

# Compensatory Damages Issues in Patent Infringement Cases

*A Pocket Guide for Federal District Court Judges*

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## **Introduction**

Chief Judge Paul R. Michel of the U.S. Court of Appeals for the Federal Circuit asked the members of this committee to come together to develop a guide for trial courts to consult when deciding issues of compensatory damages in patent infringement cases. The goal was to create a guide drafted by a committee, national in scope, with members from the bench, bar, and academia, including in-house counsel from a variety of industries and patent damages experts. The underlying idea was to benefit from the collective experience of judges, attorneys, academics, and economists in how best to achieve the “just, speedy and inexpensive determination”<sup>1</sup> of patent damages. Recognizing that patent damages law is an area that continues to evolve, this guide is not an attempt to restate substantive damages law or predict its future evolution, but is instead focused on case-management practices that may be helpful in the adjudication of patent damages.

The following practices have not been reviewed or endorsed by the U.S. Court of Appeals for the Federal Circuit or any judge of that court, and the chief judge did not participate in the drafting. These practices are not intended to be “official” in any sense. Neither does any particular member of this committee, or the company, law firm, law school, or client that employs that member, or the court on which that member serves, or organization with which that member is affiliated, endorse the application of any particular practice in any particular case. Nor is this guide intended to suggest that current law needs or does not need judicial or legislative revision. Rather, this guide is intended to be a helpful resource for judges and lawyers under current law.

In compiling this guide, we have looked to and drawn from the work of others, including the Federal Judicial Center’s Patent Case Management Judicial Guide,<sup>2</sup> the National Jury Instruction Project,<sup>3</sup> and the local patent rules, standing orders, and general orders of various district courts. Recognizing that “the rich variety of

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1. Fed. R. Civ. P. 1. Unless otherwise indicated, all references in this guide to the “Rules” are to the Federal Rules of Civil Procedure.

2. Peter S. Menell, Lynn H. Pasahow, James Pooley & Matthew D. Powers, Patent Case Management Judicial Guide, [http://www.fjc.gov/library/fjc\\_catalog.nsf](http://www.fjc.gov/library/fjc_catalog.nsf) (2009) (hereafter “Patent Management Guide”).

3. The National Jury Instruction Project, Model Patent Jury Instructions, <http://www.nationaljuryinstructions.org> (2009) (“Model Patent Instructions”).

cases and the benefits of the exercise of informed judgment and discretion of district court judges require flexibility,<sup>4</sup> judges and lawyers who consult this guide will need to supplement and tailor the practices and approaches discussed herein to the circumstances of their particular case.

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4. Patent Management Guide, *supra* note 2, at 1-1.

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## **I. Patent Damages in General**

Although this guide is not intended to be a comprehensive treatise on patent infringement compensatory damages or a definitive interpretation of the extensive judicial precedent on the subject, it is helpful to briefly set forth the framework and context for the procedural practices described later.

### **A. Statutory Provisions**

Section 284 of the patent statute addresses damages, both compensatory and enhanced. The portion directed to compensatory damages states:<sup>5</sup>

Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court. When the damages are not found by a jury, the court shall assess them. . . .

The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.<sup>6</sup>

Awarding compensatory patent infringement damages through litigation attempts to assess “the difference between the [patentee’s] pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred.”<sup>7</sup> The question to be asked in determining such damages, at least for competitors, is “had the Infringer not infringed, what would [the] Patent Holder . . . have made?”<sup>8</sup>

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5. The patent statute also affords the patent owner the opportunity to obtain damages enhanced up to treble damages, attorney fees, costs, and prejudgment interest, 35 U.S.C. §§ 284–285, and, to the owner of a design patent, the infringer’s total profits. 35 U.S.C. § 289. In addition, the patent statute affords an additional compensatory damages remedy for design patents. *See* 35 U.S.C. § 289. These topics are beyond the scope of this guide.

6. 35 U.S.C. § 284.

7. *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 507 (1964) (quoting *Yale Lock Mfg. Co. v. Sargent*, 117 U.S. 536, 552 (1886)).

