

THE SEDONA CONFERENCE WORKING GROUP SERIES



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CONFERENCE

*Commentary on
Case Management of Patent Damages
and Remedies Issues*

A Project of The Sedona Conference
Working Group on Patent Damages and Remedies (WG9)

JUNE 2022 VERSION



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Preface

Foreword

As eight-figure and nine-figure patent damages jury verdicts become more common, other cases involve damage decisions or settlements for less than the cost of litigation. As a result, at both ends of the spectrum, patent damages law has become increasingly important. Even though the fifty-year-old *Georgia-Pacific* hypothetical negotiation framework for calculating reasonable royalties currently remains good law, patent damages law remains one of the most complex, unpredictable, and rapidly evolving areas of the law. Indeed, in many cases, the parties' expectations with respect to patent damages often differ by orders of magnitude. Such divergent views of patent damages make resolving cases short of trial much more difficult. Moreover, even a jury verdict may not add sufficient clarity or certainty to allow the parties to resolve remaining disputes—many jury verdicts regarding patent damages are being overturned by the Court of Appeals for the Federal Circuit or even by district courts in posttrial rulings.

Accordingly, beginning in 2012, Working Group 9 (WG9) undertook an effort to add clarity and predictability to the area of patent remedies, specifically to the reasonable royalty paradigm itself, as well as to issues relating to case management of patent damages and remedies issues. Participants and observers of the Working Group included a diverse group of attorneys, including inside counsel for patent holders (including non-practicing entities), inside counsel for practicing entities who often find themselves as defendants in patent litigation, and outside counsel representing both patentees and accused infringers. The Working Group also included expert witnesses who are regularly tasked with writing expert reports assessing patent damages. Members of the federal judiciary participated as observers to the Working Group.

The efforts of the Working Group initially culminated in a single draft white paper, entitled, *Commentary on Patent Damages and Remedies*, spanned several topics. That initial white paper was submitted to interested members of the public for feedback and comments, and its various parts were discussed in Sedona Conference Midyear and Annual Meetings in the 2014-16 time frame. All comments were collected and evaluated; many were discussed at length. Each section of the initial draft white paper was reconsidered in light of the comments received and revised to reflect the advanced thinking that resulted from the public community dialogue. After this process, WG9 divided the original paper into two separate Commentaries. The first paper, entitled *Commentary on Reasonable Royalty Determinations*, published in December 2016, addresses the history of the reasonable royalty and discusses principles and best practices to be considered in evaluating reasonable royalty damages. Although no consensus was reached, the dialog was nevertheless beneficial for its illumination of the advantages and disadvantages of different approaches, which are set forth in The Sedona Conference *Commentary on Patent Reasonable Royalty Determinations* (Dec. 2016 ed.). The Working Group is hopeful that the dialog about alternative frameworks for the hypothetical negotiation will continue.

This *Commentary on Case Management of Patent Damages and Remedies Issues* is the second paper and presents principles and best practices for addressing and managing patent damages and remedies issues as they arise in the various stages of litigation, including:

- pretrial management of patent damages and remedies issues: fact discovery; expert discovery; and damages hearings
- trial management of patent damages and remedies issues: trial time allocation; bifurcation of liability and damages for discovery or trial; and jury instructions and jury verdict forms; and
- posttrial management of patent damages and remedies issues: injunctions, ongoing royalties, and attorneys' fee

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Case Management of Patent Damages and Remedies Issues Principles “At a Glance”

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Principle No. 2 – A sufficient amount of trial time should be made available for the analysis of the damages portion of a patent case.10

Principle No. 3 – Bifurcation of a patent infringement case into separate liability and damages phases – for discovery and trial, or just for trial – may be appropriate, after consideration of the complexity of the case, the efficiencies to be gained, and the unfair prejudice that may result.....11

Principle No. 4 – When determining whether to grant a permanent injunction, the court should not ignore the patentee’s fundamental right to exclude.18

Principle No. 5 – A damages hearing can be used to facilitate communication between the court and the parties regarding competing damages theories by: (1) clarifying and narrowing the contested damages issues in the case; (2) identifying additional discovery the parties may require; (3) simplifying pretrial and trial proceedings (e.g., *Daubert* motions and motions *in limine*); and (4) facilitating settlement discussions.41

Case Management of Patent Damages and Remedies Issues Best Practices “At a Glance”

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Best Practice 11 – The court and the parties should discuss, starting at the earliest reasonable opportunity (*e.g.*, the scheduling conference), the process for permanent injunction proceedings, such as the extent to which an injunction will be considered in connection with, or separate from, any jury trial(s) on liability and damages.21

Best Practice 15 – Where requested, a stay of the injunction pending appeal should be considered as part of the overall injunction analysis. Stay analysis proceeds under its own set of factors distinct from *eBay*.22

Best Practice 12 – Analysis of the *eBay* irreparable harm factor includes whether there is a sufficient causal nexus between the allegations of infringement and irreparable harm.25

Best Practice 13 – The court should consider the following circumstances which, if present, may weigh in favor of granting a permanent injunction, in the context of a full analysis of the *eBay* factors:25

Best Practice 14 – The court should consider the following circumstances which, if present, may weigh against granting a permanent injunction, though in the context of a full analysis of the *eBay* factors:25

Best Practice 16 – In cases where an adjudged infringer has demonstrated willingness and ability to implement a design change that will avoid infringement (also called a “design around”), potential use of a sunset period may be considered as part of the injunction analysis.26

Best Practice 17 – The court and the parties should discuss, starting at the earliest reasonable opportunity (*e.g.*, the scheduling conference), whether injunction proceedings will require discovery beyond the usual discovery period, for example to ensure that relevant market evidence is reasonably current at an injunction hearing.26

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Best Practice 19 – Courts should adhere to the following principles in addressing a post-verdict royalty:28

Best Practice 20 – Courts should consider the following with respect to determining a post-verdict royalty:29

Best Practice 21 – The timing that may be used to hear evidence on the post-verdict royalty is dependent upon the facts and circumstances of a particular case and should be sensible and equitable based on those facts and circumstances.30

Best Practice 22 – A damages hearing, if held, should be conducted after the parties have disclosed their damages contentions, and sufficiently in advance of trial to allow the parties and the court to reap the full benefits of the hearing.41

Best Practice 23 – A damages hearing, if held, should be scheduled as soon as practicable, and ideally no later than 60 days before service of the opening Rule 26 expert report on damages (*i.e.*, the report from the party with the burden).42

Best Practice 24 – The discovery related to damages hearings should focus on key information that will allow experts to prepare a meaningful damages statement prior to the hearing. The type and timing of this discovery should be agreed upon in advance of the Rule 16 conference or ordered by the court at the Rule 16 conference if no agreement is reached.....42

Best Practice 25 – The parties should discuss damages issues as part of the Rule 26(f) and initial case management conference. These discussions should include a focus on the key types of discovery necessary to adequately prepare the expert statements to be used in the damages hearing.43

Best Practice 26 – When part of the case, damages contentions should be exchanged after infringement contentions but well enough in advance of the hearing to determine what, if any, additional damages discovery is necessary for the pre-hearing expert statements.44

Best Practice 27 – The parties should exchange short damages expert statements prior to the damages hearing setting forth the damages expert’s views regarding applicable damages theories, computations, information and preliminary opinions regarding key issues, as well as any discovery still required to finalize the expert’s theories and opinions.44

Best Practice 28 – Short technical expert statements related to damages should be exchanged prior to the damages hearing, setting forth the technical expert’s conclusions and bases for the conclusions regarding technical considerations involved in the issues highlighted by the damages expert’s pre-hearing statement. At its discretion, the court may omit technical expert reports.45

Best Practice 29 – The court should consider including processes, such as the preparation of an “agreed witness statement,” to identify prior to the hearing key topics as to which the experts agree and disagree.45

Best Practice 30 – The parties’ damages experts (and technical experts, as necessary) shall be made available to testify about their opinions, the bases therefor, and additional information needed to complete their final reports.46

Best Practice 31 – Questioning of each side’s damages expert should begin with clarifying questions from the court followed by brief, optional questioning by opposing counsel.47

Best Practice 32 – At the conclusion of the hearing, the court and the parties should understand the areas of agreement and disagreement concerning damages issues and know what additional discovery, if any, must be produced prior to the submission of expert reports.47

Best Practice 33 – Any deviations from a theory or position taken at the damages hearing should be explained in the Rule 26 expert report, and if the opposing party moves to strike, the proponent of the supplementation or modification should bear the burden of showing (i) good cause to support the supplementation or modification, as well as (ii) the absence of substantial undue burden to other parties.48

I. Introduction

II. Pretrial Management of Patent Damages and Remedies

Principle No. 1 – The pretrial period should be used to narrow damages disputes for trial, just as it is used to narrow disputes on merits issues in patent matters. The court should try to address the parties’ concerns regarding defective damages theories or evidence well before the motion in limine process.

Currently, there is no standard procedure or time for courts to consider the reliability or admissibility of damages-related testimony, theories, or evidence. Damages expert reports are often exchanged towards the end of discovery, near or even after the summary judgment deadline. Disputes regarding damages issues therefore are infrequently raised in summary judgment motions. Instead, motions attacking damages theories and evidence are raised in motions *in limine* or in *Daubert* motions. Indeed, parties in patent litigation routinely move to exclude damages experts’ testimony, theories, or evidence under Federal Rule of Evidence 702,¹ 402, and 403.²

Given the complexity and number of *in limine* and *Daubert* motions that are often filed on merits issues in patent cases, as well as all of the other pretrial issues the court must address (e.g., voir dire and jury instructions), it may be difficult for the court to devote its time and attention to damages motions—which can involve complex economic theories—just before trial.³

Furthermore, leaving motions regarding the viability of a damages theory to just before trial can create difficulties. First, a lack of attention to the parties’ damages disputes may bring settlement discussions to a standstill. Even where the parties are interested in settlement, closing the gap between them often requires clarity into the damages evidence that will be permitted at trial, and, particularly, the damages numbers that will be presented to the factfinder. Without this information, the parties may feel compelled to continue forward with litigation until they can conduct robust settlement discussions once the damages disputes are resolved.

Second, delayed resolution of damages disputes may result in the total exclusion of damages experts, damages theories, or evidence on the eve of (or during) trial. Exclusion of such evidence so late in the process is likely to significantly impair a party’s ability to present its case at trial, and may force an unfair settlement.

¹ See FED. R. EVID. 702; *Daubert v. Merrell Dow Pharms., Inc.*, 509 U.S. 579 (1993); *Kumho Tire Co. v. Carmichael*, 526 U.S. 137 (1999).

² See FED. R. EVID. 402, 403.

³ See e.g., *Emcore Corp. v. Optium Corp.*, 2009 U.S. Dist. LEXIS 96305, at *2–3 (W.D. Pa. Oct. 16, 2009) (“A motion *in limine* is not the proper procedural vehicle to raise these issues Optium’s Motion does not involve evidentiary rulings, or any other type of issue usually considered on an *in limine* basis. Rather, this Motion resembles a motion for summary judgment The time for filing Motions for Summary Judgment has long passed.”); *Power Integrations, Inc. v. Fairchild Semiconductor Int’l, Inc.*, 2006 U.S. Dist. LEXIS 67562, at *3 (D. Del. Sept. 20, 2006) (“[T]he Court concludes that Defendant’s second Motion *In Limine* is akin to a summary judgment motion. In this case, the jury will decide how many infringing sales and offers for sale took place in the United States based on the evidence submitted by the parties. Accordingly, the Court will deny Defendants’ motion.”).

There are several reasons for requiring early damages disclosures. Early disclosure may facilitate early resolution or settlement of a case. Early disclosure may facilitate proper proportionality determinations for purposes of discovery. The resolution of damages-related motions during the pretrial period will allow the parties to make adjustments to their damages theories in advance of trial,⁴ so as to not unfairly tip the scales in favor of a party whose damages theories are rejected. Thus, rather than waiting until late in the litigation to address damages disputes, it would be beneficial for courts to enter case management orders that provide for the early disclosure of damages theories so that one or both parties may seek summary adjudication or summary judgment, or bring other motions as appropriate, significantly in advance of the *in limine* period. In addition, early damages contentions disclosure will cause each party to focus on damages issues early in the process, leading to more streamlined analysis and discovery requests, and likely leading to more efficient use of expert and client time.

The Working Group, however, certainly understands the disadvantages of early damages disclosures. Among other things, it could be a very expensive exercise. For those exercises that are not very thorough and, therefore, not very expensive, the output could provide little assistance to accomplishing the stated goals. Further, damages theories often rely on discovery from the opposing litigant, and often that discovery occurs late in time. Moreover, damages approaches are highly dependent on the infringement issues, and specific and detailed infringement allegations are subject to substantial changes throughout the course of a case.

On net, the Working Group recommends the use of early damages disclosures, but at a fairly high level. In other words, the parties should identify their likely damages theories and, if possible, provide a rough calculation of damages. The parties should be encouraged to update the theories and calculations throughout the discovery process. Damages experts should not be compelled to adopt counsel's contentions when the experts serve their expert reports.

⁴ In order for a party to change or modify its damages theories or evidence on which it relies, it must properly disclose any new theories and evidence in accordance with the court's rules regarding such disclosures. *See* The Sedona Conference, *Commentary on Patent Litigation Best Practices: Use of Experts, Daubert, and Motions in Limine* Chapter, available at https://thesedonaconference.org/publication/Commentary_on_Patent_Litigation_Best_Practices_Use_of_Experts [hereinafter *Sedona WG10 Use of Experts Chapter*].

A. FACT DISCOVERY

1. Early Case Management

Best Practice 1 – The parties and the court should focus on damages issues early in the case, including at the required meeting of counsel under Fed. R. Civ. P. 26(f), during the initial case management conference, and in their initial disclosures.⁵

An early focus on damages issues is important for overall case management.⁶ The earlier the parties develop damages theories and damages estimates, the earlier they can frame their damages discovery and assist the court in making proportionality determinations necessary to resolve discovery disputes. Moreover, by focusing on damages issues in the early stages of the case, the parties may be able to develop a framework for settling the case earlier than they might otherwise.

Thus, it would be helpful in patent cases, but not deemed mandatory, to require that attention be given to damages issues at the Rule 26(f) meetings of counsel, in Rule 16 reports, and during Rule 16 initial case management conferences. This would include discussion between the parties and with the court of the appropriate timing and extent of early damages discovery or exchanges, including the exchange of formal damages contentions. To the extent one or both parties agree that an early focus on damages or damages contentions would not be beneficial for a given case, the parties should discuss their views during the Rule 26(f) meeting and should expect to explain their views to the court at the Rule 16 conference.

