result in summary judgment or settlement well before any trial.

While the impact is likely self-evident to all of you, it is worth spelling out that, in my experience, the *Markman* hearing in a patent case easily can become *the* trial, and much of the focus in a patent case now is placed on the *Markman*, or claim construction, process. I have been involved in a number of *Markman* hearings, ranging in length from one day to a week or more, with inventions as basic as fishing lures to more technically detailed inventions in the ultrasound field or relating to direct broadcast satellite systems. Each one has been a bit different, depending on the technology, the patent claims, the opposing party, the judge, and the court in which the action is pending. In at least several instances, the outcome of the *Markman* hearing has resulted in the disposition of the entire case.

Another procedural change due at least in part to the *Markman* decision is that many district courts have adopted patent-specific local rules. These rules often govern the specifics of the *Markman* process, including the disclosure of disputed claim terms, the disclosure of

2. *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 390 (1996).

proposed claim constructions, the filing of claim construction briefs, and so on, including the timing of such requirements and the timing of the *Markman* hearing itself. The result is that most courts, particularly those with such patent-specific local rules, generally conduct a separate *Markman* hearing and issue a claim construction ruling prior to trial.

One hitch with this seemingly efficient process, however, has been the review, or appeals, process related to a district court's determination of the meaning of the claim terms. Shortly after the *Markman* decision, the Court of Appeals for the Federal Circuit issued its en banc decision in *Cybor Corp. v. FAS Technologies, Inc.*, in which the court held that it would review de novo claim construction determinations, and further that the court would not review such claim construction determinations until after a final order, i.e., summary judgment or judgment after trial, has been entered.³ In my experience, while the process of a *Markman* or claim construction hearing often helps to streamline a patent infringement case, if the parties then have to wait to appeal a possibly erroneous claim construction ruling until the district court enters a summary judgment determination or a judgment after trial, some level of efficiency is lost.

Add to that the fact that several studies, including an earlier study conducted by then Professor Kimberly Moore of George Mason University (now Justice Moore of the Federal Circuit) and a later study conducted by David Schwartz, Assistant Professor of Law at the John Marshall School of Law, suggest that of the cases on appeal for claim construction issues since the time of the *Markman* decision through about 2007, nearly 40% were found on appeal to have at least one claim term construed incorrectly. Wow, 40%—almost one-half of the cases on appeal had at least one claim term determined to have been construed incorrectly.⁴ It is safe to assume that at least a number of these cases had involved a trial at the district court level and may have been remanded back to the district court for further proceedings in light of the corrected claim construction. Perhaps not as efficient as we thought, right?⁵

3. *Cybor Corp. v. FAS Technologies, Inc.*, 138 F.3d 1448, 1479 (Fed. Cir. 1998) (en banc).

4. David L. Schwartz, *Practice Makes Perfect? An Empirical Study of Claim Construction Reversal Rates in Patent Cases*, 107 MICH. L. REV. 223, 240, 249 (2008–2009).

5. Interestingly enough, and this is something that I learned in preparing this speech, the Supreme Court's reversal rate of the decisions of the Court of Appeals for the Federal Circuit is the highest of all of the courts of appeals, at 83%. Roy E. Hofer, *Supreme Court Reversal Rates: Evaluating the Federal Court of Appeals*, 2 LANDSLIDE 1 (Jan./Feb. 2010),

The second case I would like to talk about that has impacted my practice is a more recent development, and as a result, I believe the full effect is yet to be experienced or appreciated—it is the en banc Federal Circuit decision in *In re Seagate Technology, LLC*, which relates generally to the issue of willfulness in the patent infringement context and the opinions of counsel that often are obtained to defend against such a claim of willful patent infringement.⁶ In *Seagate*, the court “clarif[ied] the scope of the waiver of attorney-client privilege and work product protection that results when an accused patent infringer asserts an advice of counsel defense to a charge of willful infringement.”⁷ But, perhaps more significantly, the court overruled precedent that had permitted a lower threshold showing to establish willful infringement, now “hold[ing] that proof of willful infringement permitting enhanced damages requires at least a showing of objective recklessness.”⁸ In addition, and as a result, the court also “abandon[ed] the affirmative duty of due care” and “reemphasize[d] that there is no affirmative obligation to obtain opinion of counsel.”⁹

