Rocket Docket: Marshall Court Leads Nation in Hearing Patent Cases

BY MICHAEL C. SMITH

One of the major functions of a court of law is to enforce property rights — to hear and resolve disputes over the ownership of property. One of the most active courts doing that in the United States sits in the small East Texas town of Marshall in the Sam B. Hall, Jr. Federal Building and U.S. Courthouse. The local federal district court resolves more patent cases each year than any other single court in the nation.

Since 1964, Marshall has been home to a division of the U.S. District Court for the Eastern District Texas. Congress has authorized federal courts to hear cases seeking to enforce patents issued by the U.S. Patent and Trademark Office. Approximately 2,700 such cases are filed annually. Almost one in 10 is filed in the Eastern District of Texas, and a little more than half of those are filed in Marshall.

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What are patent cases? Many patent attorneys explain it this way: A patent is essentially a deed to a piece of property, but instead of being real or personal property, like land or a car, it covers a piece of intellectual property. The key first step in any patent case is obtaining the patent from the U.S. Patent and Trademark Office. This is accomplished by filing an application, which the inventor (or, most of the time, his or her attorney) then "prosecutes" through the examiners at the U.S. Patent and Trademark Office. The patent prosecution may eventually lead to the grant of an "issued" patent, which has several "claims" that define the scope of what the patent covers. The inventor is an individual, but the inventor's employer may (and often does) file and prosecute the application on behalf of that individual.

Once the inventor has the patent, as with any other piece of property, he or she can use it to manufacture a product, rent or "license" the property to manufacturers seeking to profit from the inventor's new idea, or sell the patent. Essentially, the inventor has created a piece of property — intellectual property — which he or she can do with as desired. Patents are a form of personal property and are freely assignable. In some cases, the patent may be purchased by an intellectual property holding company. These companies are sometimes created for the express purpose of attempting to license the patent and may enforce the patent by litigation if licensing to companies believed to be using or "practicing" the patent is unsuccessful.

How do these cases get to Marshall? The simple answer is that the venue statute that applies to patent cases permits a plaintiff to bring suit in any district in which the defendant does business, as well as in any district in which the product that is alleged to infringe is sold or offered for sale. If this provision appears broad, it is. In most cases, venue will be at least permissible in almost every judicial district in the nation. Thus, owners of intellectual property are acutely interested in which districts are more efficient at processing these cases. The cases have traditionally moved from district to district as courts show themselves to be more or less efficient at processing these enormously complex cases.

However, even if the district in which the case was filed is proper, the judge can still transfer the case to another district if he or she believes that the forum is unfairly inconvenient to the defendant or the key witnesses in the case. The judge can also transfer the case if the proceeding is inconsistent with principles of judicial economy because, for example, another case involving the same patent is already pending before another federal court. Such motions are filed in most cases, but the law imposes a heavy burden on the defendant to show, using certain defined factors, that a transfer from the plaintiff's chosen forum is appropriate. Essentially, a defendant in an Eastern District court must show that a forum that

processes cases quickly and efficiently is substantially less convenient than an urban court that has little experience with, or interest in, patent cases and which is struggling under a mountain of criminal cases. Perhaps not surprisingly, few such motions are granted.

More than 500 patent infringement cases have been filed in the Eastern District since 2000, with 237 patent cases filed in the year ending Oct. 30, 2006. In fact, more patent lawsuits will be filed in Marshall this year — a little more than half of those filed in the district — than in almost any other federal court in the nation. Why? Attorneys and other commentators cite speed, expertise on the part of the judges, and juries that are interested in the property rights that a patent represents.