8. *Aro*, 377 U.S. at 507.

## B. Forms of Compensatory Patent Damages

Compensatory patent damages traditionally have fallen into three categories, one or all of which may be involved in a particular case:<sup>9</sup> lost profits, established royalty,<sup>10</sup> and reasonable royalty.<sup>11</sup> In addition, the court may award pre-judgment interest under 35 U.S.C. § 284 on the compensatory portion of the damages award,<sup>12</sup> pre-judgment interest on any award of attorney fees,<sup>13</sup> and post-judgment interest under Fed. R. Civ. P. 37 on the entire award.<sup>14</sup>

### 1. Lost Profits

Lost profits normally are proved by determining what profits would have been made by the patentee “but for” the infringement.<sup>15</sup> That is, to obtain lost profits damages, the patent owner “must show a reasonable probability that, ‘but for’ the infringe-

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9. *State Indus., Inc. v. Mor-Flo Indus., Inc.*, 883 F.2d 1573, 1577 (Fed. Cir. 1989) (award split between lost profits and reasonable royalty).

10. Although sometimes characterized as a reasonable royalty, *see Monsanto Co. v. McFarling*, 488 F.3d 973, 978 (Fed. Cir. 2007), the established royalty is, strictly speaking, a form of actual damages, and is “reasonable” in the sense that it typically provides the “best measure” of a royalty for the use made of the invention. *Id.* The relatively rigorous requirements for finding an established royalty based on previous license agreements, *see, e.g., Rude v. Westcott*, 130 U.S. 152, 165 (1889), do not apply to the use of such license agreements in the reasonable royalty analysis. *See, e.g., Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1325–26 (Fed. Cir. 2009) (applying comparability standard).

11. A fourth form of compensatory damages, the infringer’s profits from the infringement, was eliminated by statute in 1946 for all but design patents. *See Aro*, 377 U.S. at 505.

12. *General Motors Corp. v. Devex Corp.*, 461 U.S. 648 (1983) (pre-judgment interest award is the norm); *Group One Ltd. v. Hallmark Cards, Inc.*, 407 F.3d 1297 (Fed. Cir. 2003) (pre-judgment interest may be denied); *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380 (Fed. Cir. 1983) (no pre-judgment interest on enhanced damages portion).

13. *Mathis v. Spears*, 857 F.2d 749 (Fed. Cir. 1988) (pre-judgment damages may be awarded on attorney fees).

14. *Tronzo v. Biomet, Inc.*, 318 F.3d 1378 (Fed. Cir. 2003) (post-judgment interest). Where willful infringement is found, the court may enhance the amount of damages awarded up to three times under 35 U.S.C. § 284. *See In re Seagate Tech., LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (en banc). If the case is adjudged to be “exceptional,” attorneys fees (in addition to costs) may be awarded to the prevailing party. 35 U.S.C. § 285.

15. *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1545 (Fed. Cir. 1995) (en banc); *BIC Leisure Prods. v. Windsurfing Int’l*, 1 F.3d 1214, 1218 (Fed. Cir. 1993).

ment, it would have made the sales that were made by the infringer.”<sup>16</sup> An accepted, but not exclusive, test for lost profits damages requires that the patent owner establish: “(1) demand for the patented product; (2) absence of acceptable non-infringing substitutes; (3) manufacturing and marketing capability to exploit the demand; and (4) the amount of profit it would have made.”<sup>17</sup>

## *2. Established Royalty*

“When the patentee has consistently licensed others to engage in conduct comparable to the defendant’s at a uniform royalty, that royalty is taken as established and indicates the terms upon which the patentee would have licensed the defendant’s use of the invention.”<sup>18</sup> Proof of an established royalty normally requires a showing that it was the patentee’s regular practice to grant licenses to third parties to authorize conduct of the kind engaged in by the infringer at an established royalty rate.<sup>19</sup> In this context, the Supreme Court has rejected consideration of licenses entered into as a result of litigation.<sup>20</sup>

## *3. Reasonable Royalty*

In almost every patent case, the patent owner seeks reasonable royalty damages, either for infringement for which it cannot prove lost profits or established royalty damages, or as an alternative damages theory.<sup>21</sup> One approach to calculating reasonable royalty

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16. *Rite-Hite*, 56 F.3d at 1545.