Prior to the court’s decision in *In re Seagate*, it was customary for a party, a client—whether it be a company or an individual—having learned of a potentially troublesome patent to then seek the advice of counsel as to possible issues relating to infringement and/or invalidity, and if appropriate, to obtain an opinion of counsel regarding the non-infringement and/or invalidity or unenforceability of the patent. Indeed, there were legal practices that were based primarily, if not entirely, on this type of work—the analysis of infringement, validity and enforceability issues, and the provision of possible opinions regarding the same. If litigation would ensue, the opinion of counsel could be relied upon by the party to defend against the claim of willful infringement by showing that the party had met its affirmative duty of due care. Without the affirmative duty of due care, and with no obligation to obtain an opinion of counsel, parties now may choose to forego such a practice in at least some situations. I believe that the

available at http://www.abanet.org/intelprop/magazine/LandslideJan2010_Hofer.pdf. The January/February 2010 issue of *Landslide* presented an empirical study of the U.S. Supreme Court’s dispositions of cases from the thirteen U.S. Courts of Appeal. *Id.* The author of the study, Roy E. Hofer, of Brinks Hofer Gilson & Lione, found that the reversal rate (83%) for the Federal Circuit was higher than any other circuit court’s, including the so-called “rogue” Ninth Circuit. *Id.*

6. *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007).

7. *Id.* at 1365.

8. *Id.* at 1371.

9. *Id.*

impact on opinion-type legal practices has been seen already, but I think the potential impact on willfulness discovery in the patent infringement litigation context is still to be seen.

While other cases certainly influence the cases that I and other IP practitioners handle, the *Markman* and *Seagate* cases seem to have had a broader impact, as I have described. I am sure these will not be the last decisions to have such an impact. Indeed, as exhilarating as the last fifteen years have been, this really is an exciting time in the IP profession. I do not think I fully realized the extent of that comment until this semester, when I started teaching a survey intellectual property course at the Charlotte School of Law. I certainly do my best to stay current on developments in IP law, but stepping back from individual decisions or developments and viewing the patent law landscape as a whole, I have been amazed by how recently much of the law impacting today's patent practices has been developed. And there is more on the horizon, so that law will continue to be developed over the next few years. It truly is an exciting time to be involved and to get involved in intellectual property.

But court decisions are not all that have impacted the IP practice, and particularly a practice such as mine in patent infringement litigation. Another significant impact is the economy. Do not worry, I am not going to start talking about the recent recession, at least not yet. Broadly speaking, companies continue to view their intellectual property portfolios as a vital asset deserving specialized protection, and rightly so. According to one study, intellectual assets grew from about 40% of firms' market value in 1982 to about 70% in 2002.¹⁰ According to another study, the average price-to-book ratio (the ratio of the capital market value of companies to the net assets stated on balance sheets) of S&P firms increased from about one in the early 1980s to about six in 2001.¹¹ PricewaterhouseCoopers had estimated that as of 2007, "as much as 90% of the value of the world's top 2000 enterprises [would] consist of intellectual property."¹² Such specialized protection is commonly achieved by obtaining a patent for an invention, as a patent provides the patent owner with the powerful right to exclude others from practicing the invention. The patent owner may, in turn, choose to

10. ROBERT S. KAPLAN & DAVID P. NORTON, *STRATEGY MAPS: CONVERTING INTANGIBLE ASSETS INTO TANGIBLE OUTCOMES* 4 (2004).

11. BARUCH LEV, *INTANGIBLES: MANAGEMENT, MEASUREMENT, AND REPORTING* (Brookings Institution Press 2001).

12. PricewaterhouseCoopers, *Building and Enforcing Intellectual Property Value*, An Intl. Guide for the Boardroom 2003 (2003).

enter into a license agreement permitting another to practice the invention.