Requiring the party seeking damages to provide an early disclosure of its claimed damages is consistent with the existing initial disclosure requirements set forth in FRCP 26(a)(1)(A)(iii), which require a party seeking damages to provide:

(iii) a computation of each category of damages claimed by the disclosing party—who must also make available for inspection and copying as under Rule 34 the documents and other evidentiary material, unless privileged or protected from disclosure, on which each computation is based . . .⁷

⁵ [Identified as focal point for dialogue at the Sedona WG9/WG10 Midyear Meeting, Feb. 11-12, 2016 in Pasadena. There is a view that this is too early to discuss damages. The Working Group intends to seek public comment and consensus on this issue at the upcoming conference in Boston.]

⁶ See The Sedona Conference, *Commentary on Patent Litigation Best Practices: Case Management Issues from the Judicial Perspective Chapter* (Dec. 2015 Edition), at Sec. II.B.3. (Preliminary Statements Regarding Value of the Case for Determining Discovery Limits), available at https://thesedonaconference.org/publication/Commentary_on_Patent_Litigation_Best_Practices_Case_Management_Issues_from_the_Judicial_Perspective [hereinafter *Sedona WG10 Case Management Chapter*].

⁷ In a recent opinion, the Federal Circuit stated: “Rule 26 explains that the disclosures required under section (a)(2) [that governs the disclosure of expert testimony] are in “*addition* to the disclosures required by Rule 26(a)(1).” Fed. R. Civ. P. 26(a)(2) (emphasis added). And Rule 26(a)(1)(A)(iii) requires parties seeking damages to provide in their initial disclosures “a computation of each category of damages” as well as “the documents or other evidentiary material, unless privileged or protected from disclosure, on which each computation is based.” *MLC Intellectual Prop., LLC v. Micron Tech., Inc.*, No. 2020-1413, 10 F.4th 1358, 1371 (Fed. Cir. Aug. 26, 2021). See also *id.* n.2 (“Thus, to the

Historically, compliance with this provision has been more of the exception than the rule in patent litigations, largely due to the complexity of damages computations and party assertions that fact and expert discovery is necessary before a damages computation can be made. Yet, some judges and some district court local rules have required early damages disclosures notwithstanding these challenges.⁸ Even when a damages estimate cannot be computed due to missing information, a party seeking damages should be able to set forth its methodology(-ies) for computing damages, consistent with prevailing law. Moreover, the expectation is that more judges may require early disclosure of damages methodologies and, where possible, computation estimate, such as for example the range of damages, given the December 1, 2015 amendments to the Federal Rules of Civil Procedure, which explicitly require proportionality to be considered in the evaluation of discovery disputes. Under FRCP 26(b)(1), the “proportionality” analysis is to include consideration of the “amount in controversy.” This information will assist the courts in determining the “value” of the case, and to evaluate discovery disputes in light of that value or range of values; without such information, proportionality determinations may be more difficult to make.

2. Initial Damages Discovery

Best Practice 2 – Within a reasonable period of time after the Rule 16 conference, the parties should produce to each other initial discovery sufficient to allow the parties to set forth meaningful damages contentions.

Parties in litigation often contend that they are unable to provide damages contentions because they lack information from the other party (or in some instances from third parties). Relatedly, accused infringers often contend that such discovery is premature, or that it would be unduly burdensome due to highly generalized descriptions of accused instrumentalities, e.g., broad product categories. Therefore, it is useful for the court to require (absent agreement) the parties to exchange certain limited damages-related information within a short period of time following the Rule 16 conference, focused on the specified accused instrumentalities,⁹ in order to encourage the parties to focus on

extent possible, this initial disclosure should include a claimed royalty rate and the evidence that supports such a rate, "even though subsequent discovery may eventually warrant a modification of the calculation." (citing *Brandywine Commc'ns Techs., LLC v. Cisco Sys., Inc.*, No. C 12-01669, 2012 U.S. Dist. LEXIS 162165, 2012 WL 5504036, at *2 (N.D. Cal. Nov. 13, 2012)).

⁸ See, e.g., N.D. Cal. Patent Local Rule 3-8 (requiring *inter alia* identification of “each of the category(-ies) of damages [plaintiff] is seeking for the asserted infringement, as well as its theories of recovery, factual support for those theories, and computations of damages within each category;” N.D. Cal. Patent L.R. 2-1(b)(5), 3-8, 3-9; W.D. Pa. LPR 3.5, 3.6; D. Utah LPR 2.2(a)(6), 2.2(b)(4)) See also, e.g., *Brandywine Communs. Techs., LLC v. Cisco Sys.*, No. C 12-01669 WHA, 2012 U.S. Dist. LEXIS 162165, at *4-7 (N.D. Cal. Nov. 13, 2012)] (requiring as part of Rule 26(a)(1)(A)(iii) disclosure, “on pain of preclusion, subject to supplementation” for plaintiff to state the claimed royalty rate and state the claimed royalty base, and then multiply the two for a total, specifying the information by year, and to modify later, if required, based on subsequent discovery; requiring identification of any of the Georgia Pacific factors (if plaintiff intends to use the analysis) and identification of all evidence it relies on for that factor, “save and only except for such evidence as it could not be reasonably expected to possess (and does not possess) at the outset of the litigation;” and identification of any license agreement that the plaintiff may rely on it as a comparable for reasonable royalty purposes, then it should be so disclosed under Rule 26(a); and stating with particularity the reasons why any of the information is missing).

⁹ With the elimination of Form 18, the courts require more specificity in the initial complaint as to the accused instrumentalities which should aid the process of earlier damages disclosures. *See* The Sedona Conference,

damages-related issues and to be in a position to prepare meaningful damages contentions. Such discovery would include, but would not necessarily be limited to:

- a. sales, revenue, cost, and profit data for specifically accused instrumentalities;
- b. market share data for the market covering the accused instrumentalities;
- c. license or other agreements that include the patent(s) in suit;
- d. license or other agreements that (i) a party may use to support its claims or defenses; or (ii) involve patents within the scope of an agreed upon technology area of potential relevance;
- e. actual or likely non-infringing alternatives, whether available from the alleged infringer or a third party;
- f. documents sufficient to show marking of embodying accused instrumentalities; and
- g. any documents comprising or reflecting a F/RAND commitment or agreement with respect to the asserted patent(s).

In order to address the concern of overbreadth and undue burden, the court should consider requiring discovery to be provided only for “accused instrumentalities” described by name, model number, or functional description as part of the Rule 26 damages computation or methodology description. So as to not allow functional descriptions to create an overwhelming discovery obligation, they should be specific. At a minimum, in order to trigger a discovery obligation, a functional description should provide a technical description of an accused product, and not merely a product category, that is sufficiently detailed so that the accused infringer easily can identify by name or model number any accused instrumentality not already identified in that way.

3. Damages Contentions

Best Practice 3 – The court should consider requiring the parties to exchange damages contentions relatively early in the discovery period, shortly after service of initial damages discovery. If the court does not require damages contentions, the parties should work together on a schedule that would permit the exchange of damages contentions significantly in advance of the exchange of damages expert reports.

Good faith damages contentions, by both parties, are helpful in patent litigation for several reasons: they may provide guidance to the court and the parties for managing discovery in accordance with the “proportionality” doctrine now embodied in the Federal Rules; they may improve the productivity of settlement discussions that might otherwise be lacking in an understanding of

Commentary on Patent Litigation Best Practices: Pleading Standards Under Iqbal-Twombly Chapter, available at https://thesedonaconference.org/publication/Pleading_Standards.

damages theories or evidence; and they may help identify disputes that can be appropriately addressed early in the case as a matter of law, and which would materially shape the litigation. For example, where damages theories of one side or the other are legally deficient, early identification of that deficiency may reduce or eliminate needless and burdensome discovery, as well as any associated late-stage motion practice.

Accordingly, the court should consider requiring the exchange of damages contentions, such as that provided by Proposed Model Rule for Damages Contentions, attached hereto as Appendix A. The court and the parties are encouraged to consider the feasibility of such early disclosures in each case; weigh the benefits and costs of the early disclosure; and discuss reasonable mechanisms for supplementation if early disclosures are required.

During the initial public comment period, some commenters have raised the concern that requiring damages contentions may give rise to additional discovery disputes. As with new discovery requirements generally, there is always this concern. The Working Group members also share the concern that if the disclosures are required too early in the case, they may be too expensive and with limited utility that is caused by limited information provided early in the case. To balance these concerns, the Working Group believes that the exchange of initial damages discovery and damages contentions—at least at the level of the identification of the legal theories, licenses that support the legal theories, royalty base, and where possible, royalty rate—in most cases will have a net helpful effect on patent litigation, in that they will allow for earlier understanding of positions, earlier settlements or resolutions of significant damages disputes, and ideally allow for cost savings in narrowing the potential field of substantive and discovery disputes that would have to be pursued in discovery. Further, once parties and courts have experience with damages contentions requirements, the case law should provide guidance to reduce the frequency of disputes over time.

B. EXPERT DISCOVERY

Best Practice 4 – Courts should make clear to the parties early on whether amendments or supplementation will be allowed in the event of a successful *Daubert* motion and if such will be allowed, should set the time for *Daubert* motions sufficiently in advance of trial to prevent prejudice to the opposing party or delay to the trial schedule

Another practical reality facing litigants and district court judges in patent cases is the increased prevalence of *Daubert* motions and motions *in limine* during pretrial proceedings to challenge damages expert testimony, theories, and evidence for a variety of reasons that include reliability, applicability, relevance, and undue prejudice.

“The legal framework for admission of expert testimony is provided by the Federal Rules of Evidence, along with *Daubert v. Merrell Dow Pharms.*,¹⁰ and its progeny. . . . Under these rules and precedent, a district court judge, acting as a gatekeeper, may exclude evidence if it is based upon unreliable principles or methods, or legally insufficient facts and data.”¹¹ A district court judge’s gatekeeper role in evaluating reasonable royalty calculations is complicated by the fact that

¹⁰ 509 U.S. 579 (1993)

¹¹ *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1314 (Fed. Cir. 2014).

“estimating a ‘reasonable royalty’ is not an exact science,” that there may be “a range of ‘reasonable’ royalties, rather than a single value,” and that “there may be more than one reliable method of estimating a reasonable royalty.”¹² In addition, parties may also seek to exclude specific damages theories and evidence pursuant to Federal Rules of Evidence 402 and 403.

There is currently no standard procedure or time for courts to consider the reliability or admissibility of damages expert testimony, theories, and evidence. There is also no current consensus as to whether a party should be allowed to amend a damages expert report to respond to an adverse admissibility ruling. Some courts have refused such requests to amend, citing such considerations as whether the amendment would cause prejudice to the other party, whether the failure to disclose the amended theory earlier was substantially justified, and whether allowing a “second bite” at damages would encourage overreaching on the “first bite.”¹³ Other courts have been more lenient in granting leave to amend after weighing other similar considerations.¹⁴

The Working Group recommends that courts consider adopting procedures—such as early damages discovery and meaningful damages contentions, as proposed above—to facilitate the early resolution of motions challenging the admissibility of damages expert testimony, theories, and evidence. In the event the court determines it will allow amendment or supplementation of expert reports after resolution of *Daubert* motions, the court should consider issuing an order early on in the case setting forth the dates by which the parties may supplement or amend their expert reports in light of any ruling and the parameters for such amendment or supplementation. Such a schedule should allow the parties an opportunity to respond to any adverse rulings without causing unfair prejudice to the

¹² *Id.* at 1315.

¹³ *See, e.g.,* Nelson v. Tenn. Gas Pipeline Co., 243 F.3d 244, 250 (6th Cir. 2001) (“[F]airness does not require that a plaintiff, whose expert witness testimony has been found inadmissible under *Daubert*, be afforded a second chance to marshal other expert opinions and shore up his case before the court may consider a defendant’s motion for summary judgment.”); *In re* Pfizer Inc. Sec. Litig., No. 4-CV-9866-LTS-HBP, 2014 WL 3291230, at *12-18 (S.D.N.Y. July 8, 2014) (denying motion to amend damages expert report after adverse admissibility ruling because amended disclosure came on the eve of trial, would be unduly prejudicial to the defendants if the court maintained the current trial schedule, and the plaintiff offered no substantial justification for failing to present its amended economic analysis earlier in the case); Allen v. Dairy Farmers of Am., Inc., No. 5:09-CV-230, 2014 WL 2040133, at *15-26 (D. Vt. May 16, 2014) (rejecting the plaintiff’s contention that FRCP 26(e) allows a party to “correct” an expert opinion in response to an adverse evidentiary ruling, and striking expert’s amended testimony because it was neither harmless nor substantially justified); Network Prot. Scis., LLC v. Fortinet, Inc., No. C 12-01106 WHA, 2013 U.S. Dist. LEXIS 138890, at *25-26 (N.D. Cal. Sept. 26, 2013) (“Over the course of many years and more than a dozen patent trials, the undersigned judge has concluded that giving a second bite simply encourages overreaching on the first bite (by both sides). A second bite may be appropriate where the expert report can be salvaged with minimal disruption to an orderly trial, but where the report is not even close, there is a positive need to deny a second bite in order to encourage candor in the first place.”).

¹⁴ *See, e.g.,* ZF Meritor, LLC v. Eaton Corp., 696 F.3d 254 (3d Cir. 2012) (holding that district court in antitrust case abused its discretion in refusing plaintiffs’ request to amend its damages estimate in response to an adverse admissibility ruling because the proposed amendment would not have caused substantial prejudice, involved only the substitution of inputs in an arithmetic calculation based on the same data and same methodologies disclosed in the original expert report, there was no evidence of bad faith, and public policy supported allowing plaintiffs to proceed to a damages trial); ThinkOptics, Inc. v. Nintendo of Am., Inc., No. 6:11-CV-455, 2014 U.S. Dist. LEXIS 84529, at *10 (E.D. Tex. June 21, 2014) (excluding expert testimony in patent case on *Daubert* motion, but allowing expert to “amend his report and recalculate his reasonable royalty in light of the Court’s ruling”); Krueger v. Johnson & Johnson Prof'l, Inc., 160 F. Supp. 2d 1026, 1031-32 (S.D. Iowa June 29, 2001) (reopening discovery in design defect case after excluding the plaintiff’s technical expert because of the difficulty of obtaining a satisfactory expert and the centrality of such testimony to proving the plaintiff’s case).

opposing party or undue delay to the trial schedule. After much discussion, the Working Group’s ultimately concluded that this is the better course, i.e., allowing the parties to amend and/or supplement expert reports in response to adverse rulings along an appropriate timeline that is set forth early in the case and that avoids causing unfair prejudice.

C. DAMAGES HEARINGS

Best Practice 5 – Courts should consider holding a damages-focused hearing—on summary judgment, a *Daubert* motion, or an informational hearing—so as to allow for the resolution of damages disputes sufficiently early in the litigation to allow the parties to address any defects in their damages methodologies in advance of trial without causing undue prejudice to the opposing party.¹⁵

An earlier focus on damages in the case—from the very first meeting of counsel, to early damages disclosures, to early and meaningful damages contentions—sets the stage for a damages-focused hearing to be held relatively early in the case. Currently, damages issues may arise and be addressed in the context of summary judgment, *Daubert* motions or motions *in limine* or in any combination of the three. In the context of damages, however, the issues typically addressed in each of these type of motions may overlap or it may be unclear whether a motion should be brought as a partial summary judgement motion, a *Daubert* challenge, or an *in limine* motion.¹⁶ The Working Group recommends that courts consider setting a damages hearing to address a number of damages issues at one time rather than seriatum through separate motion practice at different stages of the case.