Speed Is the Key

Nationally, a complex patent infringement case can take several years — and millions of dollars in legal fees on each side — to bring to trial. One of the keys to the Marshall court's success is its reputation in resolving disputes quickly and inexpensively. In 1993, the late Judge Sam B. Hall, Jr., who was at that time presiding over the Marshall docket, noted "Parkinson's Law." Created in 1957 by British historian C. Northcote Parkinson, Parkinson's Law states "work expands so as to fill the time available for its completion."[1] Judge Hall noted that the judges of the Eastern District sought to reduce the "transactional costs" of modern civil litigation "by containing the amount of discovery permitted in a given case, and the time permitted for such pretrial activity." By enacting the procedures that the judges in Marshall now apply, "the Eastern District has attempted to balance the needs of the parties for legitimate discovery against the costs of that discovery to litigants and to our society at large."[2]

The comments from the former Marshall congressman, for whom the courthouse would later be named, were nothing new to Eastern District veterans. For several decades, the Eastern District has had the reputation as a good place to try cases because the courts provided a firm trial setting, simplified and expedited discovery procedures, and judges who actively control their docket. As a result, a case that might take three to five years — and millions of dollars in costs and attorney's fees — takes 14 to 18 months in Marshall. "Regardless of the side of the case you're on," one lawyer observed, "a lawyer in a case wants one of two things to happen: you want to win, or you want to get out of the case losing as little money as you can. And time is money."

Starting in 1992, corporate litigants sat up and took notice of the fast trial settings available in Marshall to enforce their intellectual property rights. Dallas corporate giant Texas Instruments started the trend. TI was looking for a court with a fast trial setting for it to enforce its extensive patent portfolio. That portfolio represents hundreds of millions of dollars annually to TI and its shareholders. Moreover, its enforcement was critical to the survival of companies that had agreed to pay TI licensing fees to use those patents. Those licensees were faced with competitors that could undercut them in the marketplace because they were not paying royalties for the TI intellectual property they were using, as TI's licensees were.

TI was directed to Marshall, where it filed the first of what would become almost two dozen cases over the next 10 years. Judge Hall denied the defendant's request to transfer the case to Idaho, where the trial setting was years in the future, and the case settled the next year when it became clear that the judge in Marshall could and would try the case. TI followed with several other cases, and other global corporations such as Ericsson followed suit, coming to rural East Texas to find a judge that would set their cases for trial. TI's activities in the Eastern District culminated in a 1999 trial in which TI won a $25.2 million verdict against Korean manufacturer Hyundai Electronics.[3] Shortly before the judgment was entered, the parties entered into a cross-license requiring Hyundai to pay TI approximately $1.1 billion over the ensuing five years.

Beginning in 2000, the character of the patent cases changed as more and more small intellectual property holding companies began filing their infringement cases in Marshall. Sometimes derided as "patent pirates" or "patent trolls," these companies often consist of groups of investors hoping to generate profits from the intellectual property they have invested in.

One of the keys to the speed to trial lies with an often-unnoticed aspect of the Marshall federal court's docket — it has very few criminal cases. The federal courts' burgeoning federal criminal caseload has resulted in federal district courts literally being swamped with criminal cases. Today, the typical docket for a federal judge consists of about half civil cases and half criminal cases and their offspring, prisoner cases. But "speedy trial act" statutes that give criminal cases precedence over their civil counterparts mean that corporations and other civil litigants in large urban courts must often sit through repeated docket calls waiting for an opportunity to present their case to a jury. No trial setting is firm, causing the costs of civil litigation in those federal courts to rise dramatically. In addition, corporations and other civil litigants in large urban courts often face extended delay when they attempt to enforce their patents against alleged infringers.

In Marshall, on the other hand, for various reasons, the local court's criminal docket hovers at around 10 percent, meaning that civil cases are virtually never "bumped" in favor of a criminal case, thus keeping trial settings — which drive settlements — rock solid.

