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Complex Patent Suits

The Use of Special Masters for Claim Construction

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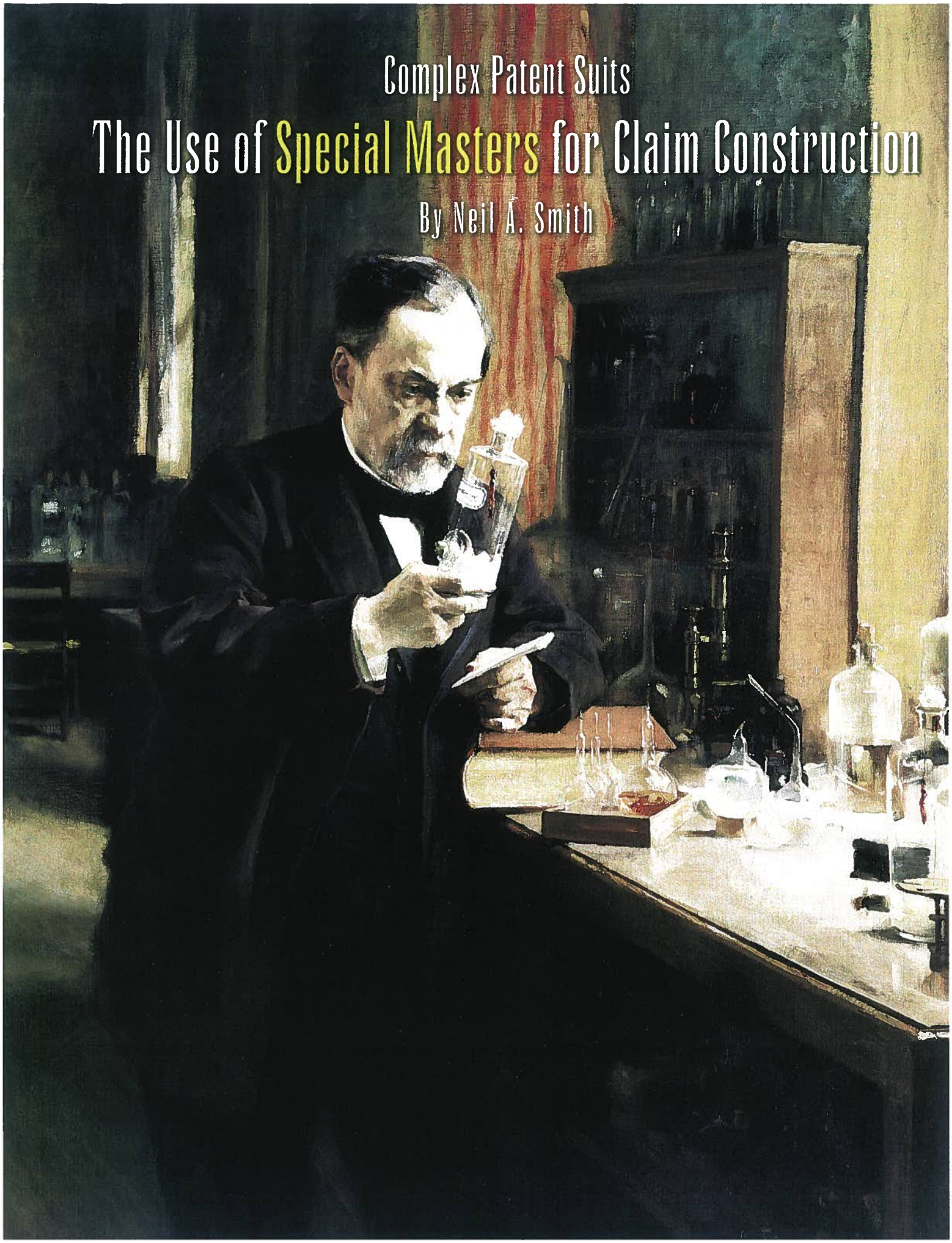

When people have coughs or aches, they see their general physicians. When the issue is complex, a medical specialist in the field can help someone reach the right diagnosis quickly and accurately. So too with complex patent litigation. When a complex patent infringement case arises, it can be in the client's or the court's best interest to bring in an expert on patent law and technology—as a special master—to assist the judge. Special masters can provide value to all parties in complex patent litigation by contributing in the area of most complexity and importance: claim construction. Even though claim construction is reviewed de novo on appeal by the Federal Circuit, a recent study commissioned by the Federal Judicial Center has shown that claim constructions in complex patent cases stand up better on appeal when a special master was involved in the process.[1]