For example, a magistrate judge in the Eastern District of Texas held an Early Damages Expert hearing 20 days before expert reports are due and 88 days before dispositive motions are due.¹⁷ At this hearing, the court heard a summary of conclusions from each damages expert, and allowed the opposing party an opportunity for brief cross examination. This informed the court of any *Daubert* or damages-related dispositive motions that may be coming down the road, and it gave the parties an opportunity to address the opposing party’s concerns in their damages expert reports. This magistrate judge appears to have discontinued this practice.

Such an early damages hearing may not be practical or necessary for all courts in all cases. But where appropriate, holding a relatively early hearing on damages theories, methodologies and evidence will give the court an opportunity to assess and resolve early damages issues in a manner that allows the parties to prepare the case fully informed about the damages issues to be tried.

For Principles, Best Practice recommendations, and commentary on patent damages hearings, *see supra* Appendix B.

III. Trial Management of Patent Damages and Remedies

A. TRIAL TIME ALLOCATION TO DAMAGES ISSUES

Principle No. 2 – A sufficient amount of trial time should be made available for the analysis of the damages portion of a patent case.

Courts should allocate sufficient time for both sides to fairly address all triable issues, including all triable damages issues. This will typically involve both testimony and the presentation of documentary evidence. While two hours for a damages case may have been appropriate in years past, it may not be sufficient today—the increased scrutiny on damages proof requires parties to present a well-developed, factually robust damages case. In particular, damages experts must thoroughly explain their methodologies, show the evidence they considered, and demonstrate how the evidence impacted their conclusions. Allocating sufficient time to damages can be a challenge, however, given the limited time often placed on patent trials. Whether or not the court will place strict time limits on the trial, the court and the parties should work together to ensure that there is a sufficient amount of trial time for the damages evidence to be presented.

Best Practice 6 – Parties should consider stipulating to the admissibility of summaries under Rule 1006 of the Federal Rules of Evidence,¹⁸ including summaries that include an expert’s calculations, demonstrating the mathematical support for the opinion.

Damages experts may perform a significant amount of work to calculate the total number of infringing products, as well as the royalty base and rate values used for the determination of the overall royalty damages for that total number of infringing products. It is important for damages experts to testify about the methodologies used in arriving at these numbers. However, the numbers themselves, and the calculations performed to arrive at damages subtotals and totals, need not be the subject of extensive testimony. Instead, the parties should work together to agree on summaries of an experts’ calculations that may be presented in a Rule 1006 exhibit, rather than through detailed testimony. This will save valuable trial time for the presentation of proof on the evidence considered by the experts in arriving at their royalty base and royalty rate values.

¹⁸ FED. R. EVID. 1006.

B. BIFURCATION OF LIABILITY AND DAMAGES FOR DISCOVERY OR TRIAL

Principle No. 3 – Bifurcation of a patent infringement case into separate liability and damages phases – for discovery and trial, or just for trial – may be appropriate, after consideration of the complexity of the case, the efficiencies to be gained, and the unfair prejudice that may result.

Under the Federal Rules, bifurcation is proper for “convenience, to avoid prejudice, or to expedite and economize.”¹⁹ District courts have broad discretion in determining whether to bifurcate.²⁰ The party seeking bifurcation bears the burden of demonstrating that it is proper given the facts of the case.²¹

There are two aspects to bifurcation – bifurcation of discovery and trial, or merely bifurcation of trial. The latter case generally refers to separation of a trial before a jury (or the judge) into two phases, with a verdict rendered on liability before evidence and argument on damages is permitted. In the former case—where damages discovery has not occurred before the liability trial, damages will be tried to a different jury.

Bifurcation has both advantages and disadvantages which differ from case to case. The advantages of bifurcating the trial (irrespective of bifurcated discovery) include reduced complexity of the trial on liability, and reduced complexity on damages, as each is tried in its own separate phase. Where discovery is bifurcated, the advantages include potential cost savings and efficiencies, particularly in cases with multiple defendants and multiple accused products. In certain cases, it may make little sense to incur the costs associated with fact and expert damages discovery, which can be quite substantial, unless and until a determination is made on the extent to which any defendant is liable.

The disadvantages of bifurcation of the trial (irrespective of bifurcated discovery) include depriving the jury of damages-related evidence during the liability phase that may be relevant to liability, but that is viewed as better suited for the damages phase and potentially too prejudicial during the liability phase. Where discovery is bifurcated, the bifurcation may result in duplicative efforts and increased costs, especially where evidence on liability issues overlaps with the proof required to support damages theories, such as technical evidence necessary to an apportionment analysis. Further, should damages be determined by a different jury, bifurcation may put either, or both, patentee and defendant at a strategic disadvantage. A patentee loses the benefit of the jury having full knowledge of all of the proof of the defendant’s wrongdoing when it is determining the royalty to be awarded.²² Similarly, an accused infringer may be at a disadvantage where the damages jury has no knowledge of its noninfringement and/or invalidity arguments. Bifurcation may also impede settlement efforts in cases where damages discovery and the exchange of damages contentions are

¹⁹ Fed. R. Civ. P. 42(b).

²⁰ *See, e.g.*, *Robert Bosch, LLC v. Pylon Mfg. Corp.*, 719 F.3d 1305, 1319–20 (Fed. Cir. 2013) (making clear that “district courts, in their discretion, may bifurcate willfulness and damages issues from liability issues in any given case” and that “[d]istrict court judges, of course, are best positioned to make [the determination to bifurcate issues] on a case-by-case basis”); *Shum v. Intel Corp.*, 499 F.3d 1272, 1276 (Fed. Cir. 2007); *York v. AT&T*, 95 F.3d 948, 957 (10th Cir. 1996); *Idzotic v. Pa. Railroad Co.*, 456 F.2d 1228, 1230 (3d Cir. 1972).

²¹ *See, e.g.*, *Brown v. Toscano*, 630 F. Supp. 2d 1342, 1345 (S.D. Fla. 2008); *Windsor Indus., Inc. v. Pro-Team, Inc.*, 87 F. Supp. 2d 1129, 1131 (D. Colo. 2000).

²² 35 U.S.C. § 284.

stayed pending a trial on liability, since the parties may not ultimately know what is at stake in those cases.

Certain districts have local rules regarding bifurcation and individual judges may have “a preference [on bifurcation] based on past experience” from which “they rarely deviate.”²³ For several years one judge in the District of Delaware adhered to a standard patent scheduling order under which damages and willfulness were bifurcated from liability “unless good cause is shown.”²⁴ The Judge’s rationale was that “discovery disputes related to document production on damages and the *Daubert* motion practice related to damages experts are a drain on scarce judicial resources.”²⁵ In each instance in which no liability is found, the time spent mediating discovery disputes or making damages *Daubert* determinations is utterly wasted. This Judge also believed that parties are likely to settle after liability has been found to avoid an unpredictable damages award.²⁶ Settlement discussions after a liability determination are believed to “give the parties—those with the most expertise in the market—the first opportunity to translate the [court]’s final legal decision on liability into practical commercial consequences.”²⁷ More recently, this Judge has revised her standard patent scheduling order to no longer bifurcate issues of willfulness and damages from liability issues.²⁸

Other courts have also routinely bifurcated cases, taking the view that, in all but exceptional patent cases:

[T]he burden imposed on a jury in a patent trial is extraordinary. More specifically, juries are tasked with resolving complex technical issues regarding infringement and invalidity, many times with respect to multiple patents and/or multiple prior art references. Absent bifurcation, jurors then are expected to understand the commercial complexities of the relevant market (or, even more impenetrable, the commercial complexities of the hypothetical market) in order to determine the economic consequences of their liability decisions.²⁹

By contrast, in the Northern District of Georgia the local rules state that “[t]here shall be a rebuttable presumption against the bifurcation of damages from liability issues in patent cases for

²³ *Bifurcation Ruling Highlights Divergent Approaches to Patent Case Management*, THE DOCKET REPORT (Aug. 31, 2009, 10:41 AM), <http://docketreport.blogspot.com/2009/08/bifurcation-ruling-highlights-divergent.html>.

²⁴ See Hon. Sue Robinson, *Standard Patent Scheduling Order*, para. 2(a) (revised 12/4/09), available at <https://web.archive.org/web/20100527104709/http://www.ded.uscourts.gov/SLR/Forms/SchedOrder-Patent.pdf> (“The issues of willfulness and damages shall be bifurcated for purposes of discovery and trial, unless good cause is shown otherwise.”).

²⁵ *Robert Bosch, LLC v. Pylon Mfg. Corp.*, Civ. No. 08-542-SLR, 2009 WL 2742750, at *1 (D. Del. Aug. 26, 2009); *Dutch Branch of Streamserve Dev., AB v. Exstream Software LLC*, Civ. No. 08-343-SLR, 2009 U.S. Dist. LEXIS 76006, at *2 (D. Del. Aug. 26, 2009).

²⁶ See *Robert Bosch*, 2009 WL 2742750, at *1.

²⁷ *Id.*; *Dutch Branch*, 2009 U.S. Dist. LEXIS 76006, at *3.

²⁸ Judge Robinson’s recently revised standard patent scheduling order no longer bifurcates willfulness and damages issues from liability issues. See Hon. Sue Robinson, *Standard Patent Scheduling Order* (revised 3/24/14), available at <http://www.ded.uscourts.gov/sites/default/files/Chambers/SLR/Forms/Sched-Order-Patent-03-24-14.pdf>.

²⁹ *Dutch Branch*, 2009 U.S. Dist. LEXIS 76006, at *2–3.

purposes of either discovery or trial.”³⁰ Similarly, individual judges from the District of Utah, Northern District of Texas, Southern District of Florida, Northern District of Illinois, and the Northern District of Indiana have also stated a presumption against bifurcation.³¹ In the view of these judges, bifurcation results in duplicative discovery, witnesses and evidence, and simply delays final resolution.³² They believe that the requisite level of complexity that warrants bifurcation simply does not exist when there is only one patent-in-suit, where the technology is straightforward and easy to understand, or where the court will only have to grapple with issues common to many (or all) patent cases, including claim construction, an assessment of the prior art, or the resolution of inventorship disputes.³³

Some courts have considered the patentee’s chances of success when deciding whether bifurcation would be more efficient. In a case in the Eastern District of Wisconsin, the court denied the defendant’s motion to bifurcate in part because it believed the plaintiff was likely to succeed and that a second trial would then be necessary.³⁴ Similarly, in a case in the District of Delaware, the court denied a motion to bifurcate because the defendant had not demonstrated that its “probability of prevailing in its infringement defense [was] incontrovertibly greater than” the patentee’s.³⁵

Courts also consider whether evidence related to liability impacts a determination on damages. For example, a motion to bifurcate was denied by a district court judge who held the view that “damages and liability are not easily compartmentalized.”³⁶ A jury may need to consider sales and financial information when determining whether the patentee had proven “commercial success”; that same information “is inherently intertwined with damages,” likely requiring the parties and court to “wade into the morass inherent in drawing lines between discovery relevant to damages and discovery relevant to liability.”³⁷ Other secondary indicia of non-obviousness, such as the failure of others, and a long-felt need in the industry for the patented invention, may also involve evidentiary overlap with the determination of a reasonable royalty. A patented invention’s commercial success may, for example, reflect the utility and advantages of the invention over old modes or devices, which can involve considering noninfringing alternatives (both technical and commercially feasible) as identified by expert testimony/analysis (*Georgia-Pacific* factor 9). Additionally, the failure of others

³⁰ Patent L.R. 5 (N.D. Ga.), *available at* <http://www.gand.uscourts.gov/pdf/NDGARulesPatent.pdf>.

³¹ *See* *Lutron Elecs. Co., Inc. v. Creston Elecs., Inc.*, No. 2:09-cv-707 DB, 2010 U.S. Dist. LEXIS 49623 (D. Utah May 19, 2010); *Nielsen v. Alcon, Inc.*, Civ. A. No. 3:08-CV-02239-B, 2010 U.S. Dist. LEXIS 26804 (N.D. Tex. Mar. 22, 2010); *Baratta v. Homeland Housewares, LLC*, No. 05-cv-60187 (S.D. Fla. Oct. 27, 2008); *DSM Desotech Inc. v. 3D Sys. Corp.*, 2008 U.S. Dist. LEXIS 87473 (N.D. Ill. Oct. 28, 2008); *BASF Catalysts LLC v. Aristo, Inc.*, No. 2:07-cv-222, 2009 U.S. Dist. LEXIS 16263 (N.D. Ind. Mar. 2, 2009).

³² *See Baratta*, 05-cv-60187, slip op. at 9; *Nielsen*, 2010 U.S. Dist. LEXIS 26804, at *5.

³³ *See id.*

³⁴ *See* *Kimberly-Clark Worldwide, Inc. v. First Quality Baby Prods., LLC*, No. 09-C-0916, 2010 U.S. Dist. LEXIS 98573, at *5-6 (E.D. Wis. Sept. 7, 2010). *See also* *Briggs & Stratton Corp. v. Chongqing RATO Power Co.*, 2013 U.S. Dist. LEXIS 159472, *13 (N.D.N.Y. 2013) (“At this early stage of the proceedings, the defendants have not made an adequate showing with respect to the merits of their position on liability to support . . . bifurcation at trial”).

³⁵ *Masimo Corp. v. Philips Elecs. N. Am. Corp.*, 742 F. Supp. 2d 492, 500–01 (D. Del. 2010).

³⁶ *Kimberly-Clark*, 2010 U.S. Dist. LEXIS 98573, at *5.

³⁷ *Id.*

and existence of a long-felt need bear on the amount an accused infringer would have been willing to pay for the invention (*Georgia-Pacific* factors 12 and 15).