JUDGES' EXPERTISE

Another reason that observers cite for intellectual property holders to file in Marshall is the expertise of the local judges. U.S. District Judge T. John Ward, who was appointed in 1999 by President Bill Clinton, is a Longview native who spent most of his 30-plus-year career as one of the leading defense lawyers trying cases throughout East Texas. Estimates vary, but Judge Ward is believed to have tried to a verdict between 250 and 400 cases as a lawyer. Judge Ward handles 70 percent of the docket, with two other district judges helping out: Judge David Folsom of Texarkana, a 1994 Clinton appointee, and Judge Leonard Davis of Tyler, who was appointed by President George W. Bush in 2002. In fact, Judge Davis, Judge Ward, and Judge Folsom were recognized in 2005 as being the number one, number two, and number six judges in the nation in terms of patent cases filed nationwide. More recently, Judge Ron Clark of Beaumont, another 2002 Bush appointee, has also been hearing cases from Marshall in addition to his regular dockets in the Lufkin and Beaumont divisions.

What these judges have in common is a background in trial practice and in practice in the Eastern District, where cases historically move quickly. Another common feature is their use of what are now called the "Local Patent Rules," which were first introduced in the Eastern District by Judge Ward shortly after taking the bench in 1999. Copied from similar rules in the Northern District of California, the patent rules provide a structure for the unique "claims construction" portion of a patent case and move cases along through the initial stages with a minimum of fuss and attention by a busy judge.

"Claims construction" often requires a brief explanation. One of the aspects of patent cases that is unusual — what, in fact, requires the special rules for the initial stages — is the 1995 decision by the Federal Circuit Court of Appeals, which is the appellate court to which all patent cases are appealed, that the determination of what the terms in a patent mean is a legal issue, not a factual one.[4] Consequently, judges, not juries, must decide what the words in a patent mean.

As noted, patents are essentially deeds to an idea, and the initial question, "What does this patent cover?" requires an analysis of what the patent means and covers — not unlike a survey of a piece of land. Judges now do this during "claims construction" or *Markman* hearings by construing what the terms in the patent claims mean and, accordingly, what the patent covers. Essentially, they determine whether a word in the patent means what the plaintiff argues it does, what the defendant argues, or something entirely different.

But the mortality rate of judges' claims construction rulings in patent cases, which are reviewed under the *de novo* standard, is extraordinarily high on appeal, with the Federal Circuit reversing at least part of the judge's ruling approximately 40 percent of the time. But not in Marshall. Despite handling more than 200 patent cases between them at a time, Judges Ward and Davis have *never* been reversed by the Federal Circuit — the closest either has come was a revision of one claim term in one order by Judge Ward. This startling fact underscores the expertise that the local judges have developed in these complex cases. For better or worse, when the judge hands down his construction of the terms in the patent, thus setting the metes and bounds of the plaintiff's invention, the ruling is — at least thus far — virtually bulletproof on appeal.

JURORS

Finally, local jurors play a role in the success of the docket as well. According to local attorneys familiar with patent cases, Marshall jurors differ somewhat from other jurisdictions. For one thing, a rural jury panel tends to be somewhat less formally educated than an urban one and to have less technical expertise in the complex fields that make up most of the patent cases. This places a premium on attorneys' ability to simplify cases and relate them to local jurors' experiences.

Another reason is that patent cases are about property rights. East Texas residents traditionally place great emphasis — sometimes bordering on the obsessive — on property rights and understand the concerns of a company whose property rights are being violated, whether it is the plaintiff or the defendant. The subject matter of patent cases is often extraordinarily complex, but at bottom the cases themselves are conceptually very simple — the patent owner claims that the defendant took his property and wants the defendant to pay what's fair.[5] The defendant, on the other hand, claims that the plaintiff's patent is no good, and that even if it were, the defendant isn't infringing it.

Many commentators have claimed that Marshall jurors are "plaintiff-friendly" and that enormous jury awards are the norm in Marshall. However, the facts are somewhat less one-sided in patent cases. While it is true that in most of the two dozen or so cases tried either to the judge or the jury, the plaintiff has prevailed, only approximately 5 percent of the cases filed survive the process to actually be tried, and the win rate of the surviving, and presumably more meritorious, cases at trial is still not far off of the national average of 68 percent.