In patent reform legislation earlier this year, there was a section calling for a study of the past use of special masters in patent litigation and of whether programs ought to be implemented for their use in the future. For example, Section 16 of H.R. 1260, introduced March 3, 2009, called for a study to determine whether "the use of special masters has been beneficial in patent litigation and what, if any, program should be undertaken to facilitate the use by the judiciary of special masters in patent litigation."

History of the Use of Special Masters

As early as 1920, the U.S. Supreme Court recognized the inherent power of the courts to appoint special masters. The Court held that

> [c]ourts have . . . inherent power to provide themselves with appropriate instruments required for the performance of their duties. This power includes authority to appoint persons unconnected with the court to aid judges in the performance of specific judicial duties . . . by appointing, either with or without the consent of the parties, special masters, auditors, examiners, and commissioners.[2]

A 2004 article providing a proposal for a specialized patent trial court stated that the use of special masters in patent cases to decide issues such as claim construction has become an "accepted practice" and predicted that "using special masters in patent infringement cases might result in more accurate rulings, which in turn would mean fewer reversals on appeal and more certainty."[3] The recent study for the Federal Judicial Center seems to bear that out.

Complex Cases in the Federal Courts

Complex cases, patent and otherwise, present particular difficulties for the courts and juries. It has even been argued that cases can be so complex as to violate due process of law in sending such cases to the jury.[4]

The Federal Circuit has dealt with the issue of whether a patent case could be too complex to be sent to a jury and it concluded that there was no complexity exception to a right to a jury in patent cases.[5] As the court said, "we discern no authority and no compelling need to apply in patent infringement suits for damages a 'complexity' exception denying litigants their constitutional right under the Seventh Amendment."[6]

Trial judges have recognized the complexity of patent cases, notwithstanding their obligation to explain them to the jury. The hearing in a complex networking technology patent case in the Central District of California,[7] where a special master was later appointed, includes a colloquy with Judge Wilson of that court in which he remarked that he did not "see how any jury would ever deliver any enlightened verdict in this case . . . [but] it's my responsibility to make sure that the trial is as clear and enlightened as possible." He then posed the question "whether a case can be so inherently complicated that it's beyond the pale of a jury, [such that] . . . compelling a jury trial under the Seventh Amendment [will deny] . . . the parties their due process rights."[8] Explaining the patent terms to the jury is where the complexity and the difficulty are most apparent.

Claim Construction: A Focal Point in Patent Litigation

To ensure reliability in claim construction, the Supreme Court in *Markman v. Westview Instruments, Inc.* held the construction patent claims are in the exclusive province of the court.[9] The claim construction of patent claims has become known as a "*Markman*" determination, often reached after the court calls for a "*Markman* hearing."

Special masters have been used in many federal cases. In patent cases, they are used for several main areas, principally discovery, patent claim construction, and motion subject matter. When special masters are used in patent cases, they are now being used more frequently to aid the courts with claim construction, and for good reason.[10] Patent cases are often won and lost on claim construction. Federal district court judges estimate that claim construction was central to the resolution of their patent cases in upwards of 94% of such cases.[11] As former Chief Judge Mayer of the Federal Circuit put it, "to decide what the claims mean is nearly always to decide the case."[12] Several Federal Circuit cases make reference to the use of special masters in the lower courts below.[13]

Claim construction may occur in a variety of settings independent of motions or in conjunction with motions, such as with a motion for summary judgment or a motion for a preliminary injunction. Federal district court judges reported that stand-alone claim constructions unrelated to other proceedings were the most common (79%). The second most common use was the determination of claim meaning in connection with a motion for summary judgment (26%).[14] The local rules of many federal courts such as, for example, the Northern District of California, provide an elaborate and programmed plan of actions, filings, and disclosures, leading up to and setting a *Markman* oral hearing, where the judge hears the parties' argument, and evidence, and sometimes witnesses, and then provides a written order specifying the meaning of disputed claim language so that the case can proceed with all the parties knowing how the judge will construe the claim language and instruct the jury about such claim meanings at the trial.