Separately, courts are disinclined to bifurcate when doing so would severely prejudice a patentee by creating unnecessary delay, or when a defendant's principal goal appears to be to slow the proceedings.³⁸ Extensive motion practice regarding the admissibility of evidence following bifurcation—such as motion practice related to whether certain evidence should be presented to the jury during the liability trial or reserved for the damages trial—may cause excessive delays in a bifurcated case.³⁹ Additionally, a patentee is prejudiced by the fact that the appellate process is prolonged in bifurcated cases as each trial may be appealed separately. These separate appeals can cause significant delays in reaching finality, since the litigation must be entirely concluded such that nothing is left except to execute the judgment.⁴⁰ A patentee is further prejudiced by the fact that these delays allow for intervening judgments which may vacate an earlier liability judgment.⁴¹

To be sure, bifurcation is not guaranteed in multi-defendant cases. Courts may take the view that limiting instructions will suffice to prevent any juror confusion.⁴² Alternatively, courts may prefer to manage the complexities of a multi-defendant case in unique ways that are tailored to the parties. For example, the court in the Eastern District of Texas denied a bifurcation motion in a consolidated, multi-defendant case involving 124 defendants.⁴³ Recognizing that this was not a “typical” patent case—and that the district's local patent rules made defending the case prohibitively expensive—the court set an early *Markman* and summary judgment hearing, and stayed all unrelated discovery.⁴⁴ The court's rationale for declining to bifurcate damages was based in part on the patentee's stated strategy of seeking early settlements based on an analysis of each defendant's sales

³⁸ See, e.g., *BASF Catalysts*, 2009 U.S. Dist. LEXIS 16263, at *6, 10; *Baratta*, 05-cv-60187, slip op. at 9.

³⁹ See *BASF*, 2009 U.S. Dist. LEXIS 16263, at *6 (quoting *Trading Technologies Intern., Inc. v. eSpeed, Inc.*, 431 F. Supp. 2d 834, 840 (N.D. Ill. 2006)) (“Given the nature of this case thus far, we would not be surprised if the parties engaged in extensive motion practice wrangling over whether certain pieces of discovery were applicable to the liability case or the willfulness/damages case. Thus we do not think that defendants have carried their burden of establishing that bifurcation of discovery and trial would promote judicial efficiency.”). See also *Baratta*, No. 05-cv-60187, slip op. at 9 (“In particular, the Court is concerned in this case, and in light of the lack of progress that has occurred in the past three and a half years, that bifurcation would serve to further prolong this matter by creating additional discovery periods, additional trials, and additional motions for relief.”).

⁴⁰ See e.g., *Fresenius USA, Inc. v. Baxter Intern., Inc.*, 721 F.3d 1330, 1341 (Fed. Cir. 2013) (*en banc* rehearing denied); see also, *Robert Bosch*, 719 F.3d at 1305 (holding that the Federal Circuit has jurisdiction to entertain appeals from patent infringement liability determinations when a trial on damages has not yet occurred).

⁴¹ *Fresenius USA*, 721 F.3d at 1332 (The Federal Circuit remanded the initial case to the district court to reconsider its damages verdict. While the litigation was pending on remand, the United States Patent Office completed its re-examination proceedings and determined that all of the claims were invalid. The Federal Circuit affirmed the USPTO's determination, vacated the district court's judgment, and remanded with instructions to dismiss the case.).

⁴² See *Lutron Elecs.*, 2010 U.S. Dist. LEXIS 49623, at *6.

⁴³ See *Parallel Networks LLC v. AEO, Inc.*, No. 6:10-cv-00111, Dkt. No. 338, slip op. at 8 (E.D. Tex. Mar. 15, 2011).

⁴⁴ *Id.* at 6.

and the cost of defense.⁴⁵ Given this strategy, damages discovery was necessary in order for the parties to be able to “fully and fairly” evaluate the case for settlement purposes.⁴⁶

Defendants seeking bifurcation should be mindful of the ramifications of a final liability determination. If, following such an outcome, the parties do not settle a case, the plaintiff’s strategy during the damages trial will likely include multiple references to the defendant as an “infringer.” Such language has the potential to put the defendant at a distinct disadvantage.

Best Practice 7 – Where the trial will be bifurcated, litigants should consider and discuss with the court whether discovery should also be bifurcated in light of their damages theories, and the damages phase tried to a separate jury, or whether it is preferable to conduct all discovery at once and try both phases to the same jury.

Courts that consider bifurcation generally consider bifurcation during the case management phase of the case, or in the pre-trial phase. In the case management phase, there may be an opportunity for the parties to discuss with the court whether the reasons for bifurcating the trial also support bifurcation of discovery. Generally speaking, it will be less efficient to conduct two phases of discovery rather than just one, as there is often some degree of overlap between damages and liability witnesses and /or documentation. However, each case will need to be assessed on its own facts. In some cases, damages evidence may be especially complex and/or unusually difficult or expensive to collect. For those cases, it may be useful to hold off on conducting damages discovery until the liability phase of the case has been tried, notwithstanding some minimal inefficiency that will be created by such bifurcation. In other cases, the inefficiency of bifurcation will outweigh its potential benefit. As part of this calculus, litigants should be mindful that any significant delay in taking damages discovery creates the risk that discovery closest in time to the date of first infringement will be lost. Thus, depending on the situation, it may be preferable to conclude all discovery and then have a staged trial with the same jury rather than different juries.

Best Practice 8 – In a typical case, a willfulness allegation should not itself dictate a bifurcation of damages from liability. To the extent possible, where a case is bifurcated, and willfulness is tried after liability is determined, it is preferable to have a staged trial with the same jury rather than different juries.

Courts have the authority and discretion to try the issues of willfulness and damages together or separate from liability.⁴⁷ Appeals may be entertained on patent infringement liability determinations when willfulness issues are outstanding and remain undecided.⁴⁸

⁴⁵ See *id.* at 4.

⁴⁶ *Id.* at 8.

⁴⁷ *Robert Bosch*, 719 F.3d at 1319–20.

⁴⁸ *Id.* at 1317.

Some courts have refused to bifurcate willfulness from liability because “[m]any of the witnesses and evidence needed to address the willfulness issue are the same as that needed to address the liability issue.”⁴⁹

By contrast, other courts have bifurcated liability from willfulness and damages to avoid juror confusion when there are multiple defendants, which requires inquiry into the state of mind of each of the defendants, as well as into the attendant facts and circumstances.⁵⁰

However, because it is preferable to have the same jury determine liability and any factual issues involved in the willfulness determination, discovery on willfulness should be completed before the liability trial, so the trials can be staged one after another with the same jury.

If a court decides to completely bifurcate liability discovery and trial from damages discovery and trial, it should consider also allowing time for an appeal to the Federal Circuit between trials.

C. JURY INSTRUCTIONS AND JURY VERDICT FORMS

Best Practice 9 – Jury instructions that are tailored to the case will be more suitable than rote application of model jury instructions.

Specific jury instructions that align with the evidence presented to the jury will generally be more helpful than statements of the law that may not be relevant to the case. For instance, when a jury is charged with making a reasonable royalty determination, the court and the litigants should carefully evaluate what the jury is told about the *Georgia-Pacific* factors. It is not necessary, and may even constitute legal error, for the jury to be instructed on factors that do not apply in the case before it. It is preferable to craft instructions tailored to the case so that the jury can focus on the invention, its contribution over the prior art, and the *Georgia-Pacific* factors present in the case.⁵¹

In addition, because damages law has been evolving relatively rapidly, it is important for the court and practitioners to bear in mind that model jury instructions may not reflect the most recent Federal Circuit or Supreme Court rulings. Thus, the parties may need to craft instructions for consideration by the court. For example, the parties may need to craft an instruction regarding how a royalty base should be apportioned when the entire market value rule does not apply, or the

⁴⁹ *Robotic Vision Sys., Inc. v. View Eng’g, Inc.*, No. 96-cv-2288, 1997 U.S. Dist. LEXIS 19157 at *8 (C.D. Cal. Nov. 6, 1997).

⁵⁰ *See Medpointe Healthcare Inc. v. Hi-Tech Pharmacal Co.*, No. 03-5550, 2007 U.S. Dist. LEXIS 4652 at *16–17 (D.N.J. Jan. 22, 2007).

⁵¹ *See Ericsson, Inc. v. D-Link Sys.*, 773 F.3d 1201, 1230-1231 (Fed. Cir. 2014) (In *Ericsson* a patentee brought an infringement action relating to Wi-Fi internet technology. The district court included all fifteen *Georgia-Pacific* factors in its damages instruction without considering their relevance to the record created at trial. The Federal Circuit Court of Appeals concluded that some of the factors were not relevant and held the district court had erred “by instructing the jury on multiple *Georgia-Pacific* factors that [were] not relevant, or [were] misleading, on the record before it.”).

considerations involved in determining whether an existing license is comparable to the hypothetical license.⁵²

Best Practice 10 – Jury verdict forms that are tailored to the case will be more suitable than general verdict forms. Thus, in most cases, the verdict form should ask the jury to determine an amount of damages adequate to compensate for the infringement, on a per patent/per claim basis. Also, special verdict forms may be preferable in patent cases, especially those involving running royalties (rather than lump sums) or ongoing damages.

Litigants should be aware of the risks and advantages of different verdict form formats. The jury verdict form should be sufficiently detailed to avoid the need for remand and retrial after appeal. For example, where there are multiple patents, damages should be identified for infringement of each patent and on each claim found infringed so that reversal of validity or infringement of one patent would not require remand and retrial of damages on all patents-in-suit. On the other hand, increased specificity can increase the risk of juror confusion and inconsistent verdicts.

A jury might simply be asked to determine a number adequate to compensate for infringement. In cases in which ongoing infringement is a concern, juries should be asked to determine both the damages base and the applicable royalty rate but should not be asked to perform the ultimate calculation.

In the alternative, jurors could be presented with special verdict forms where they are asked to make factual determinations, allowing the judge to apply the relevant law. Or special verdict forms might be drafted to include special interrogatories. For example, the parties may desire that a jury determine whether a running royalty, or a lump sum payment, is appropriate. In other cases, where one party asserts that the reasonable royalty should take the form of a lump sum, but the parties do not agree to submit the question of future damages to the jury, it may be beneficial to instruct the jury as to the dates covered by the reasonable royalty the jury awards.

In cases involving multiple patents and/or multiple accused products, the parties should consider whether a special verdict form is warranted to ensure clarity on remand. On the other hand, a patentee may take the approach that it is the defendant's burden to appeal any part of a damages determination that it wishes to challenge on remand.

⁵² See Chapter II, *supra*.

IV. Posttrial Management of Patent Damages and Remedies

A. PERMANENT INJUNCTIONS

Principle No. 4 – When determining whether to grant a permanent injunction, the court should not ignore the patentee’s fundamental right to exclude.

1. Is there a Rebuttable Presumption of Irreparable Harm?

a. The Impact of eBay on Irreparable Harm.

The Supreme Court in *eBay, Inc. v. MercExchange, LLC*,⁵³ held that to obtain a permanent injunction, a patentee must demonstrate that: (1) it has suffered an irreparable injury; (2) the remedies available at law are inadequate to compensate for that injury; (3) hardships between the plaintiff and the defendant favors an injunction; and (4) the public interest would not be disserved by issuance of an injunction.⁵⁴

The question of whether there is a rebuttable presumption of irreparable harm was left unanswered in *eBay*, but addressed in the concurring opinions of Chief Justice Roberts and Justice Kennedy.

Chief Justice Roberts’s concurrence (joined by Justices Scalia and Ginsburg) paralleled the prior view of the Federal Circuit:

[The] long tradition of equity practice’ [granting injunctive relief upon finding infringement] is not surprising, given the difficulty of protecting a right to *exclude* through monetary remedies that allow an infringer to *use* an invention against the patentee’s wishes—a difficulty that often implicates the first two factors of the traditional four-factor test.⁵⁵

Justice Kennedy’s concurrence (joined by Justices Stevens, Souter, and Breyer) expressed concern over the Federal Circuit’s prior view:

In cases now arising trial courts should bear in mind that in many instances the nature of the patent being enforced and the economic function of the patent holder presents considerations quite unlike earlier cases.⁵⁶

⁵³ 547 U.S. 388 (2006).

⁵⁴ *Id.* at 391, 393–94.

⁵⁵ *Id.* at 395.

⁵⁶ *Id.* at 396.

Justice Kennedy’s concurrence specifically called out the following issues a court should consider when deciding whether to issue an injunction:

1. non-practicing entities (NPEs) (“An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees. For these firms, an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent.”);⁵⁷
2. small patented components of a larger accused device (“When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest.”);⁵⁸ and
3. business method patents (“In addition injunctive relief may have different consequences for the burgeoning number of patents over business methods, which were not of much economic and legal significance in earlier times. The potential vagueness and suspect validity of some of these patents may affect the calculus under the four-factor test.”).⁵⁹

Subsequent to *eBay*, the Federal Circuit has interpreted the Supreme Court’s decision to have removed the presumption of irreparable harm. However, consistent with Chief Justice Roberts’s concurrence, the Federal Circuit in *Robert Bosch, LLC v. Pylon Manufacturing Corp.* clarified that although “*eBay* jettisoned the presumption of irreparable harm as it applies to determining the appropriateness of injunctive relief,” the right to exclude, fundamental to patent law, should not be ignored.⁶⁰ Specifically, the Federal Circuit stated:

[a]lthough *eBay* abolishes our general rule that an injunction normally will issue when a patent is found to have been valid and infringed, it does not swing the pendulum in the opposite direction. In other words, even though a successful patent infringement plaintiff can no longer rely on presumptions or other short-cuts to support a request for a permanent injunction, it does not follow that courts should entirely ignore the fundamental nature of patents as property rights granting the owner the right to exclude. Indeed, this right has its roots in the Constitution, as the Intellectual Property Clause

⁵⁷ *Id.* (citations omitted).

⁵⁸ *Id.* at 396–97.

⁵⁹ *Id.* at 397.

⁶⁰ *Robert Bosch*, 659 F.3d at 1149.

of the Constitution itself refers to inventors’ “*exclusive* Right to their respective . . . Discoveries.” U.S. Const. Art. I, § 8, cl. 8 (emphasis added).⁶¹

Similarly, in *Edwards Lifesciences AG v. Corevalve, Inc.*, the Federal Circuit reiterated that “[t]he Court in *eBay* did not hold that there is a presumption *against* exclusivity on successful infringement litigation.”⁶² Rather, “[a]bsent adverse equitable considerations, the winner of a judgment of validity and infringement may normally expect to regain the exclusivity that was lost with the infringement.”⁶³

The Federal Circuit has reiterated that there is neither a presumption for nor against an injunction. Whether an injunction should issue depends on the facts of the case and a proper weighing of the equitable considerations. However, it should be noted that after *eBay* the Federal Circuit has made the *eBay* test even more difficult to satisfy by adding to the first prong of the *eBay* test (irreparable injury) the requirement of a causal nexus between the irreparable harm and the alleged infringement.⁶⁴

Thus, a district court must consider the patentee’s right to exclude in determining whether an injunction is an appropriate remedy. However, the district court must weigh the equities as set out by the Supreme Court in *eBay* and may not presume irreparable harm or the inadequacy of monetary relief and must also evaluate if there is a causal nexus between the infringement found by the jury and the irreparable harm alleged.⁶⁵

b. The USITC and the Presumption of Irreparable Harm⁶⁶

The Federal Circuit has held that the *eBay* decision does not apply to exclusion orders in patent cases before the International Trade Commission. In *Spansion, Inc. v. International Trade Commission*, the Federal Circuit found that the applicable statute requires the Commission to issue an exclusion order upon finding a violation under Section 337, noting that “[t]he legislative history of the amendments

⁶¹ *Id.*

⁶² *Edwards Lifesciences AG v. Corevalve, Inc.*, 699 F.3d 1305 (Fed. Cir. 2012) (emphasis added).