When parties enter into a license agreement, the overall scheme of the agreement is quite simple: the licensor grants the licensee the right to sell or otherwise exploit its technology, which may be patented or protected as a trade secret, and the licensee pays royalties to the licensor. Patent licensing revenue has grown as well—from an estimated \$15 billion in 1990 to an estimated \$100 billion in 1999 and an estimated \$150 billion in 2003.¹³ Some patent brokers expect annual worldwide patent license fees to reach \$500 billion by 2015.¹⁴ Patent licensing represents the largest share of intellectual property licensing revenue and is continuing to grow. These two phenomena, namely the significant growth of the market valuation of intangible assets, such as intellectual property, and the significant growth in licensing revenue, have impacted significantly IP practice, and particularly patent practice.

One result has been the significant increase in the number of patent filings. In 1982, there were just over 100,000 patent applications filed annually in the USPTO.¹⁵ By 2002, there were about 350,000 patent applications filed annually in the USPTO, and by 2008, there were nearly 500,000 patent applications filed annually in the USPTO.¹⁶ I will note that even with the significant growth in applications filed, the number of patents granted have hovered just under about 200,000 annually since the early 2000s.¹⁷ That does not mean the U.S. patent office is granting fewer patents on a percentage basis. Indeed, the backlog of patent applications has grown significantly over the years with over 1.2 million applications currently pending before the USPTO.¹⁸

13. See Emmett J. Murtha, *Advanced Licensing Agreements: Finding IP with Licensing Value*, 747 PLI/PAT & HIGH TECH. LICENSING 111, 121 (2003).

14. Stephan Lipfert & Guido von Scheffer, *Europe's First Patent Value Fund*, INTELL. ASSET MGMT, at 15 (Dec./Jan. 2006).

15. U.S. PATENT ACTIVITY, CALENDAR YEARS 1790 TO THE PRESENT, TABLE OF ANNUAL U.S. PATENT ACTIVITY SINCE 1790 (2009), http://www.uspto.gov/web/offices/ac/ido/oeip/taf/h_counts.htm.

16. See UNITED STATES PATENT AND TRADEMARK OFFICE, PERFORMANCE AND ACCOUNTABILITY REPORT FISCAL YEAR 2008: TABLE 2: PATENT APPLICATIONS FILED, U.S. PATENT AND TRADEMARK OFFICE: PERFORMANCE AND ACCOUNTABILITY REPORT FISCAL YEAR 2008, (2008), available at http://www.uspto.gov/web/offices/com/annual/2008/oai_05_wlt_02.html.

17. *Id.*

18. USPatentStatistics.com, USPTO Patent Pendency Statistics Fiscal Year 2009, <http://uspatentstatistics.com/averagependenciestechcenter.html> (based on data from the USPTO, including the 2009 Performance and Accountability Report) (last visited Apr. 27,

As you might imagine, during this same time period, the number of patent infringement actions also increased dramatically. In fact, from the early 1980s to the late 1990s, the number of patent infringement actions filed annually doubled, from about 800 cases filed annually in the early 1980s to about 1600 cases filed annually by the late 1990s,¹⁹ and to nearly 3000 patent cases filed annually over the last few years, with 2004 being the peak year with over 3000 patent cases filed.²⁰ Annual patent infringement filings have trailed off slightly since 2004, but not significantly.²¹ Section 337 investigations opened by the International Trade Commission also have increased dramatically between the early 1990s and today, from about ten to twenty investigations opened per year in the early 1990s to about fifty investigations opened per year more recently.²²

Given these statistics, there is no surprise that, broadly speaking, the “patent world”—whether it be patent applications or patent infringement actions—is attracting more participants. As I mentioned at the outset, I started practicing law in 1994 with an IP boutique law firm, a firm of lawyers that handled only IP matters. That was the norm in 1994, and indeed the preference of many IP practitioners. Within several years, however, general practice firms started to enter the IP legal market, either by establishing organically their own IP groups or by merging with or acquiring IP boutiques or groups of lawyers from said boutiques. These general practice firms saw the increasing emphasis on intangible assets, such as IP, and the value to their bottom line of the legal work associated with such assets. Moreover, intellectual property issues, which historically comprised discrete legal issues relating to patents, copyrights, trademarks, and the litigation related thereto, made their way into other areas of the law in which general practice firms were involved, such as mergers, acquisitions, state or federal tax, general corporate litigation, even trusts, estates and wealth planning. So, it became imperative for many general practice firms to have intellectual property expertise. Today it is the norm, not the exception, that general practice firms have practice groups dedicated to

2010).