17. *Id.*

18. *Monsanto*, 488 F.3d at 978 (citing *Birdsall v. Coolidge*, 93 U.S. 64, 70 (1876)) (established royalty furnishes best measure of damages); *Nickson Indus., Inc. v. Rol Mfg. Co.*, 847 F.2d 795, 798 (Fed. Cir. 1988) (absent proof of unusual circumstances, such as widespread infringement that artificially depressed established royalty, established royalty is best measure of damages); *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1078 (Fed. Cir. 1983) (same).

19. *Rude*, 130 U.S. at 165.

20. *Id.* While there is no corresponding bar to considering settlement agreements in connection with the reasonable royalty analysis, the Federal Circuit has cautioned that great care must be exercised in considering such agreements, which may well turn out not to be comparable. *See generally ResQNet.com, Inc. v. Lansa*, 594 F.3d 860 (Fed. Cir. 2010).

21. A damages award may consist of lost profits for a portion of the accused infringements and reasonable royalty for the remainder of the infringements. *See*



damages is to determine what a willing licensee in the place of the infringer reasonably would have paid and what a willing licensor in the place of the patentee reasonably would have accepted for the grant of a license, had such a license been negotiated just before the infringement began, with both parties assuming the patent was valid, enforceable, and infringed.<sup>22</sup>

The hypothetical negotiation analysis may consider a wide range of evidence, and the factors to which that evidence may relate include what are referred to as the *Georgia-Pacific* factors.<sup>23</sup> That evidence is not necessarily limited to facts predating the date of the hypothetical negotiation; in certain circumstances, “factual developments occurring after the date of the hypothetical negotiation can inform the damages calculation.”<sup>24</sup> There is “no formula by which these factors can be rated precisely in the order of their relative importance or by which their economic significance can be automatically transduced into their pecuniary equivalent.”

### C. Burdens, Methods, and Standards of Proof

The amount of patent infringement damages is a question of fact.<sup>25</sup> The patentee has the burden of proving damages<sup>26</sup> and must do so by a preponderance of the evidence.<sup>27</sup> Whatever theory is pursued, patent infringement is a tort, and as with all tort damages,

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TWM Mfg. Co. v. Dura Corp., 789 F.2d 895, 898 (Fed. Cir. 1986). For example, this approach is commonly applied where the patent owner seeks to prove lost profits based on market share. See *State Indus., Inc. v. Mor-Flo Indus., Inc.*, 883 F.2d 1573, 1577 (Fed. Cir. 1989).

22. *Rite-Hite*, 56 F.3d at 1554. That is not to say that the “analytical method” is not considered in the context of a hypothetical negotiation; it may well be.

23. In *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120–21 (S.D.N.Y. 1970), the court compiled fourteen evidentiary factors and a fifteenth factor that, taken together, restate the hypothetical negotiation methodology from “a conspectus of the leading cases.”

24. *Lucent Techs.*, 580 F.3d at 1333 (citing *Sinclair Refining Co. v. Jenkins Petroleum Process Co.*, 289 U.S. 689, 698 (1933)).

25. *Smithkline Diagnostics, Inc. v. Helena Labs. Corp.*, 926 F.2d 1161, 1164 (Fed. Cir. 1991).

26. *Id.*; see also *Blake v. Robertson*, 94 U.S. 728, 733 (1876) (“Damages must be proved; they are not to be presumed.”); *Lucent Techs.*, 580 F.3d at 1324 (“The burden of proving damages falls on the patentee.”).