⁶³ *Id.* at 1314.

⁶⁴ *Apple Inc. v. Samsung Elecs. Co.*, 695 F.3d 1370, 1374 (Fed. Cir. 2012) (“Apple II”). *See also* *Apple Inc. v. Samsung Electronics Co.*, 735 F.3d 1352 (Fed. Cir. 2013) (“Apple III”) (“rather than show that a patented feature is the *exclusive reason* for consumer demand, Apple must show some connection between the patented feature and demand for Samsung’s products. There might be a variety of ways to make this required showing, for example, with evidence that a patented feature is one of several features that cause consumers to make their purchasing decisions. It might also be shown with evidence that the inclusion of a patented feature makes a product significantly more desirable. Conversely, it might be shown with evidence that the absence of a patented feature would make a product significantly less desirable.”) (emphasis in original); and *Apple Inc. v. Samsung Electronics Co.*, No. 14-1802, slip op. (Fed. Cir. Dec. 16, 2015) (“Apple IV”) (“[A] causal nexus linking the harm and the infringing acts must be established regardless of whether the injunction is sought for an entire product or is narrowly limited to particular features.”). [\[add subsequent cases\]](#)

⁶⁵ *See e.g.*, *Apple Inc. v. Samsung Electronics Co.*, No. 14-1802, slip op. (Fed. Cir. Dec. 16, 2015) (“Apple IV”) (“in a case involving phones with hundreds of thousands of available features, it was legal error for the district court to effectively require Apple to prove that the infringement was the sole cause of the lost downstream sales. The district court should have determined whether the record established that a smartphone feature impacts customers’ purchasing decisions.”).

⁶⁶ [\[J. Ko to add footnote reference to new WG10 ITC drafting team.\]](#)

to Section 337 indicates that Congress intended injunctive relief to be the normal remedy for a Section 337 violation and that a showing of irreparable harm is not required to receive such injunctive relief.”⁶⁷ Rather, the statute requires consideration of specific public interest factors that include: the public health and welfare; competitive conditions in the United States economy; the production of like or directly competitive articles in the United States; and United States consumers.⁶⁸ Denial of exclusionary relief by the Commission based on public interest concerns is extremely rare.⁶⁹

2. Timing and Management of Permanent Injunction Proceedings

Best Practice 11 – The court and the parties should discuss, starting at the earliest reasonable opportunity (e.g., the scheduling conference), the process for permanent injunction proceedings, such as the extent to which an injunction will be considered in connection with, or separate from, any jury trial(s) on liability and damages.

The timing and management of permanent injunction proceedings is dependent upon the circumstances of the case, the availability of the evidence and the preferences of the Court and the parties. In some cases, it will be appropriate for the parties to introduce the evidence they intend to rely upon if and when they reach the permanent injunction phase during the underlying liability and damages trial. For example, if there are overlapping fact or expert witnesses it may be more efficient to elicit from such witnesses any additional evidence that is relevant to the question of whether a permanent injunction should issue during their testimony in the underlying liability and damages trial. In that situation the parties are positioned to move forward after a finding of liability with a motion and briefing on the question of whether a permanent injunction should issue. It would be prudent to add to the scheduling order or the pretrial order procedure for how and when the injunction-related testimony may be offered into evidence.

In other cases, it may be more appropriate to schedule a separate evidentiary bench trial after the trial on liability and damages has concluded. In particular, if the evidence is not overlapping, or if the parties are prepared to have witnesses appear again in a separate hearing, it may be more efficient to wait until after the liability determination to move to the permanent injunction phase. After all, there may never be a liability finding, in which case the evidence and arguments in support of or opposing a permanent injunction will not be necessary. Isolating the permanent injunction evidence and argument from the liability and damages trial also avoids any risk that the finder(s) of

⁶⁷ *Spanion, Inc. v. International Trade Comm’n*, 629 F.3d 1331, 1358 (citing to 19 U.S.C. § 1337(d)(1)).

⁶⁸ *Id.*

⁶⁹ *See e.g.*, *Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Processing Devices, and Tablet Computers*, Inv. No. 337-TA-794, Comm’n Op. at 105-114 (July 5, 2013); and *Certain Electronic Digital Media Devices and Components Thereof*, Inv. No. 337-TA-796, Comm’n Op. at 109-132 (Sept. 6, 2013) (both declining to modify exclusionary order based on public interest concerns). Ultimately, the USTR overturned the Commission decision to issue an exclusion order and cease and desist order against Apple products in 337-TA-794, but denied a similar request from Samsung in 337-TA-796. *See* Letter from Ambassador Michael B.G. Froman, US Trade Representative, to Hon. Irving A. Williamson, Chairman, US Int’l Trade Comm’n (Aug. 3, 2013)(disapproving of Commission determination); and Statement of the U.S. Trade Representative Regarding the Determination of the United States International Trade Commission in the Matter of Certain Electronic Digital Media Devices and Components Thereof, Investigation No. 337-TA-796 (Oct. 8, 2013) (allowing Commission determination to become final). [update footnote](#)

fact may be inappropriately influenced by the potential for an injunction or by evidence which is not otherwise probative on the issues of liability and damages. Finally, separating the permanent injunction proceedings from the liability and damages trial avoids the inherent tension that often exists between the position of the plaintiff's damages expert, who is required to quantify the damages for past infringement in the form of lost profits or a royalty, and the injunction expert, who will testify that the harm from future infringement cannot be compensated by money damages.

In certain cases, the parties may need or be entitled to additional discovery before the record can be complete for the permanent injunction decision, which also argues for a separate proceeding. Typically, fact and expert discovery for the liability and damages trial closes several months before trial. In some cases, the parties may have a legitimate need for additional discovery, because the Court is required to consider the injunction factors – including the public interest factor – as of the date of the injunction. For the Court to consider the public interest factor it may be important for the parties to present the Court with up-to-date evidence (e.g., in a pharmaceutical case, the number or percentage of patients who are currently taking the infringing medicine and might be impacted by an injunction). Similarly, in order for the Court to assess irreparable harm the parties may need to present up-to-date evidence of the parties' financial positions and/or update expert opinions on the impact an injunction would have on the parties respectively. It may also be important for the Court to assess the current availability or status and feasibility of any design arounds.

3. Stay Pending Appeal

Best Practice 12 – Where requested, a stay of the injunction pending appeal should be considered as part of the overall injunction analysis. Stay analysis proceeds under its own set of factors distinct from *eBay*.⁷⁰

Where appropriate, a permanent injunction may be stayed pending appeal. A court may issue such a stay pursuant to Fed. R. Civ. P. 62(c), which states that “[w]hile an appeal is pending from an interlocutory order or final judgment that grants, dissolves, or denies an injunction, the court may suspend, modify, restore, or grant an injunction on terms for bond or other terms that secure the opposing party’s rights.”⁷¹ A stay of an injunction pending appeal may be obtained at the district court or the Federal Circuit.⁷²

In determining whether to stay an injunction pending appeal, the district court and the Federal Circuit apply the same test, by considering the following four factors:

- a. whether the stay applicant has made a strong showing that he is likely to succeed on the merits;
- b. whether the applicant will be irreparably injured absent a stay;

⁷⁰ See *Robert Bosch*, 659 F.3d at 1151 (“[t]he existence of a two-player market may well serve as a substantial ground for granting an injunction—for example, because it creates an inference that an infringing sale amounts to a lost sale for the patentee.”); *i4i v. Microsoft*, 598 F.3d 831, 861 (Fed. Cir. 2010).

⁷¹ FED. R. CIV. P. 62(c).

⁷² FED. R. APP. P. 8(a)(1)–(2).

- c. whether issuance of the stay will substantially injure the other parties interested in the proceeding; and
- d. where the public interest lies.⁷³

Thus, for example, in a case in which the claim construction or other issues on the merits were not clearly in favor of one party, the presiding district court that enters an injunction in favor of a patent owner could stay the injunction pending resolution of the appeal. Under those circumstances, any settlement negotiations will be based on the parties' evaluation of the strength of their respective positions on appeal, not on the *in terrorem* effect of the threat of being excluded from the market before the appeal can be decided. As noted below, the court did precisely that in *Smith & Nephew, Inc. v. Arthrex, Inc.*⁷⁴

As an alternative to staying an injunction pending appeal, another option available in appropriate circumstances is for a court to issue a permanent injunction, but provide for a sunset period for the defendant to implement a noninfringing alternative.⁷⁵ In these circumstances, the patentee is typically compensated for the continued use of its patent through the payment of sunset royalties.⁷⁶

The following cases exemplify the use of a stay of injunction pending appeal:

a. *i4i v. Microsoft*

While a stay pending appeal was denied at the district court,⁷⁷ a stay pending appeal was granted by the Federal Circuit in *i4i v. Microsoft*.⁷⁸ Thereafter, the Federal Circuit affirmed the finding of infringement and reinstated the injunction but modified the effective date of the injunction.⁷⁹

b. *Verizon v. Vonage*

In *Verizon v. Vonage*, the Federal Circuit granted a stay pending appeal⁸⁰ after the district court stayed the injunction pending appeal with respect to present or existing customers, provided Vonage escrowed the 5.5% royalty quarterly.⁸¹ The Federal Circuit later affirmed the injunction as to two

⁷³ Standard Havens Prods., Inc. v. Gencor Indus., Inc., 897 F.2d 511, 512 (Fed. Cir. 1990) (quoting Hilton v. Braunskill, 481 U.S. 770, 776 (1987)).

⁷⁴ No. 2:07-cv-335, 2010 WL 2522428 (E.D. Tex. June 18, 2010).

⁷⁵ See, e.g., Broadcom Corp. v. Emulex Corp., 732 F.3d 1325, 1339 (Fed. Cir. 2013) (“[T]he district court’s selection of an eighteen month sunset period was not an abuse of discretion. The eighteen months allowed for time to remove the infringing product from the market without causing significant downstream disturbance for OEMs and consumers. And the eighteen-month period is a compromise between the wide range of time estimates in the record relating to the design process and product qualification.”).

⁷⁶ See e.g., Active Video Networks, Inc. v. Verizon Commc’ns, Inc., 694 F.3d 1312, 1342–43 (Fed. Cir. 2012) (affirming district court’s imposition of a sunset royalty).

⁷⁷ *i4i Ltd. P’ship v. Microsoft Corp.*, 670 F. Supp. 2d 568, 602–03 (E.D. Tex. 2009).

⁷⁸ *i4i Ltd. P’ship v. Microsoft Corp.*, 343 Fed. Appx. 619 (Fed. Cir. 2009).

⁷⁹ *i4i Ltd.*, 598 F.3d at 863–64.

⁸⁰ *Verizon Servs. Corp. v. Vonage Holdings Corp.*, 228 Fed. Appx. 986 (Fed. Cir. Apr. 24, 2007).

⁸¹ *Verizon Servs. Corp. v. Vonage Holdings Corp.*, No. 1:06-CV-682 (E.D. Va. Apr. 12, 2007) (D.I. 549).

patents but vacated the judgment of infringement with respect to a third patent, and remanded for a new trial.⁸²

c. *NTP v. RIM*

In *NTP v. RIM*, the district court granted a stay of the permanent injunction pending appeal.⁸³ The court granted the plaintiff's motion for permanent injunction, finding that:

1. NTP will be face [sic] irreparable harm if an injunction is not issued;
2. NTP has no adequate remedy at law to address future infringing sales;
3. an injunction in this case is in the public interest as it promotes protection of the rights gained through the patent process; and
4. the balance of hardships between NTP as the holder of the patents-in-suit, and Research in Motion, Ltd. (RIM) as the infringing party, weighs more heavily towards NTP.⁸⁴

However, the court also granted the defendant's motion for a stay, finding that:

5. RIM will be irreparably injured absent a stay of the permanent injunction;
6. the issuance of the stay will not substantially injure NTP; and
7. issuance of the stay is in the public interest, as the public has a demonstrated and increasing use of the products and services involved in this litigation.⁸⁵

The damage award and injunction were vacated on appeal.⁸⁶

d. *Smith & Nephew v. Arthrex*

In *Smith & Nephew v. Arthrex*, after considering the four-factor test reiterated in *eBay*, the district court granted Smith & Nephew's motion for a permanent injunction, but stayed the permanent

⁸² Verizon Servs. Corp. v. Vonage Holdings Corp., 503 F.3d 1295 (Fed. Cir. 2007).

⁸³ NTP, Inc. v. Research in Motion, Ltd., No. 3:01CV767, 2003 WL 23100881 (E.D. Va. Aug. 5, 2003).

⁸⁴ *Id.* at *1.

⁸⁵ *Id.* at *2.

⁸⁶ NTP, Inc. v. Research in Motion, Ltd., 418 F.3d 1282, 1325 (Fed. Cir. 2005).

injunction pending appeal, finding that “the facts and legal issues of this case are particularly close on the issue of infringement.”⁸⁷ The infringement decision was reversed on appeal.⁸⁸

Guidance for various scenarios with respect to permanent injunctions is provided below, although each case should be decided on its specific facts:

Best Practice 13 – Analysis of the *eBay* irreparable harm factor includes whether there is a sufficient causal nexus between the allegations of infringement and irreparable harm.

Best Practice 14 – The court should consider the following circumstances which, if present, may weigh in favor of granting a permanent injunction, in the context of a full analysis of the *eBay* factors:

- a. Where the patent owner practices the patent in direct competition between the parties, which may lead to irreparable harm; and
- b. Where the patent owner’s exclusive licensee practices the patent in direct competition with the infringer, which may lead to irreparable harm.

Best Practice 15 – The court should consider the following circumstances which, if present, may weigh against granting a permanent injunction, though in the context of a full analysis of the *eBay* factors:

- a. Where neither the patentee nor its exclusive licensee practices the patent, whether or not there is direct competition, which may present challenges to establishing irreparable harm;
- b. Where the patent owner has widely licensed the patent, which may indicate the sufficiency of monetary damages.

⁸⁷ Smith & Nephew, Inc. v. Arthrex, Inc., No. 2:07-cv-335, 2010 WL 2522428, at *4 (E.D. Tex. June 18, 2010).

⁸⁸ Smith & Nephew, Inc. v. Arthrex, Inc., 453 Fed. Appx. 977, 981 (Fed. Cir. 2011).

Best Practice 16 – In cases where an adjudged infringer has demonstrated willingness and ability to implement a design change that will avoid infringement (also called a “design around”), potential use of a sunset period may be considered as part of the injunction analysis.

Best Practice 17 – The court and the parties should discuss, starting at the earliest reasonable opportunity (*e.g.*, the scheduling conference), whether injunction proceedings will require discovery beyond the usual discovery period, for example to ensure that relevant market evidence is reasonably current at an injunction hearing.