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Special Masters in Patent Litigation

The use of a special master in patent litigation is now an established practice.[15] Since the founding of our government, U.S. courts have had an inherent authority to appoint special masters.[16] Federal courts, where patent cases are exclusively held, enjoy statutory authority, under Federal Rule of Civil Procedure 53, to appoint a special master—though the question of whether recent changes to Rule 53 supersede a court's inherent authority to appoint a special master is debated.[17] Rule 53 empowers a judge to appoint a special master (1) upon consent of the parties; (2) to hold a trial proceeding and make or recommend factual findings on issues to be decided without a jury under "some exceptional conditions";[18] or (3) to address pretrial and post-trial matters that an available judge or magistrate judge could not effectively and timely address.[19] However, courts prefer to assign a special master only when the parties agree, particularly because the parties may bear and share the special master's cost.[20]

Calling upon a Specialist for Claim Construction

Most judges can ably conduct a *Markman* claim construction hearing in a complex patent infringement case without the assistance of a special master, but many find understanding the technology too difficult. The vast majority of district court judges, and their law clerks, are generalists without technical training. Judges, with their busy dockets, simply do not have the time to invest in learning complex technologies, let alone to stay abreast of the latest technological and scientific developments.[21] Furthermore, district court judges do not often hire law clerks with technical or patent law backgrounds,[22] as is the case with the Federal Circuit, where many of the law clerks, historically called "technical advisors," have scientific degrees and experience. Though a judge could become competent in the technology, he or she may not have the time necessary for construing complex patent claims without additional assistance in the matter.

Alternatives—Use of Technical Advisors and Court-Appointed Experts

Where the only need is for technical knowledge, more often in the case of infringement rather than claim construction, the federal courts have available the possibility of court-appointed technical scientific advisors. In 2002, the Federal Circuit spoke out for the first time on the use of technical advisors. After claim construction had been enunciated by the court, the court used a technical advisor in a highly complicated technology patent case, which was "far beyond the boundaries of the normal questions of fact and law with which judges routinely grapple," not to replace the court on the legal issues, or to find facts, but to "acquaint the judge with the jargon and theory disclosed by the testimony and to help think through certain of the critical problems."[23] Applying the law of the Ninth Circuit, the court upheld the authority of the district court to appoint such a technical advisor.[24] Recently the Federal Circuit upheld the appointment by the court of an independent expert to testify regarding validity and infringement.[25]

Use of Special Masters

Judge James F. Holderman, chief judge of the U.S. District Court for the Northern District of Illinois, who has served for over 20 years, published an excellent article on what he calls "The Patent Litigation Predicament in the United States." He notes that the root base of the predicament is the workload of district court judges and that district court judges are typically generalists by trade and training.[26]

Judge Holderman writes that to benefit fully from the guidance of the Federal Circuit on appeal, district judges "should increase our use of specialized advisors, such as special masters, to assist us in better understanding the technology involved in the specific patent cases before us." As Judge Holderman notes, "The premise behind a district judge's designation of a special master to assist the judge with claim construction or other tasks in patent litigation is to delegate to an individual with a better technical background an otherwise judicial task and obtain a recommendation from that person that can be evaluated by the parties and the judge before the judge decided to accept or reject the special master's recommendation."[27]

Historically the courts would make factual determinations through having the parties' expert witnesses testify before the courts and juries. While expert witnesses can aid greatly in explaining a technology and reading a claim construction, two problems exist in their use. First, the Federal Circuit has sometimes discouraged the use of expert witnesses to reach *Markman* claim constructions.[28] Secondly, there are often competing experts on both sides, proffering to a judge different technical versions or arguing for different claim constructions, making it difficult for the judge to sort it out and reach the correct result.

But, like a medical specialist, a special master possesses the knowledge, experience, and time to conceptualize and evaluate a given technology in relation to the law, and to do it impartially, having been appointed by the court and not as a "hired gun" expert for one of the litigants. Hearing competing party experts leads to the oxymoron that "science" is far from "exact."