27. *Vulcan Eng’g Co. v. Fata Aluminium, Inc.*, 278 F.3d 1366, 1376 (Fed. Cir. 2002).

the aggrieved party has the burden of proving both that the economic harm was reasonably foreseeable and was caused by the infringer.<sup>28</sup>

The ultimate burden of proof on damages subsumes burdens on subsidiary issues. For example, the patent owner has the burden to justify application of the “entire market value rule.”<sup>29</sup>

The patentee’s burden in establishing patent damages has been described as “a burden of reasonable probability.”<sup>30</sup> Courts recognize that “any reasonable royalty analysis ‘necessarily involves an element of approximation and uncertainty.’”<sup>31</sup> Regardless of the form of damages, however, the court should not apply any less rigorous standard of admissibility to the evidence than that required by the rules of evidence<sup>32</sup> or any less rigorous standard to the proof of facts. Speculation is not evidence.<sup>33</sup> Courts should allow damage awards based only on “sound economic and factual predicates.”<sup>34</sup>

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28. *Coupe v. Royer*, 155 U.S. 565, 582 (1895) (patent infringement damages are the pecuniary losses that the patent owner “has suffered from the infringement”); *King Instrument Corp. v. Perego*, 65 F.3d 941, 948 n.3 (Fed. Cir. 1993) (economic harm limited by foreseeability); *Rite-Hite*, 56 F.3d at 1546 (same).

29. *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1336 (Fed. Cir. 2009) (“For our entire market value rule to apply, the patentee must prove that ‘the patent-related feature is the basis for customer demand.’”).

30. *Lam, Inc. v. Johns-Manville Corp.*, 718 F.2d 1056, 1065 (Fed. Cir. 1983).

31. *Lucent Techs.*, 580 F.3d at 1325 (citing *Unisplay, S.A. v. Am. Elec. Sign Co.*, 69 F.3d 512, 517 (Fed. Cir. 1995)).

32. *See Crystal Semiconductor Corp. v. Tritech Microelectronics Int’l, Inc.*, 246 F.3d 1336, 1354–58 (Fed. Cir. 2001) (affirming grant of JMOL on lost profits because expert testimony was “incompetent” and “unreliable,” and affirming grant of JMOL on price erosion because expert testimony was “unreliable” and “used an inappropriate benchmark”).

33. *Lucent Techs.*, 580 F.3d at 1327.

34. *Integra Lifesciences I, Ltd. v. Merck KGaA*, 331 F.3d 860, 870–72 (Fed. Cir. 2003), *rev’d on other grounds*, 545 U.S. 193 (2005) (reversing denial of JMOL on reasonable royalty where record not clear on date of first infringement); *Riles v. Shell Exploration & Prod. Co.*, 298 F.3d 1302, 1311 (Fed. Cir. 2002).

## II. Pleadings and Mandatory Initial Disclosures

Because Rule 8(a)(3) requires only “a demand for the relief sought, which may include relief in the alternative or different types of relief,”<sup>35</sup> patent infringement complaints rarely assert the damages claim in any more detail than that shown by the form Complaint for Patent Infringement: a request “for damages.”<sup>36</sup>

Any lack of specificity in the complaint may well be overcome by the requirement of Rule 26 that the patent owner voluntarily provide damages information and documents as part of its initial disclosures. The rule states:

(A) *In General.* Except as exempted by Rule 26(a)(1)(B) or as otherwise stipulated or ordered by the court, a party must, without awaiting a discovery request, provide to the other parties:

...  
(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 or other evidentiary material, unless privileged or protected from disclosure, on which each computation is based, including materials bearing on the nature and extent of injuries suffered . . . .<sup>37</sup>

The amount of detail and precision that is possible to provide in initial disclosures will vary widely from case to case. And there can be practical limits to what can be disclosed early in a case. Patentees often find that they do not know the full nature and extent of a defendant’s infringing conduct and do not have sufficient information at the outset of the litigation to know or calculate precisely the damages caused by the alleged infringement.<sup>38</sup> As a consequence, patentees often limit their initial damages disclosures to general categories of patent damages, such as “lost profits and reasonable royalty damages.” Moreover, because the accused infringer’s profit information, for example, is not typically informa-

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35. Fed. R. Civ. P. 8(a)(3).