B. ALTERNATIVES TO INJUNCTIONS

The Federal Circuit has held that “[t]he award of an ongoing royalty instead of a permanent injunction to compensate for future infringement is appropriate in some cases.”⁸⁹

For example, in *Edwards Lifesciences AG v. Corevalve, Inc.*, the Federal Circuit outlined that:

Precedent illustrates the variety of equitable considerations, and responsive equitable remedy in patent cases; for example, the grant of a royalty-bearing license instead of imposing an injunction in situations where the patentee would experience no competitive injury, as in *ActiveVideo Networks, Inc. v. Verizon Communications, Inc.*, or where there is an overriding public interest in continued provision of the infringing product, as in *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc.*, where the Gore vascular graft materials were not available from the successful patentee Bard. Another form of equitable response is illustrated in *Broadcom Corp. v. Qualcomm Inc.*, where the court postponed the effective date of an injunction for twenty months, to relieve hardship on the infringer.⁹⁰

A judgment of an ongoing royalty for post-verdict infringement will only be granted where equitable relief, in the form of a permanent injunction, is not granted.

Recent Federal Circuit case law has explored the tension between awarding damages to a patentee, as opposed to issuing an injunction. In *Paice LLC v. Toyota Motor Corp.*, the court stated that in certain cases, awarding the patentee with an ongoing royalty, rather than an injunction, may be the appropriate course of action.⁹¹ The Federal Circuit stated that the text of Section 283, that “empowers ‘courts . . . [to] grant injunctions in accordance with the principles of equity . . . on such

⁸⁹ *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc.*, 670 F.3d 1171, 1192 (Fed. Cir. 2012) (citing *Paice*, 504 F.3d 1314).

⁹⁰ *Edwards Lifesciences*, 699 F.3d at 1315.

⁹¹ *Paice*, 504 F.3d at 1314. The Federal Circuit also stated that should the district court decide that an ongoing royalty is the more appropriate remedy, the district court has the discretion to permit the parties to negotiate a license agreement themselves before imposing an ongoing royalty on the parties. *Id.* at 1315. In this way, the district court attempts to most closely approximate the hypothetical negotiation described *supra* in Chapter II.

terms as the *court* deems reasonable,’ leaves no doubt that Congress did not intend to statutorily entitle patentees to a jury trial for the purposes of awarding relief thereunder.”⁹² The court accepted Paice’s argument that “the determination of damages is a legal question which carries a Seventh Amendment right to a jury trial,” but qualified this statement by stating that “not all monetary relief is properly characterized as ‘damages.’”⁹³ Several years later, the court addressed the same issues in *Telecordia Techs., Inc. v. Cisco Sys., Inc.*,⁹⁴ and affirmed the views stated in *Paice*.

According to the Federal Circuit in *Paice*, the Seventh Amendment does not apply to an ongoing royalty determination because the court can determine the mandatory royalty as an *equitable* alternative to an injunction.⁹⁵ This holding appears to present an inconsistent result in the following scenario: if a patentee sues only for back damages, never asking for an injunction or a forward royalty, and then sues every six months for damages, the patentee would be entitled to a jury trial in each of those cases. This practice would be highly inefficient, both for the patentee and the courts. While it is unclear why the result should be different when the patentee acts more efficiently by suing for both back damages and a forward royalty at once, *Paice* is the current law, although the Federal Circuit did not explain why patent damages should be treated differently than any other continuing tort.

There are valid arguments on both sides of the Federal Circuit’s decision in *Paice*. For that reason, the Working Group states that ongoing royalties “may be available” as an alternative to an injunction. Opponents of the Federal Circuit’s decision in *Paice* provided the following arguments: The Patent Act provides for the award of damages to the patentee upon a finding of infringement in Section 284.⁹⁶ Title 35 also provides that in appropriate circumstances, a court *may* grant an injunction to a prevailing party “in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.”⁹⁷ Section 283 authorizes a court to grant an injunction if the circumstances warrant it, but does *not* authorize monetary damages as an equitable alternative to be determined *by the court* if it declines to enter an injunction. Further, Section 284 does not authorize monetary damages without a jury trial. The Seventh Amendment supports this view as well. It is well-established that if an issue was tried before a jury at common law at the time this country was founded, or is analogous to an issue that was so tried, the Seventh Amendment mandates a jury trial on that issue unless the parties waive this right.⁹⁸ Under *Markman* and related precedent, the Federal Circuit should conclude that the assessment of monetary damages in patent cases is analogous to issues tried before a jury at common law, thus requiring a jury determination in cases today. Accordingly, contrary to the holding in *Paice*, both Section 284 and the Seventh Amendment require a jury to resolve the royalty rate applicable to post-verdict infringement. It seems most logical that if an action for past infringement and past damages entitles a patentee to a jury trial, then a judgment that the continued infringement (i.e., an ongoing

⁹² *Id.* at 1293, n.16 (emphases added).

⁹³ *Id.* at 1316.

⁹⁴ *Telecordia Techs., Inc. v. Cisco Sys., Inc.*, 612 F.3d 1365, 1378–79 (Fed. Cir. 2010).

⁹⁵ *Id.*

⁹⁶ *See supra* Chapter II.

⁹⁷ 35 U.S.C. § 283.

⁹⁸ *See Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 377 (1996) (holding that claim construction is a matter of law for the court to determine and distinguishing claim construction from issues historically left for the jury).

tort) results in additional damages and the amount of those damages should be treated the same way. The reasoning in *Paice* does not sufficiently justify why an ongoing royalty ceases to be “damages” or is an equitable issue.

As discussed below in Best Practice 19, an ongoing royalty for future damages should fairly compensate the patent holder for the actual use made by the infringer of the patented invention. This view is consistent with the statutory mandate that damages should be “adequate to compensate for infringement.” An ongoing royalty awarded at the conclusion of a trial is in lieu of the patent holder filing a later suit(s) for damages for the ongoing use. Of course, if the jury awarded a fully paid-up lump sum amount, depending on how that award was calculated (i.e., what evidence was admissible and considered as part of the lump sum award), no ongoing royalty may be owed.⁹⁹

Best Practice 18

Best Practice 19 – Courts should adhere to the following principles in addressing a post-verdict royalty:

- a. As a part of the final pre-trial report, the parties and the Court should consider how the proposed verdict form might impact a post-verdict royalty analysis, should such an analysis become necessary.**
- b. Rather than simply applying the pre-verdict royalty rate to post-verdict conduct, specific evidence should be presented as to a post-verdict royalty.**
- c. Post-verdict royalties should apply to infringing activity occurring post-verdict.**
- d. The ongoing royalty should fairly compensate the patent holder for the ongoing use made by the infringer of the patented invention.**
- e. The ongoing royalty should not reflect any hold-up value.**
- f. The ongoing royalty should reflect adequate compensation only for the patent(s) found to be infringed.**

⁹⁹ If a lump sum award was only based upon past known infringement or for only certain accused instances of infringement, a lump sum awarded at trial may not provide full compensation to the patent owner, and an additional lump sum or ongoing royalty for future infringement may be necessary.

Best Practice 20 – Courts should consider the following with respect to determining a post-verdict royalty:

- a. How does the change in bargaining positions and/or economic conditions resulting from the determination of liability affect the royalty rate?¹⁰⁰
- b. Is the infringer now deemed to be willful?
- c. Is the “willing licensee” and “willing licensor” paradigm still appropriate?¹⁰¹
- d. Should the Georgia-Pacific factors be applied and, if so, which date should be set as the date of the hypothetical negotiations and which Georgia-Pacific factors should be considered? Should the focus be on factors that may have changed from the original hypothetical negotiation, such as the existence of design around products, the value of the technology, and the willfulness of the post-verdict infringement?
- e. Should there be a single ongoing royalty rate, or a varying rate (e.g., one that increases over time)?
- f. Should different industries and/or technologies be treated differently? This consideration stems from the idea that what makes sense in one technical field might make little sense in another technical field, and a “one size fits all” approach is not good practice.
- g. Is an acceptable design around available for implementation?
- h. Should the expiration date of the infringed patent(s) be considered?
- i. Should the parties and the court plan to revisit the ongoing royalty determination at a later time, for example, after an adjudged infringer has implemented a design around that avoids infringement of one or more of the patents-in-suit?

¹⁰⁰ See *Amado* at 1362 (“Prior to judgment, liability for infringement, as well as the validity of the patent, is uncertain, and damages are determined in the context of that uncertainty. Once a judgment of validity and infringement has been entered, however, the calculus is markedly different because different economic factors are involved.”).

¹⁰¹ See *Soverain Software*, 899 F. Supp. 2d at 589–90 (applying a 2.5x enhancement to the jury’s implied royalty rate for ongoing royalties).

Best Practice 21 – The timing that may be used to hear evidence on the post-verdict royalty is dependent upon the facts and circumstances of a particular case and should be sensible and equitable based on those facts and circumstances.

- a. The most efficient approach for addressing post-verdict royalties is to resolve any such issues prior to any appeal.
- b. If the patent owner is not seeking injunctive relief, then post-verdict royalty issues should be considered as a part of post-trial motions/briefing.
- c. After the motion for permanent injunction is denied; and
- d. During trial, while the jury is empaneled (e.g., presenting the issue of an ongoing royalty rate to the jury, notwithstanding that the patentee intends to seek an injunction).

C. ATTORNEYS' FEES AND FEE SHIFTING¹⁰²

[Incorporate by reference The Sedona Conference Commentary on Patent Litigation Best Practices: Section on Exceptional Case Determinations (Oct. 2016 public comment ver.)]

¹⁰² This paper does not address willful patent infringement or the potential enhanced damages and attorneys' fees recoverable after such a finding.

Appendix A: Proposed Model Rule for Damages Contentions

[Note: The below was originally published as The Sedona Conference *Commentary on Case Management of Patent Damages and Remedies Issues: Proposed Model Local Rule for Damages Contentions* (June 2017), available at https://thesedonaconference.org/publication/Patent_Damages_and_Remedies.]

A. INTRODUCTION AND BACKGROUND

The 2014 Public Comment Version of The Sedona Conference *Commentary on Patent Damages and Remedies* recommends that courts consider damages issues early in the case, including the reliability and admissibility of damages-related theories and evidence. As part of this effort, the *Commentary* recommends that courts require “Damages Contentions” in appropriate cases.¹⁰³ A subcommittee of WG9 has been working on drafting a model local rule that courts could adopt in whole or in part to implement this recommendation. The goal of the model rule proposal is to set forth the procedural structure for Damages Contentions disclosures to facilitate full disclosure, and not to dictate the substance of those disclosures. This paper summarizes the thinking of the subcommittee and then provides a Model Local Rule for Damages Contentions in patent cases.

1. Considerations

The WG9 Damages Contentions subcommittee has addressed the purposes and benefits of early damages disclosures in patent cases, procedural issues including the appropriate timing and implications of such disclosures, the nature of such disclosures, and the need to provide flexibility to allow the courts and parties to consider unique case management issues presented in individual cases. These considerations are discussed in turn below.

2. Purpose of Damages Contentions

The committee has identified the following primary reasons why Damages Contentions are appropriate:

- Early damages disclosures/contentions can provide guidance to the court and the parties for managing discovery in accordance with the “proportionality” doctrine now embodied in the Federal Rules.
- Early damages disclosures/contentions can give guidance to the court for managing discovery by providing insight as to the nature of the factual disputes for which requested damages evidence will be used to address.

¹⁰³ The Sedona Conference, *Commentary on Patent Damages and Remedies*, Sec. III (Pretrial Principles and Best Practices), THE SEDONA CONFERENCE (Jun. 2014 Public Comment Version), available at <https://thesedonaconference.org/publication/WG9%20Patent%20Damages%20and%20Remedies>

- Early damages disclosures/contentions can give the parties and the court insight as to the true stakes in a lawsuit, and thus enhance early resolution of the case. This may be true where it becomes evident early on that the potential damages at issue is much smaller or larger in scope than had been appreciated. It may also be true where a damages claim or defense is predicated on a legally deficient theory.
- Exchange of damages-related documents, information, and Damages Contentions can improve the productivity of early settlement discussions. Given that such a high percentage of patent cases settle, there is a significant potential benefit to improving the efficiency of settlement discussions at an earlier juncture.
- The exchange of Damages Contentions may help identify disputes that can be appropriately addressed early in the case as a matter of law, and which would materially shape the litigation in positive ways. For example, where damages theories of one side or the other are legally deficient, early identification of that deficiency may reduce or eliminate needless and burdensome discovery, as well as the associated motion practice.
- Requiring the party seeking damages to provide an early disclosure is consistent with the existing initial disclosure requirements set forth in Rule 26(a)(1)(A)(iii) which require a party seeking damages to provide:
 - (iii) a computation of each category of damages claimed by the disclosing party—who must also make available for inspection and copying as under Rule 34 the documents and other evidentiary material, unless privileged or protected from disclosure, on which each computation is based¹⁰⁴

The subcommittee appreciates that not all patent cases are alike and believes that Damages Contentions requirements should be designed with flexibility in mind so that they can, in appropriate cases, be tailored based on individual case-specific, case-management considerations.¹⁰⁵

¹⁰⁴ Historically, compliance with this provision has been more of the exception than the rule in patent litigations. However, the December 1, 2015 amendments to the Federal Rules of Civil Procedure, explicitly requiring proportionality considerations in determining the scope of permissible discovery, may encourage greater compliance.

¹⁰⁵ The issue of early disclosure of damage information is also addressed in The Sedona Conference *Commentary on Patent Litigation Best Practices: Case Management Issues from the Judicial Perspective Chapter* (Dec. 2015 Edition), Sec. II.B.3. (Preliminary Statements Regarding Value of the Case for Determining Discovery Limits), available at <https://thesedonaconference.org/publication/The%20Sedona%20Conference%20Commentary%20on%20Patent%20Litigation%20Best%20Practices%3A%20Case%20Management%20Issues%20from%20the%20Judicial%20Perspective%20Chapter> [hereinafter *Sedona WG10 Case Management Chapter*].

3. Timing Issues

a. Attention to Damages Issues at Rule 26(f) and Initial Case Management Conferences in Patent Cases to Foster Early Consideration and Flexibility

To accomplish the objectives noted above, the subcommittee believes it would be helpful in patent cases to require attention be given to damages issues in Rule 26(f) reports and joint case management statements, and to require discussion of the same at the Rule 26(f) and initial case management conferences. As discussed below, this would include consideration of the appropriate timing and extent of early damages discovery or exchanges needed for the parties to provide Damages Contentions as well as the detail to be provided in such Damages Contentions.

In addition, because the subcommittee believes that there should be flexibility in the application of the Damages Contentions requirements and the timing of such disclosures based on individual case-specific, case-management considerations, it believes that it would be appropriate for the parties and the court to consider any possible modification of the Damages Contentions requirements and timing based on specific case considerations as part of the initial case-management and/or Rule 26(f) scheduling conference process.