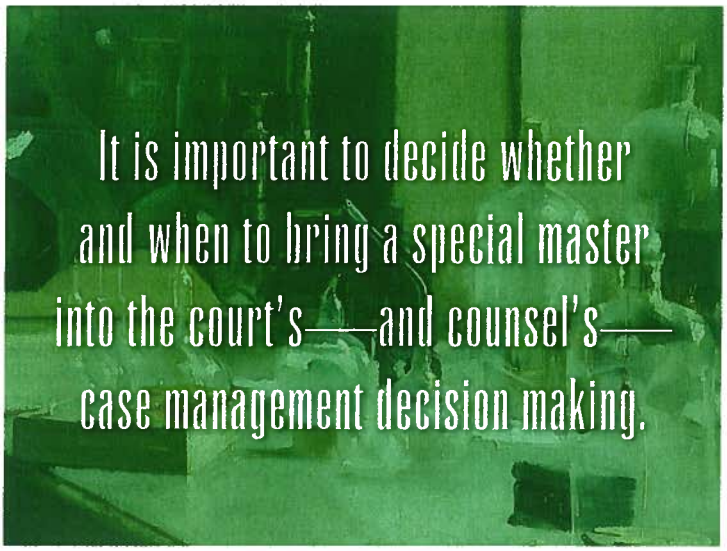
The Qualifications of Special Masters

Who are the special masters, and what experience and education do they have? Some persons serve as special masters occasionally and others serve more regularly.[29] The recent study commissioned by the Federal Judicial Center suggested that nearly all individuals serving as special masters were attorneys possessing strong technical and legal training who often had previously served as law clerks to judges on the Federal Circuit. Special masters also possess substantial professional experience, having, on average, spent about 30 years after law school in a variety of highly enriching legal contexts relating to patent and technology, and many have advanced degrees in law.[30] Special masters, as a result, can add great value to a complex patent infringement case.

A Special Master Can Reduce Costs and Delays

The option of the court hiring a special master to assist with claim construction in a complex litigation case is an important

consideration for those managing patent litigation. A special master can not only help the overworked and technically challenged judge, but he or she can actually help the parties in complex patent cases to reduce litigation costs and produce better and more reliable results earlier in the case. It is, therefore, also important to incorporate the decision of whether, and when, to bring a special master onboard, into the court's—and counsel's—case management decision making.



Controlling Costs

Complex patent suits are expensive and consume a great deal of lawyers' discovery, and experts' time. It is important, therefore, to consider use of a special master to help reduce costs and uncertainty. The costs of patent infringement litigation have materially increased from 2001 to 2007, according to recent biennial surveys conducted by the American Intellectual Property Law Association (AIPLA).[31] In 2001, the median costs and attorneys' fees for litigating patent cases in which more than $25 million was at stake were $2.9 million—with $1.5 million spent by the end of discovery. In 2003, the same fees and costs were about $4.0 million and $2.5 million, respectively. In 2005, $3 million was spent by the end of discovery, and a total of $4.5 million was spent on the litigation. In 2007, the average cost for such a case totaled $5 million.

The figures are even greater today. The 2009 AIPLA *Report of the Economic Survey* showed that the median attorneys' fees and costs of such a patent case were now $5.5 million. The mean/average cost is $6.25 million and the third quartile, in which most complex patent cases fall, is $8 million.[32] In 2007, about 60% of the cost of litigation was incurred by the close of discovery. Assuming that a claim construction hearing occurs after the close of discovery and a reliable determinative outcome materializes from it, perhaps 40% of the cost of litigation could be saved. Additionally, more money may be saved if discovery is specifically tailored to advance and support a claim construction determination hearing, should extrinsic evidence be applicable. This is significant, given the growth in the cost of patent litigation.

A major reason the litigation of complex patent infringement suits costs so much is because, as complicated technology and law cases, they last for so long. Of patent cases filed in 1995, 1997, and 2000, an average case lasted 444 days and 50% of the cases terminated in less than 300 days.[33] Yet a survey of cases terminating between 2003 and 2005, most of which were filed between 1995 and 2005,[34] shows the average length of a case in which a special master became involved—in any phase of the litigation—was 1,321 days, with over 50% of the cases being over 980 days in duration. Yet the special master was only appointed, on average, 1,100 days after the case began. In 50% of the cases, the appointment was made after the case had been going for 457 days.[35] Therefore, over half of the patent infringement cases had already lasted longer than the average duration of a patent case by the time a special master was appointed. While these figures signify the various points in a litigation that a special master may be appointed, it appears that there is an opportunity here to reduce the duration of patent suits through appointing a special master earlier in the litigation. A special master can help move discovery along by guiding it with the special master's knowledge and experience tied to patent cases, by resolving any discovery disputes, and by helping the parties and the judge focus on arguably the most dispositive portion of a patent infringement case—claim construction.