36. Fed. R. Civ. P. Appendix of Forms, Form 18.

37. Fed. R. Civ. P. 26(a)(1).

38. See Advisory Comm. note to 1993 Amendment to Fed. R. Civ. P. 269(a)(1) (“a party would not be expected to provide a calculation of damages which, as in many patent infringement actions, depends on information in the possession of another party or person”).

tion a patentee would know absent discovery, any initial damages calculations that are provided may reasonably be considered preliminary or approximate.

At the same time, courts should not accept skeletal initial damages disclosures uncritically. While courts should recognize that the fair determination of damages requires the use of the confidential information of both parties, and that each party may require a fair amount of fact discovery before they can understand the other's information sufficiently to formulate even "ballpark" damages contentions, both sides should be required to provide initial damages disclosures that are as complete as is reasonably possible, as well as "high level" documents in their possession that are likely relevant to a fair assessment of the damages issue.

For a patentee, initial disclosures normally would include documents concerning industry and business sales and profitability, market shares, and comparable license agreements and royalty rates related to the patent at issue. It would also include basic marketing, pricing, manufacturing, and sales information relating to any products or processes that embody the patented invention or are licensed under the patent, or that compete with, or are sold with or sold as a result of sales of products or processes that embody the patented invention, or are licensed under the patent. For the accused infringer, the documents initially produced should similarly include documents concerning license agreements and royalty rates that relate to the accused product or process; basic marketing, pricing, and sales information relating to the accused products; and the availability of any non-infringing substitutes; as well as information that otherwise may be relied on to define the royalty rate or base.

Meaningful compliance with the initial damages disclosure requirements can be essential to the efficient management of the litigation, and courts overseeing damages disclosures should be mindful of the role these disclosures may play in the early resolution of the litigation. Failure to provide good-faith damages disclosures and at least "high level" damages discovery at the outset of the litigation may hinder settlement discussions, delay settlement, and result in unnecessary expenditure of time, money, and judicial

resources.<sup>39</sup> Even where the initial disclosures do not lead to an early settlement, they can be useful in developing an efficient discovery plan.

District courts across the country have recognized the need to require early disclosure of initial infringement, non-infringement, invalidity, and validity contentions from the parties to patent infringement litigation. These requirements avoid a “shifting sands” approach to infringement or invalidity that is unfair to the litigants and unnecessarily prolongs the case and increases costs. Whether by amendment of local patent rules,<sup>40</sup> general or standing order, or orders in individual cases, courts should consider also requiring the patent owner to serve initial damages contentions early in the case and the accused infringer to respond shortly thereafter, ideally at the same time they serve their respective initial contentions on infringement and non-infringement. At the very least, such disclosures should identify the form of damages being sought (that is, lost profits, reasonable royalty, or established royalty), as well as the nature of the asserted damages base, in order to frame the discovery. Courts may also wish to discuss with counsel the possibility of consulting with their damages experts or other appropriate analytical resources in connection with the early disclosures; thoughtfully crafted early damages disclosures can be helpful in framing discovery and in maximizing the potential for early settlement.

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39. Accused infringers often are unwilling to disclose sales, profits, and other business information that is fundamental to the calculation of damages on the ground that the information is highly confidential and cannot properly be disclosed to the patent owner. As explained in Part III(B) below, the best course is for the court to ensure that confidentiality of initial disclosures are adequately protected, either by local rule, standing order, or an early protective order.

40. The local patent rules in different jurisdictions vary in their content. For example, while the Western District of Pennsylvania rules address only infringement, invalidity, and claim construction, *see* <http://www.pawd.uscourts.gov/Documents/Forms/LocalPatentRules.pdf> (2009), the Eastern District of Texas rules also address willfulness. *See* United States District Court for the Eastern District of Texas, Patent Rules, <http://www.txed.uscourts.gov/page1.shtml?location=rules>, at Appendix M (2010).