Accordingly, in addition to its recommendations for the adoption of local rules in patent cases which would implement Damages Contentions disclosure requirements, the subcommittee recommends that existing local rules and standing orders applicable to patent cases should include express reference to the need to address damages-related issues, including the Damages Contentions disclosure requirements, at the Rule 26(f) and initial case management conferences.

Thus, damages issues and the Damages Contentions disclosure requirements need to be discussed between the parties as part of and prior to the Rule 26(f) and initial case management conferences. The Rule 26(f) conference discussions should include both a discussion of each party's damages theories, and each party's estimate of the range of damages appropriate to the case, assuming liability.¹⁰⁶ Discussion of these issues during the Rule 26(f) conference will ensure that damages issues are included in the scope of any Rule 16 and/or case management conference submissions by the parties to the court for meaningful dialogue on these subjects. The subcommittee recognizes that damage estimates cannot always be provided for various reasons at the time of the Rule 26(f) and initial case management conferences. Any modification to the default Damages Contentions requirements that parties might propose, agree upon, or wish the court to address based on individual case-specific considerations would also be part of this process.

For example, consideration could be given to whether the default schedule for Damages Contentions disclosures might be modified based on such factors in individual cases such as:

- the existence of issues that might, from a case-management perspective, dictate deferring Damages Contentions disclosures to a later stage in the case such as a forthcoming key, likely dispositive, claim construction determination or the court's inclination to consider an early motion that

¹⁰⁶ See *Sedona WG10 Case Management Chapter*, *supra* note 3, at Best Practice 10.

would potentially be case dispositive (e.g., noninfringement, Section 101, or standing to bring the lawsuit);

- individual factual circumstances such as those relating to the scope of the particular products or technology at issue where some limited, targeted discovery might be appropriate to ensure meaningful Damages Contentions disclosures can be provided; and
- the existence of prior history or litigation relating to the patent(s) at issue such that additional or earlier exchanges of documents, information, or Damages Contentions disclosures might make sense.

b. Timing of Damages Contentions Disclosures

The subcommittee gave particular attention to the subject of appropriate timing for the initial exchange of damages-related documents and Damages Contentions disclosures in patent cases. Subject to possible tailoring and modification based on individual case considerations, the conclusion of the subcommittee is that while preliminary document exchanges related to damages issues can be required to occur at an earlier stage, Damages Contentions disclosures by the patent holder should follow the exchange of Rule 26 initial disclosures and locally required infringement contentions, based on the following considerations:

- Damages Contentions disclosures should be required at a relatively early stage of the fact discovery period, so as to provide for targeted damages discovery and to facilitate settlement negotiations/mediation.¹⁰⁷
- Damages Contentions disclosures should occur after infringement contentions are served, so that the asserted claims, theories of infringement, and accused instrumentalities are already identified. Among other things, this allows Damages Contentions to focus on the actual accused instrumentalities/technology.
- Damages Contentions disclosures should occur early enough in the overall case to focus on and address any damages theories or contentions that may be legally deficient or counter-factual.

Because proportionality is a touchstone of the best practices for patent litigation management, in addition to requiring Damages Contentions from the patentee, the subcommittee believes that information regarding damages and responsive Damages Contentions disclosures should also be required from the accused infringer.

¹⁰⁷ This is not meant to suggest that the court should not inquire about the damages theories and estimated ranges at an earlier stage, as discussed *supra* and in the *Sedona WG10 Case Management Chapter*, *supra* note 3.

B. PROPOSED MODEL LOCAL RULE FOR DAMAGES CONTENTIONS IN PATENT CASES

1. Rule 26(f) Conference of the Parties & Rule 16 Conference

a. Rule 26(f) Conference of the Parties.

As part of the Rule 26(f) conference of the parties, the parties shall discuss the requirements of this Local Rule, including whether any deviation is appropriate for the case. Note that deviation from the Local Rule will be limited, and determined on a case-by-case basis.

b. Rule 26(f) Report.

The parties should set forth their joint or separate positions on adherence to or deviation from this Local Rule, regarding both damages discovery and Damages Contentions, in their Rule 26(f) report.¹⁰⁸

c. Rule 16 Conference.

The court shall engage the parties in a meaningful discussion of how damages discovery and Damages Contentions shall be crafted for the case, consistent with this Local Rule. Each party shall be prepared to discuss the specific information it requires in order to provide its Damages Contentions consistent with this Rule.

The parties shall try to provide the court with a non-binding, good-faith estimate of the damages range expected for the case along with a high-level explanation for the estimates. If either party is unable to provide such information, then the party shall explain to the court why it cannot and what specific information is needed before it can do so. Such party shall also inform the court of the time by which it should be in a position to provide that estimate and explanation.

¹⁰⁸ FED. R. CIV. P. 26(f) (Conference of the Parties; Planning for Discovery) states in relevant part:

(2) *Conference Content; Parties' Responsibilities.* In conferring, the parties must consider the nature and basis of their claims and defenses and the possibilities for promptly settling or resolving the case; make or arrange for the disclosures required by Rule 26(a)(1); discuss any issues about preserving discoverable information; and develop a proposed discovery plan. The attorneys of record and all unrepresented parties that have appeared in the case are jointly responsible for arranging the conference, for attempting in good faith to agree on the proposed discovery plan, and for submitting to the court within 14 days after the conference a written report outlining the plan. The court may order the parties or attorneys to attend the conference in person.

FED. R. CIV. P. 16(b) (Scheduling) states in relevant part:

(1) *Scheduling Order.* Except in categories of actions exempted by local rule, the district judge—or a magistrate judge when authorized by local rule—must issue a scheduling order:

(A) after receiving the parties' report under Rule 26(f).

2. Rule 26(a)(1)(A)(iii) Initial Disclosures

a. Compliance with Rule 26(a)(1)(A)(iii).

The patentee is expected to comply with Rule 26(a)(1)(A)(iii) which requires the patentee to provide “a computation of each category of damages claimed by the disclosing party” as well as to provide “the documents or other evidentiary material, unless privileged or protected from disclosure, on which each computation is based.” To the extent that it is not possible for the patentee to provide a computation of damages, the patentee shall provide a description of the methodology it expects to use to compute its damages. This description shall include:

1. an explanation of whether the patentee expects to seek lost profits, price erosion, a reasonable royalty, or damages based on other theories, including identification of the accused instrumentalities which are the basis for the damages claims;
2. with respect to a lost profits claim, a description of the market and of the competing products that support the lost profits claim, and the bases for any assertion that the patentee would have made some or all of the sales of the accused instrumentalities or technology; and
3. with respect to a reasonable royalty claim, the form of royalty (e.g., lump sum vs. running royalty), identification of the appropriate royalty base to which any running royalty would apply, and the factors applicable to the determination of the royalty rate specific to the case.

b. Amendment and Supplementation.

Initial damages disclosures are subject to the requirements for supplementation and amendment of disclosures set forth in Rule 26(e).

3. Initial Discovery Period: Within 90 Days of Rule 16 Conference

a. Exchange of Limited Damages-Related Discovery.

1. Within 90 days of the Rule 16 Conference on a date set by the court, unless agreed otherwise, the parties shall produce to each other certain discovery sufficient to enable the parties to set forth meaningful detailed Damages Contentions, including:
 - a) sales, revenue, cost, and profit data for accused instrumentalities;
 - b) market share data for the market covering the accused instrumentalities;
 - c) license or other agreements that include the patent(s)-in-suit, including agreements related to any sale of the patent(s)-in-suit;

- d) license or other agreements that (i) a party may use to support its claims or defenses, and/or (ii) involve patents within the scope of an agreed upon technology area of potential relevance;
 - e) documents sufficient to show marking of embodying accused instrumentalities; and
 - f) any documents comprising or reflecting a F/RAND commitment or agreement with respect to the asserted patent(s).
2. Discovery under this Section 3 must be provided for any “Accused Instrumentality” defined by name, model number, or functional description as part of the Rule 26 damages computation and/or methodology description. A functional description shall be as specific as possible, and shall provide information beyond identification of a product category.

b. Non-limiting.

This section is not intended to limit the discovery that may otherwise be pursued by the parties pursuant to requests for proposals, interrogatories, requests for admissions, or other discovery means.

4. Damages Contentions by the Patentee

Within 60 days of the service of the Limited Damages-Related Discovery,¹⁰⁹ the patentee shall serve on the accused infringer(s) detailed Damages Contentions and computations which shall contain the information set forth below. The Damages Contentions and computations may be supplemented and/or amended consistent with Rule 26(e).

a. Economic Advantage(s) of the Asserted Patent Claim(s).

The patentee shall identify the economic benefits it believes have been obtained from the infringement which are directly attributable to the asserted patent claim(s).

b. Computations, Categories of Damages, and Basis.

The patentee shall identify each of the category(-ies) of damages it is seeking for the asserted infringement, as well as details regarding its theories of recovery, factual support for those theories, and computations of damages within each category, including when applicable:

- 1. lost profits;

¹⁰⁹ We assume for purposes of this Model Local Rule that the local rules of the court require service of infringement contentions followed by invalidity contentions, or that the parties have agreed upon an exchange of these contentions pursuant to interrogatories or other means.

2. price erosion;
3. convoyed or collateral sales;
4. reasonable royalty; and
5. the identification of any disputed claim term the construction of which may substantially affect the damages sought by the patentee and the basis for patentee's contention.

c. Timing of Claimed Damages.

The patentee shall identify the following:

1. the timing of the point of first infringement;
2. the timing of the start of claimed damages;
3. the timing of the end of claimed damages; and
4. any resultant limitations on claimed damages.

d. Additional Discovery Required.

For each of the foregoing subsections (a)-(c) as to which the patentee contends it is unable to provide a fulsome response, including a computation of damages for each form of claimed damages, the patentee shall identify the information it requires from the accused infringer(s) or from third parties in order to provide a fulsome response.

5. Accused Infringer's Response to Damages Contentions

Within 60 days of service of the patentee's Damages Contentions, the accused infringer shall serve a Response to the Damages Contentions, which shall specifically address whether and how the accused infringer disagrees with the patentee's contentions and computations relating to the information set forth below.

a. Economic Advantage(s) of the Asserted Patent Claim(s).

The accused infringer shall respond as appropriate to the patentee's contentions regarding the economic benefits obtained from the infringement which are directly attributable to the asserted patent claim(s).

b. Computations, Categories of Damages, and Basis.

The accused infringer shall respond, with factual support, to the patentee's contentions regarding the category(-ies) of damages the patentee is seeking for the asserted infringement, as well as to the patentee's computations and theories of recovery within each category, including:

1. lost profits;

2. price erosion;
3. convoyed or collateral sales;
4. potential non-infringing alternatives;
5. reasonable royalty; and
6. the identification of any disputed claim term the construction of which may substantially affect the damages sought by the patentee and the basis for the accused infringer's contention.

c. Timing of Damages Sought by Patentee.

The accused infringer shall identify the following:

1. the timing of the alleged point of first infringement;
2. the timing of the start of alleged damages;
3. the timing of the end of alleged damages; and
4. any resultant limitations on alleged damages.

d. Additional Discovery Required.

To the extent the accused infringer contends that it has insufficient information upon which to provide a fulsome response to the patentee's damages theory as set forth in the patentee's Damages Contentions on any of the foregoing subsections (a)-(c), the accused infringer shall identify the additional discoverable information it contends is required from the patentee or any third parties.

Appendix B: Patent Damages Hearings

[Note: The below was originally published as The Sedona Conference *Commentary on Case Management of Patent Damages and Remedies Issues: Patent Damages Hearings* (May 2017 public comment ver.), available at https://thesedonaconference.org/publication/Patent_Damages_and_Remedies.]

C. INTRODUCTION

The law of patent damages has been evolving over the past decade. As parties and their advocates have attempted to advance their damages goals within the changing damages landscape, new damages theories have emerged, with mixed success. Some have passed district court and appellate scrutiny, whereas others have failed at one or more stages of review. The uncertainty surrounding damages issues can cause parties to engage in unnecessary discovery, motion practice, and pretrial and trial proceedings; and can increase the gap between the parties' expectations about the value of the case, which, in turn, can operate to paralyze settlement discussions. An early assessment of the parties' damages theories and resolution of key issues by the court could operate to lessen this gap, facilitating settlement discussions while at the same time narrowing the scope of the issues should the case go forward. The early damages-focused hearing process described herein is one way to accomplish these goals.

In its initial effort to bring clarity to damages theories and positions relatively early in the case, in April 2016 the Sedona Conference Working Group on Patent Damages and Remedies (WG9) published for public comment a proposed model patent local rule on damages contentions.¹¹⁰ That model local rule provides a framework for the early exchange of damages-related information and contentions to facilitate each party's development and disclosure of its damages theories and positions earlier than might otherwise occur. Early disclosure of damages theories provides three main advantages: (i) assisting the court in addressing issues of proportionality in conjunction with requested discovery; (ii) facilitating settlement discussions by providing the parties with earlier clarity into one another's view of exposure; and (iii) promoting an earlier vetting of damages theories through an orderly pretrial *Daubert* and *in-limine* process.

As a next step in the process of advancing these goals, a WG9 drafting team was assembled to evaluate early court hearings focused on damages, and to develop principles and best practice recommendations around such damages-focused hearings.

To guide the Patent Damages Hearing drafting team's development of best practice recommendations on this subject, the team developed the following overarching principle:

¹¹⁰ The Sedona Conference's Working Group 9 (Patent Damages and Remedies) published for public comment its *Commentary on Case Management of Patent Damages and Remedies Issues: Proposed Model Local Rule for Damages Contentions*, available at: <https://thesedonaconference.org/publication/The%20Sedona%20Conference%20Commentary%20on%20Case%20Management%20of%20Patent%20Damages%20and%20Remedies%20Issues%3A%20Proposed%20Model%20Local%20Rule%20for%20Damages%20Contentions> [hereinafter *WG9 Proposed Model Local Rule for Damages Contentions*].

Principle No. 5 – A damages hearing can be used to facilitate communication between the court and the parties regarding competing damages theories by: (1) clarifying and narrowing the contested damages issues in the case; (2) identifying additional discovery the parties may require; (3) simplifying pretrial and trial proceedings (e.g., *Daubert* motions and motions *in limine*); and (4) facilitating settlement discussions.

Early in the work of the drafting team, it became apparent that there is no one-size-fits-all approach to considering damages issues in a patent case. For some cases, a very early assessment with a minimal exchange of documents will suffice to permit the parties to confer meaningfully and resolve the case. For other cases, a realistic and useful damages assessment is more likely to occur only after the parties have exchanged infringement and invalidity contentions, and the court has issued its *Markman* ruling. The damages hearing contemplated herein is directed largely to this latter group of cases, although the processes outlined certainly could be modified to suit any patent case.