Timing

Parties must also consider the importance of the timing of a claim construction hearing and determination. In about 55% of patent cases, the parties are given a significant say as to when a claim construction hearing will take place.[36] This means parties are given the opportunity to be proactive and have claims construed early in the litigation. As noted, in many jurisdictions, such as the Northern District of California, the courts have local patent rules governing the procedure, disclosures, and the timing of *Markman* determinations. The courts will usually follow these rules, but modify them where appropriate, often after consultation with the parties at a status conference or a Federal Rule 26 case management conference.

Generally speaking, claims are construed by different courts at many different points in a case. According to one commentator, 58% of claim construction hearings occur after completion of discovery, before trial; 22% occur during the period for discovery; 12% take place at trial; and 8% are held before discovery.[37] However, a survey of federal district court judges estimates that in cases where a hearing on claim construction was held, about 60% were held prior to the close of discovery.[38]

While numerous factors go into deciding when a claim construction hearing takes place, the parties will gain a much better understanding of a case's value and risks once claim construction occurs. This is especially so when a special master heavily participates in the claim's construction because, as described below, those decisions have proven more durable in complex patent cases.[39] Therefore, parties should confer and work with the trial judge early on to decide if, when, and how a special master may be requested to aid the court.

Efficiency and Claim Construction on Appeal Where Special Masters Were Involved

More predictable outcomes breed more efficient outcomes in complex litigation cases. Uncertainty is a major culprit in adding to the length and costs of patent infringement litigation, whereby litigants and the court invest money and time to the fullest through expensive discovery, pretrial proceedings, trial, and appeal.[40] Predictable and reliable outcomes can streamline cases into reaching their ultimate outcome at a reduced cost, and may also lead to more settlements in the long run.

It is very difficult to measure the motives and the satisfaction or dissatisfaction of the parties with patent litigation processes and procedures. Satisfaction is often bound up with success or loss, and liabilities come with money, costs, risks, and particularly injunctions, which affect the workplace and jobs of employees. The winning or successful parties are pleased with the result and often then express satisfaction with the process. Losers often blame the process for their loss, and complain about the costs and time and length of the case. There seems to be no question that patent cases cost too much and that special masters may ultimately save time and costs and enhance the satisfaction of the parties and the trial judge.

Looking at case outcomes, we see that cases decided by judges have been faring about as well as juries in their construction of claims.[41] But how do cases with special masters fare on appeal? First, are they appealed more often?

The recent study for the Federal Judicial Center makes a distinction, in studying appeals, between patent cases generally and complex patent cases. The latter are those cases that last for more than 1,000 days. For claim construction, the appeal rate for complex patent cases utilizing special masters is lower than the appeal rate in complex patent cases (2.9% versus 5%).[42]

Secondly, once appealed, how do claim constructions stand up? Claim construction is a legal question, and, as such, it is reviewed de novo by the Federal Circuit on appeal. And the Federal Circuit will not, generally, take interlocutory appeals of claim construction determinations. Patent reform bills have proposed requiring the Federal Circuit to do so,[43] but so far these have not been successful. Judge Holderman has stated the following regarding the costs of patent litigation: "Should the Federal Circuit on appeal determine that the district judge's claim construction was erroneous, all the money and time spent litigating the case in the district court following the erroneous claim construction by the district court is thus a wasted expense."[44] Therefore, the rate of appeal, discussed above, and the reversal rate matter greatly to a litigant, and erroneous claim constructions that are reversed add significantly to the costs.

In the context of the reversal rate on appeal of all claim construction decisions where a special master contributed heavily, the latest study noted that there is not enough data to provide meaningful guidance. However, statistics regarding *complex patent cases* overturned are encouraging. The study found that where no special master was appointed, 11.7% of all complex patent litigation cases were ultimately reversed on appeal. However, in complex patent cases where a special master was appointed, the study concluded that only 3.6% of cases were ultimately reversed.[45] These statistics support the contention that the use of special masters, in the context of claim construction, may also provide great value and more certainty on appeal.