### III. Discovery

#### A. Phased Discovery

“Discovery in patent cases can be exhaustive and exhausting,” a fact that “is only magnified by the emerging emphasis on electronic discovery.”<sup>41</sup> Full-fledged damages discovery can raise yet another concern: It not only can be expensive and burdensome; it ultimately may prove to be unnecessary, either because the case settles before trial or because the patent is determined to be invalid, unenforceable, and/or not infringed.

To minimize burden and improve efficiency, courts should consider, as part of the initial case assessment and scheduling, whether the interests of justice would be served by phasing damages discovery. For example, after the mandatory Rule 26 damages disclosures and the above-described initial “top level” damages disclosures from both parties, the court may choose to stay some or all damages discovery until after the court’s ruling on claim construction.<sup>42</sup> When the court’s ruling on claim construction is not scheduled to occur early in the proceedings, phasing may not be efficient, as damages discovery will take some time and might best be conducted in concert with discovery on the merits. Moreover, limiting initial damages discovery to “top level” information may or may not give the parties enough basic information about damages to permit meaningful settlement negotiations.<sup>43</sup> And while claim construction sometimes promotes either settlement or stipulation to judgment followed by appeal, or sets a case up for summary adjudication under Rule 56 (thereby obviating the need for damages discovery), a court-ordered hiatus on damages discovery may lead to significant inefficiencies by requiring an extended period of fact discovery and, perhaps, a delay of trial.<sup>44</sup>

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41. Patent Management Guide, *supra* note 2, at 4-1.

42. Such an order usually would address the timing of consideration of not only compensatory damages, but also willfulness and enhanced damages. The latter two topics are beyond the scope of this guide.

43. Early damages discovery may, for example, reveal that the potential damages may be less than the expected cost of proceeding with or defending the litigation.

44. The Northern District of Illinois’ rules establish a fact discovery hiatus that begins 28 days after the exchange of patent claim terms and phrases for

Clearly, there is no “one size fits all” approach. In each case, as part of the case-management process, courts should assess the extent to which the parties’ differences as to damages are a barrier to resolution. Where damages are at the heart of the dispute, it actually may make sense to accelerate rather than defer damages discovery.

One benefit of phased discovery is that it allows trial of liability and damages to the same jury, either at the same time or in phases. Some courts, however, opt to bifurcate patent infringement cases into liability and damages phases for both discovery *and* trial. In the final analysis, the decision whether to implement phased discovery or order separate discovery and trial on damages is committed to the trial court’s discretion and would be reviewed only for abuse of discretion.<sup>45</sup>

## **B. Protective Orders**

Parties in patent infringement actions routinely seek—and are granted—a protective order to govern documents and information produced in discovery. There is good reason for this. “Patent litigation frequently pits direct competitors against each other in a process where some of their most important trade secret information is relevant to the resolution of the case.”<sup>46</sup> The need for such an order is particularly acute in the context of damages discovery, which often includes extremely sensitive financial information concerning a party’s costs, revenues, profits, and the like. Disclosure of such information publicly could severely harm a party’s business or competitive position. Courts must ensure that damages discovery is not used as a means to harm a competitor’s ability to compete in the marketplace.<sup>47</sup>

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construction and ends upon the entry of a claim construction ruling. United States District Court for the Northern District of Illinois, Local Patent Rules, LPR 1.3, [http://www.ilnd.uscourts.gov/home/\\_assets/\\_documents/Rules/localpatentrules-preamble.pdf](http://www.ilnd.uscourts.gov/home/_assets/_documents/Rules/localpatentrules-preamble.pdf).

45. *In re Innotron Diagnostics*, 800 F.2d 1077, 1079 (Fed. Cir. 1986). Separation orders are reviewed under Federal Circuit precedent and are not controlled by the law of the regional circuit from which the appeal originated. *Gardco Mfg., Inc. v. Herst Lighting Co.*, 820 F.2d 1209, 1212 (Fed. Cir. 1987).