D. TIMING OF THE DAMAGES HEARING

For a damages hearing to be productive, proper timing is critical. Held too early, and the pre-hearing exchanges will be too vague to allow for a useful discussion. Held too late, and several of the benefits of a damages hearing—like focusing discovery and addressing evidentiary issues—will evaporate.

Best Practice 22 – A damages hearing, if held, should be conducted after the parties have disclosed their damages contentions, and sufficiently in advance of trial to allow the parties and the court to reap the full benefits of the hearing.

If a damages hearing is held too early—for example, in the early stages of fact discovery—parties are less likely to have devoted significant attention to their damages theories and contentions. And even if they have, they are often reluctant to disclose this information for fear of locking themselves into untenable (or unsupportable) theories before they have sufficiently vetted them with their damages experts.

As a result, the disclosures exchanged before a too-early damages hearing may be underdeveloped, vague, and noncommittal. In those circumstances, a damages hearing would do little—if anything—to clarify or narrow the disputed issues in the case (although, as discussed below, an early hearing may still be useful to facilitate early settlement).

If a damages hearing is held too late—for example, after the experts have exchanged their reports—several of its potential benefits will disappear. The parties and their experts will be locked into their respective positions, with no opportunity to change course to address *Daubert* challenges or other evidentiary issues without disrupting the trial schedule. And because fact discovery will have already concluded, the parties will not be able to use the information exchanged before and during the hearing to focus their discovery efforts. In short, all of the inefficiencies caused by delayed attention to damages issues and scorched-earth damages discovery will still remain.

Best Practice 23 – A damages hearing, if held, should be scheduled as soon as practicable, and ideally no later than 60 days before service of the opening Rule 26 expert report on damages (i.e., the report from the party with the burden).

The timing of the damages hearing should be discussed at the Rule 26(f) and Rule 16 conferences. In some cases, “as soon as practicable” might be early in the case, after the parties have exchanged initial disclosures and some limited discovery. Holding a damages hearing at this point is more likely to facilitate early settlement and avoid the expense of full fact discovery.

In other cases, “as soon as practicable” will come closer to the middle or later stages of fact discovery (e.g., after the *Markman* ruling and any subsequently updated infringement and invalidity contentions). By this point, the parties will likely have spent a substantial amount of time working with their experts to formulate and disclose their damages contentions. This will foster a more meaningful exchange of information before the hearing, which will allow the parties and the court to have an informed discussion about the issues in dispute. It should also give the parties enough information to consider and raise any potential evidentiary issues and *Daubert* challenges. And because a more concrete discussion will give the parties a clearer picture of the numbers at stake, holding a hearing later in fact discovery can still help facilitate settlement discussions before the parties engage in full-blown expert discovery.

At the same time, by requiring that the hearing occur before the submission of opening expert reports—and ideally at least 60 days beforehand—this practice ensures that there will be adequate time in the case schedule to address the court’s observations and/or ruling in Rule 26 expert reports and in pretrial motions. It also gives the parties time to obtain any additional discovery not yet provided that is necessary for the experts to complete their Rule 26 expert reports.

E. PRE-HEARING DAMAGES DISCOVERY

For the preliminary damages hearing to be both productive and effective, there should be clear guidelines governing the scope of discovery to be completed prior to the hearing. Pre-hearing discovery, including damages contentions if applicable, should be sufficiently fulsome to allow for the exchange of meaningful pre-hearing damages expert statements and a productive hearing on all damages issues, but not so extensive as to impose unduly high costs and discovery burdens, or hinder substantive advancement of the case.

Early determination of the necessary scope and timing of damages discovery can lead to more productive settlement negotiations/mediations, a less burdensome and costly discovery process, and a more focused and productive damages hearing.

Best Practice 24 – The discovery related to damages hearings should focus on key information that will allow experts to prepare a meaningful damages statement prior to the hearing. The type and timing of this discovery should be agreed upon in advance of the Rule 16 conference or ordered by the court at the Rule 16 conference if no agreement is reached.

Below is a list of exemplary, but non-exhaustive, categories of such types of damages discovery:

- i) sales volume, revenue, and profit numbers;
- ii) relevant licenses and agreements;
- iii) market information, including information regarding the importance of the patented invention to the market;
- iv) advantage of the patented invention in the relevant marketplace;
- v) marking or other information that may impact the damages period; and
- vi) any F/RAND commitments or agreements, as applicable.

These categories may vary based on the complexity of the case; parties should focus on what key types of damages discovery are necessary for their dispute at the outset of the case. The parties' Rule 26(f) report should include the agreed upon categories of damages discovery needed at the early stages of the case. Depending on the circumstances of the case, this may lead to the parties agreeing to additional or, alternatively, fewer categories of discovery. To the extent there are disputes, the court should address them at the case management conference to provide a clear guideline regarding the proper scope of early damages discovery. Focusing on key damages discovery at the outset of the case will allow for the meaningful exchange of short damages statements and, when applicable, damages contentions.

Where a party determines that it requires additional discovery beyond the categories agreed upon or ordered by the court at the initial case management conference, it may seek that additional discovery from the opposing party by agreement or by court order if no agreement is reached.

Best Practice 25 – The parties should discuss damages issues as part of the Rule 26(f) and initial case management conference. These discussions should include a focus on the key types of discovery necessary to adequately prepare the expert statements to be used in the damages hearing.

Items to consider at these initial conferences and meet-and-confers are the types of information the parties will be required to exchange in advance of the damages hearing whether through damages contentions, short expert statements, or both. In one form or another, such damages disclosures should include at least the following types of information:

- i) theories under which damages are sought (e.g., lost profits, reasonable royalty, price erosion, a combination of theories, etc.);
- ii) for reasonable royalty: the appropriate royalty base, factors applicable to determining a royalty rate, etc.;
- iii) for lost profits: the definition of the market, support for “but for” contentions, etc.;
- iv) a description of the marketplace;

- v) the advantage of the patented invention over the prior art; and
- vi) the timeframe of damages period.

Best Practice 26 – When part of the case, damages contentions should be exchanged after infringement contentions but well enough in advance of the hearing to determine what, if any, additional damages discovery is necessary for the pre-hearing expert statements.

Damages contentions can increase efficiency, focus discovery, and sharpen damages theories and points of disagreement. These disclosures should occur early enough in the overall case to focus on and address any damages theories or contentions that may need further explanation. To accomplish this, they should take place after infringement contentions to allow for the proper analysis of the accused products/instrumentalities/processes.

The *WG9 Proposed Model Local Rule for Damages Contentions*¹¹¹ provides helpful suggestions about the scope, use, and purpose of damages contentions. Whether required by the local rules or the court in a given case, or pursued by the parties by way of interrogatories, damages contentions are helpful to assist the parties and the court in determining the scope of any additional damages discovery required by the damages experts to prepare their Rule 26 expert reports. This will also help to identify additional discovery needed by the experts to prepare the short, pre-hearing expert statements discussed in Section IV below.

F. PREPARATION FOR THE DAMAGES HEARING

Effectiveness of the damages hearing is enhanced by adequate preparation and by advance communication of key damages information to the court and the parties. Exchanging short expert statements that address key damages topics in advance of the damages hearing focuses the damages hearing on those damages topics that matter most.

1. Damages Expert Statements

Best Practice 27 – The parties should exchange short damages expert statements prior to the damages hearing setting forth the damages expert’s views regarding applicable damages theories, computations, information and preliminary opinions regarding key issues, as well as any discovery still required to finalize the expert’s theories and opinions.

Short damages expert statements should be submitted in advance of damages hearings. In most disputes there are a small number of key topics, assumptions, or opinions that result in the most significant disparities between the parties’ damage claims. A brief explanation of each damages expert’s view of the key issues and opinions in advance of the damages hearing will help the court, experts, and parties prepare for the hearing.

¹¹¹ *Id.*

Typically, each technical expert and damages expert statement should consist of no more than five pages, unless otherwise directed by the court, and should be submitted to the court and opposing counsel at least ten days prior to the damages hearing. The page limit is intended to foster focus on key facets of opinions. In contrast to the Rule 26 expert reports, these short statements are not expected to reflect detailed discussion and fulsome evidentiary support for each opinion. The purpose of these page-limited expert statements is to efficiently highlight key topics and opinions to help frame the issues to be covered in the damages hearing, and to identify any discovery the expert still requires in order to complete her analysis.

2. Technical Expert Statements

Best Practice 28 – Short technical expert statements related to damages should be exchanged prior to the damages hearing, setting forth the technical expert’s conclusions and bases for the conclusions regarding technical considerations involved in the issues highlighted by the damages expert’s pre-hearing statement. At its discretion, the court may omit technical expert reports.

Short technical expert statements on technical issues relating to damages issues should generally be submitted in advance of the damages hearing. Many damages issues are impacted by technical considerations, such as the importance of the technology at issue, the applicability of the entire market value rule, apportionment, and available alternatives and design-around alternatives. Where these or other issues are discussed in a party’s damages statement, they should be supported, as appropriate, by input from technical experts, each of whom should submit a short technical expert statement to assist in accomplishing the objectives of a damages hearing.

Similar in nature to the damages expert statements, the technical expert statements are, presumptively, no longer than 5 pages, and should focus on providing information relating to the key damages issues outlined in the damages expert’s report. Technical considerations unrelated to issues raised by the damages expert report(s) need not be addressed in these short statements; excessive detail and discussion are discouraged.

3. Identification of Points of Agreement and Disagreement

Efforts should be made to identify topics about which the experts agree, and to highlight key topics about which the experts disagree. This provides clarity and allows efforts of the experts, parties, and the court to focus on disputed topics.

Best Practice 29 – The court should consider including processes, such as the preparation of an “agreed witness statement,” to identify prior to the hearing key topics as to which the experts agree and disagree.

Prior to the damages hearing, the court could require the experts to identify data, facts, assumptions, methodologies, or opinions about which the experts agree; perhaps preparing an “agreed witness statement” listing topics about which they agree and disagree. This may be accomplished based on information known before the above expert statements are prepared, or after the above expert statements are completed and exchanged. Identifying areas of opposing expert witness agreement

will allow any further discovery and expert reports to focus on the topics of disagreement, providing clarity and efficiency.

This proposed Best Practice does not purport to identify a single process to be used for this purpose, and instead allows tailoring the process to fit each situation. Contemplated processes include:

- a conference of counsel and expert prior to the hearing to prepare an agreed witness statement for submission to the court;
- an exchange of proposed agreed witness statements, followed by a conference of counsel to agree upon a single list for submission to the court; and
- a conference among experts, outside the presence of counsel, to generate an agreed witness statement for submission to the court.

G. CONDUCTING THE DAMAGES HEARING

To be most useful to the parties, the damages hearing should be conducted in a manner that enables areas of agreement among the parties to be recognized and areas of disagreement between the parties to be clarified. Accordingly, the hearing should afford each side the opportunity to present its damages theory and positions, including supporting evidence, and to identify any additional discovery needed to carry out the analyses that are expected to be included in the damages expert's Rule 26 report.

The hearing is meant to be informational and constructive, rather than confrontational in tone. Accordingly, the questioning of damages experts should be directed towards understanding the experts' proposed approaches to the determination of damages and identifying areas of agreement and disagreement between opposing damages experts. For areas of disagreement, questioning of the damages witnesses may examine the rationale or justification for the position taken by each of the damages experts. The questioning should also elicit information regarding additional discovery that may be required by an expert to complete her analysis.

Best Practice 30 – The parties' damages experts (and technical experts, as necessary) shall be made available to testify about their opinions, the bases therefor, and additional information needed to complete their final reports.

As noted above, the hearing will be preceded by short statements by damages and technical experts. With those statements in hand, the hearing provides the court and the parties with the opportunity to ask clarifying questions concerning the foundations of and justifications for the damages theories and positions set forth in those statements. In some cases, testimony from technical experts may be needed to explain some aspects of the damages expert's opinion. The questioning is intended to be short and focused on key issues.

Best Practice 31 – Questioning of each side’s damages expert should begin with clarifying questions from the court followed by brief, optional questioning by opposing counsel.

In order to set the tone and use the hearing time most effectively, the court should begin the process by swearing in all of the damages experts and seating them together in the courtroom or jury box. That is, rather than seating the experts in the witness box and questioning one expert fully and then moving on to the next, the court would be in a position to question one expert, follow up on the initial response with questions to another expert, and then go back to questioning of the first expert, as appropriate. In order to maintain orderly proceedings focused on issues of importance to the court, the court should remain in control of the questioning, with experts directing their responses to the court. Experts should not address one another directly. Following questioning by the court, the court should allow each party a predetermined amount of time, on the order of ten minutes, with the opposing party’s witness.

Best Practice 32 – At the conclusion of the hearing, the court and the parties should understand the areas of agreement and disagreement concerning damages issues and know what additional discovery, if any, must be produced prior to the submission of expert reports.

For these hearings to be useful, there should be greater clarity concerning relevant damages theories and factual bases after the hearing than existed before the hearing. Depending on the facts and circumstances of the case, the court may wish to state at the conclusion of the hearing its understanding of the areas of agreement and disagreement concerning damages issues. With regard to areas of disagreement, the court may resolve disagreements based on existing evidence or identify those issues that should be addressed in more detail by the damages reports. The court may also make observations or rule on outstanding discovery disputes or damages theories that may be vulnerable to exclusions through *Daubert* motions or motions *in limine*. Additionally, observations or rulings made by the court at the damages hearing may help the parties gain a sense of the damages theories that are likely to be presented to the fact-finder, and thus facilitate settlement discussions.

H. MODIFICATION OR SUPPLEMENTATION OF DAMAGES HEARING POSITIONS

For damages hearings to serve their intended purposes, parties must develop and disclose their damages theories and positions to the extent possible given the discovery provided in advance of the preparation of the short pre-hearing damages statements referenced above. In order to prevent a party from attempting to sandbag another party through incomplete disclosure and to aid future decision making by the parties and the court, the parties should be required to adhere to the damages theories and positions they set forth at the damages hearing, subject to a showing of good cause for any proposed modifications or supplementation of those theories or positions in damages expert reports (or in any other expert report or at trial, as applicable).

Best Practice 33 – Any deviations from a theory or position taken at the damages hearing should be explained in the Rule 26 expert report, and if the opposing party moves to strike, the proponent of the supplementation or modification should bear the burden of showing (i) good cause to support the supplementation or modification, as well as (ii) the absence of substantial undue burden to other parties

To the extent a party modifies or amends a damages theory or position presented at the damages hearing, it should clearly state so in its Rule 26 damages expert report (as well as supplementing any written discovery response, as required by federal and/or local rules) and explain the basis for the modification or supplementation. For example, if discovery requested but not provided prior to the damages hearing causes a change in theory or position, the damages expert should state that in his Rule 26 expert report. Should another party seek to strike or exclude the modification or supplementation, the proponent of the modification or supplementation shall make a showing of good cause and no substantial undue burden to the other parties.