To summarize, the Federal Judicial Center study ended with the following conclusions:

- The appeal rate among [all patent] cases in which special masters were employed was comparable to that of the total population of patent cases, as was the reversal rate.
- Since special masters are most often appointed in complex, long-duration patent cases, it is meaningful to compare the appeal rate and the reversal rate of special-master-appointed patent cases with other complex patent cases. [For such complex, long-duration cases, the] appeal rate among cases in which special masters were employed was half that of other complex patent cases. The reversal rate is also lower for [such complex] patent cases with special masters when compared to the reversal rate for all complex patent cases.
- The most common area in which special masters worked—claim construction—is less likely to be the subject of an appeal when compared to the appeal rate for claim construction in all complex patent cases.[46]

So, parties to patent litigation must ask themselves whether they want to consider encouraging the court to appoint a special master.

Conclusion

Just as a medical specialist can more quickly and accurately diagnose a specific and complex medical problem than a generalist physician, so too can a special master help construe complex patent claims more quickly and accurately than a generalist district court judge without special training in technology and/or patent law. Getting things right the first time, at the trial court level, can save the parties substantial sums on appeal. So the cost of a special master can be money well spent if the special master makes a case more predictable and less likely to be appealed or less likely to be overturned on appeal. After all, having a judgment reversed can mean wasted money at the trial court level, since appellate review is de novo, and a remand can mean a second trial of a lengthy patent case. By choosing the more certain path, the parties can more meaningfully predict what would happen on appeal and assign a more accurate value to the case. In sum, litigants and their attorneys should ask whether appointing a special master early in a case for claim construction can aid the court in providing a better, more certain, and earlier result in patent cases. ■

Endnotes

1. Jay P. Kesan & Gwendolyn G. Ball, Fed. Judicial Ctr., A Study of the Role and Impact of Special Masters in Patent Cases 12 (2009).

2. *Ex parte* Peterson, 253 U.S. 300, 312–13 (1920).

3. Gregory J. Wallace, *Toward Certainty and Uniformity in Patent Infringement Cases After* Festo *and* Markman*: A Proposal for a Specialized Patent Trial Court with a Rule of Greater Due Diligence*, 77 S. Cal. L. Rev. 1383 (2004).

4. *In re* Japanese Elec. Prod,. Antitrust Litig., 631 F.2d 1069 (3d Cir. 1980); *compare In re* U.S. Fin. Sec. Litig., 609 F.2d 411 (9th Cir. 1979).

5. SRI Int'l v. Matsushita Elec. Corp. of Am., 775 F.2d 1107 (Fed. Cir. 1985).

6. *Id.* at 1109.

7. Alcatel Internetworking, Inc. v. Cisco Syst., Inc., C.D.CA., CV 00-05799-SVW (CWx), Nov. 4, 2002 (C.D. Cal.).

8. *Id.*

9. 517 U.S. 370, 372 (1996) (*Markman II*).

10. KESAN & BALL, *supra* note 1, at 6.

11. REBECCA N. EYRE ET AL., FED. JUDICIAL CTR., PATENT CLAIM CONSTRUCTION: A SURVEY OF FEDERAL DISTRICT COURT JUDGES 11 (2008).

12. Markman v. Westview Instruments, Inc., 52 F.3d 967, 989 (Fed. Cir. 1995) (Mayer, J., concurring) (*Markman I*).

13. *E.g.*, Crystal Semiconductor Corp. v. Tritech Microelectronics, Int'l Inc., 246 F.3d 1336 (Fed. Cir. 2001); Datapoint Corp. v. Standard Microsystems Corp., 31 Fed. App'x 685, 2002 WL 243431 (Fed. Cir. 2002) (not published); AK Steel Corp. v. Sollac, 344 F.3d 1234 (Fed. Cir. 2003); Ferguson Beauregard/Logic Controls v. Mega Sys., LLC, 350 F.3d 1327 (Fed. Cir. 2003); Northrop Grumman Corp. v. Intel Corp., 325 F.3d 1346 (Fed. Cir. 2003).