19. Michael J. Meurer & James Bessen, *The Patent Litigation Explosion*, American Law & Economics Association Annual Meetings, Paper 57, 34 (2005) (citing Derwent data from USPTO) <http://law.bepress.com/cgi/viewcontent.cgi?article=1532&context=alea>.

20. TRENDS IN PATENT LITIGATION & DAMAGE AWARDS 8 (1990–2008) (citing data from PACER).

21. *Id.*

22. *Id.* at 10.

intellectual property work. Those groups typically work both on the traditionally discrete IP issues as well as those tangential IP issues that I mentioned. And with the exception of the last couple years, which I will comment on in a few minutes, the IP boutiques generally have been challenged by the competition presented by such general practice firms.

Others have made their way into this booming segment of the law as well. Over the past five to seven years, we have seen a significant increase in what we refer to as non-practicing entities (NPE), sometimes more affectionately referred to as trolls. Generally, an NPE is some type of corporate entity or individual that owns a patent or patents, a portfolio of patents or even multiple portfolios of patents, but it is not engaged in any “legitimate” business related to the such patents or the field of technology relating to such patents, other than the enforcement of such patents. The affectionate term “troll” brings to mind an ogre-like character hiding below a bridge exacting a toll from innocent passers-by. There has been much debate about the existence of such NPEs, and to the extent such “toll-taking” should be permitted if the NPE is not engaged in any business related to the technology of its patents.

Lastly, and certainly not least, Congress is attempting to put its mark on the intellectual property field as well. While Congress has been somewhat side-tracked with other issues over the past year or so, a number of patent reform bills have been introduced in the senate in the past five years. These bills have focused on issues relating to NPEs, damages, willfulness, patent acquisition, and other opposition proceedings, etc. Most agree that there will be some type of reform in the next few years, but the final form that such reform will take is still to be determined. So, the economic impact of IP has had significant influence on the field of IP and its participants.

Now I will turn briefly to that other word “economy,” the four letter word that you all think about. Historically, recessions have not impacted significantly the IP market. Most corporate entities continue to protect their research and development even through an economic recession. Indeed, a recession might present an even greater focus on competition and thus protection of intellectual property rights. The recession of the last few years, however, has been somewhat unusual. As we all know, this recession was deeper than a typical recession, and corporate budgets took a significant hit, and the budgets relating to IP were not immune from such hits. While the hit was not as significant as

in some markets, we did see a slight decline in IP litigation and also declines in the filing of patent applications,²³ which as I am sure you are aware, resulted in the tightening of the legal market in the field of intellectual property. I am not an economist by any means, and I do not even play one on TV, but I do think that most firms are seeing a slight uptick in IP work, maybe not to those 2004–2007 levels of patent litigation and patent filings, but certainly an increase over the past few years.

IP boutiques have benefitted from the recession though. Small to mid-size law firms generally are more nimble and generally have lower billable rates, the hourly rates we charge for our time, than some of the larger firms. As a result, some of the small to mid-size IP boutique firms have been able to pick up work during this recession and might not have been impacted to the extent the large general practice firms have been. It will be interesting to see in the coming years whether we are seeing a true pendulum swing or simply a slight correction.

In closing, we as a nation cannot lose sight of the fact that innovation is, always has been, and will continue to be, the driving force in intellectual property, and we as a society and as a country must continue to do what we can to promote innovation. As we all know, the purpose of the IP laws of our country are “to Promote the Progress of Science and the Useful Arts.”²⁴ While the past fifteen years have been an exciting time for me to work in the intellectual property law field, I am convinced that the next five, ten, fifteen, and so on years will be just as exciting, as we as citizens, and as lawyers and future lawyers, and as our courts and our legislature, figure out how to continue to promote and protect innovation. Thank you again for asking me to speak to you tonight, and I wish you all the best as you enter this field or some other field.

23. See *Table 2: Patent Applications Filed*, *supra* note 16.

24. U.S. CONST. art. I, § 8.