Paradoxically, the results in neighboring courts which are traditionally perceived as far more conservative are actually far more favorable to plaintiffs than Marshall. Two of the five largest verdicts from this Eastern District (defined as verdicts of more than $10 million), including the largest — a $133 mil-

lion verdict against Microsoft and another defendant — came out of the conservative venue of Tyler; a third was from Beaumont. Marshall has only the 1999 Texas Instruments verdict of $25.2 million and the 2006 verdict of $74 million in *TiVo v. Echostar*.[6]

In addition, the last two patent cases tried in Marshall have resulted in defense wins, putting the division as a whole below the statistical average for the year. Local juries' supposed generosity is apparently common talk in legal circles in New York and San Francisco, helped along by recent business section features in *The New York Times* and *The Dallas Morning News*, as well as regional and national legal publication such as *The National Law Journal*, *Lawyers USA*, and intellectual property publications such as *Managing Intellectual Property*. Local attorneys agree that it is the facts of the cases and the quality of the lawyering that typically drive the verdicts — not the jurors' preconceptions.

The Future

Where is the Marshall patent docket headed? History indicates that after a few years there is a slowdown in the volume of patent cases filed in a district as judges lose interest and the courts become inundated with these very complex and time-consuming cases. However the patent docket is continuing to expand in the Eastern District. And the patent docket in other divisions within the district, specifically Tyler and Lufkin, which currently have 35 percent of the patent docket, is growing as well. This expansion of the docket from Marshall into the surrounding divisions where additional judges and resources are available has helped keep the docket moving, as has the fact that the Marshall federal courthouse received a new courtroom in a recent renovation and expansion and a new magistrate judge position for Marshall was authorized by the U.S. Judicial Conference in September 2006.

And other changes are in the wings as well. The historic old Harrison County courthouse built in 1901, which has been the centerpiece of the community's annual Wonderland of Lights holiday light festival, is nearing completion of an extensive renovation. Once renovations are complete, the old balconied state district courtroom will be available to the federal courts as an overflow courtroom, allowing up to three federal court proceedings at the same time.

With these greatly expanded resources, the Eastern District in general and the Marshall docket in particular should be able to keep the docket moving and deter patent owners for the foreseeable future from looking elsewhere for a court that can provide an efficient resolution to their claims that somebody is infringing their patent.

Notes

1. *R&D Business Systems v. Xerox Corp.*, 151 F.R.D. 87, 89, n.3 (E.D. Tex. 1993).
2. *Id.* at 89-90.
3. *Texas Instruments, Inc. v. Hyundai Electronics Industries, Co.*, 49 F.Supp.2d 893, 895 (E.D.Tex. 1999).
4. *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 979 (Fed.Cir.1995).
5. Until recently, a prevailing plaintiff in a patent case was entitled by Federal Circuit precedent to an injunction shutting down the defendant's production of the infringing product. However, the option to make the defendant stop infringing the patent, in addition to paying a reasonable royalty for past sales, was curtailed by the U.S. Supreme Court earlier this year in *eBay Inc. v. MercExchange, L.L.C.*, 126 S.Ct. 1837 (2006), and may no longer be available to patent owners who are not competing against the defendant by producing a competing product. Translated into traditional property terms, essentially, these property owners can get rent for their property, but they cannot evict a trespasser.
6. *TiVo Inc. v. EchoStar Communications Corp.*, 446 F.Supp.2d 664, 665 (E.D.Tex. 2006)

MICHAEL C. SMITH
is an attorney with the Roth Law Firm in Marshall. He chairs the Eastern District of Texas' Local Rules Advisory Committee, publishes the www.EDTexweblog.com blog on practice in the Eastern District of Texas, and edits *O'Connor's Federal Rules — Civil Trials*. He serves on the *Texas Bar Journal* Board of Editors.