14. Eyre et al., *supra* note 11, at 14.

15. Thomas L. Creel & Thomas McGahren, *Use of Special Masters in Patent Litigation: A Special Masters Perspective*, 26 AIPLA Q.J. 109, 132–136 (1998).

16. *Ex parte* Peterson, 253 U.S. 300, 312 (1920) ("Courts have in the absence of prohibitions, *inherent authority* to provide themselves with the instruments required for the performance of their duties. This power includes the authority to appoint [special masters.] From the commencement of our government [this inherent authority] has been exercised by the federal courts, when sitting in equity by appointing, either with or without the consent of the parties, special masters. . . .").

17. John S. Wiley Jr., *Taming Patent: Six Steps for Surviving Scary Patent Cases*, 50 UCLA L. REV. 1413, 1469–70 (2003).

18. FED. R. CIV. P. 53(a)–(b). However, Federal Rule of Civil Procedure 53(b) does not expressly address whether the exceptional condition requirement applies when special masters, not magistrates, are appointed with the consent of the parties. *See* Advisory Committee Notes to Fed. R. Civ. P. 53.

19. FED. R. CIV. P. 53(a)(1).

20. *See* Nebraska v. Wyoming, 504 U.S. 982 (1992).

21. Donna M. Gitter, *Should the United States Designate Specialist Patent Trial Judges? An Empirical Analysis of H.R. 628 in Light of the English Experience and the Work of Professor Moore*, 10 COLUM. SCI. & TECH. L. REV. 169, 177 (2009).

22. *Id.*

23. TechSearch LLC v. Intel Corp., 286 F.3d 1360 (Fed. Cir. 2002), *cert. denied*, 537 U.S. 262 (2002).

24. *Id.* at 1368–69.

25. *See* Monolithic Power Sys., Inc. v. O2.Micro Int'l Ltd., 558 F.3d 1341 (Fed. Cir. 2009).

26. Judge James F. Holderman & Halley Guren, *The Patent Litigation Predicament in the United States*, 2007 U. ILL. J.L. TECH. & POL'Y. 1, 105–6, 114 (2007).

27. *Id.* at 117–18.

28. *See* Vitronics Corp. v. Conceptronic, Inc., 90 F.3d 1576 (Fed. Cir. 1996), and its progeny, allowing use of experts for background and education on the technology).

29. KESAN & BALL, *supra* note 1, at 4–5.

30. *Id.* at 5.

31. *See* Cheryl L. Johnson, *Why Judges Are Destined to Flunk Their* Markman *Tests: The History of Their Claim Construction Assignment, in* How to Prepare & Conduct Markman Hearings 2006, PATENTS, COPYRIGHTS, TRADEMARKS, AND LITERARY PROPERTY COURSE HANDBOOK SERIES 9, 67 (2006); and *see* Law Practice Management Committee, Report of the Economic Survey 2007, 26 (AIPLA 2007).

32. See AIPLA Report of the Economic Survey 2009 (AIPLA, Arlington, VA), and previous similar reports.

33. KESAN & BALL, *supra* note 1, at 8.

34. *Id.* at 1.

35. *Id.* at 9.

36. EYRE ET AL., *supra* note 11, at 16.

37. Johnson, *supra* note 31, at 58.

38. EYRE ET AL., *supra* note 11, at 17.

39. KESAN & BALL, *supra* note 1, at 12.

40. Holderman & Guren, *supra* note 26, at 111.

41. Johnson, *supra* note 31, at 22.

42. Kesan & Ball, *supra* note 1, at 12.

43. *See* S. 1145, the Patent Reform Act of 2007, 110th Cong., 1st Sess. (introduced Apr. 18, 2007, as amended June 21, 2007, by Manager's Amendment), and H.R. 1908, the Patent Reform Act of 2007, 110th Cong., 1st Sess. (introduced Apr. 18, 2007, as amended June 21, 2007, by Amendment in the Nature of a Substitute), which both add to 28 U.S.C. § 1292(c) a new subsection (3) providing for "an appeal from an interlocutory order or decree determining construction of claims in a civil action for patent infringement under section 271 of title 35."

44. Holderman & Guren, *supra* note 26, at 111.

45. Kesan & Ball, *supra* note 1, at 11.

46. *Id.* at 12–13.