46. Patent Management Guide, *supra* note 2, § 4.2.5 at 4-6.

47. Apart from actions involving competitors, patent infringement actions brought by entities whose sole business is enforcing and licensing patents pose

It is important that a protective order be in place early in the case: “Most patent litigants will not produce documents without one, and there is no reason to allow this issue to cause any delay in conducting discovery.”<sup>48</sup> Many courts address the need for early confidentiality protection either by adopting patent local rules containing a standard form of protective order that automatically applies to any filed patent case or by sua sponte issuing a standard protective order at the outset of the action. Such early protective orders—sometimes known as “default orders”—ensure that the parties can timely make their initial disclosures subject to confidentiality protection and also can eliminate (or minimize) costly and distracting disputes between the parties over the contents of a protective order. Parties still may seek to modify the court’s standard protective order in some respects, but having a court-imposed default order at the outset is likely to narrow and focus the areas of dispute. Experience has shown that the greater the protection provided by a default order, the less likely the parties will be to engage in motion practice over the content of the order.

It is often helpful for the court to explore, at the initial scheduling conference, the types of confidential information the parties believe are likely to be the subject of discovery, so that a protective order—whether a default order or an order created for the particular case—may be tailored to address specific types or categories of documents that pose particular confidentiality concerns.

One of the most common areas of dispute in protective orders is who will be allowed access to the confidential information and whether a two-tier protective order is necessary or appropriate. One approach is to have a single-tier protective order that provides only a single level of “confidential” protection that allows designated materials to be disclosed to both in-house and outside counsel. Proponents of the single-tier approach assert that such orders are simpler and less costly to administer; they also contend that allowing in-house counsel access to confidential information

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significant risks for an accused infringer’s confidential business information. Those entities may be engaging in parallel patent prosecution or evaluation of confidential information for purposes of other patents or portfolios. While this concern should be addressed by limiting the use of confidential information to the present lawsuit, such a restriction can be difficult to enforce.

48. Patent Management Guide, *supra* note 2, § 4.2.5 at 4-6.



is necessary to enable in-house counsel to assess the value and risk of the action and therefore its potential for settlement. This approach may be difficult, however, where one or more of the parties does not have in-house counsel and seeks to have an employee or executive serve in that role.

In many cases, one or both of the parties believe the information to be disclosed is so highly confidential and competitively sensitive as to merit an extra level, or “second tier,” of confidentiality protection.<sup>49</sup> Such additional protection is often necessary where employees or in-house counsel for the receiving party are involved in competitive decision making, “e.g., patent strategy, licensing negotiations, sales and marketing, and research and development in [the] relevant product market.”<sup>50</sup> These employees or in-house counsel should not be permitted access to confidential and competitively sensitive information. Two-tier protective orders provide not only a “confidential” designation, but also include a “highly confidential,” “outside attorneys’ only,” or similar designation for information that may not be shared with party employees (including in-house counsel involved in competitive decision making).

Proponents of the two-tier approach focus on the competitive sensitivity of the information produced in patent infringement cases and assert that forcing a party to disclose highly confidential information to the other party could unfairly jeopardize the producing party’s business and effectively coerce the producing party into settling a non-meritorious case simply to avoid the greater harm to the company. Proponents of two-tier orders further con-

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49. Particularly in the context of computer software source code, courts on occasion have required even greater protection, such as security requirements for the storage and review environments, including a locked room and stand-alone computer.

50. Complex Lit. Comm. of Am. College of Trial Lawyers, *Anatomy of a Patent Case 61* (Federal Judicial Center 2009). See also *Brown Bag Software v. Symantec Corp.*, 960 F.2d 1465, 1470 (9th Cir. 1992) (competitive decision making entails “advising on decision about pricing or design ‘made in light of similar or corresponding information about a competitor’”) (citation omitted). On the facts before it, the *Brown Bag* court concluded that permitting in-house counsel to have access to the producing party’s trade secret information “would place in-house counsel in the ‘untenable position’ of having to refuse his employer legal advice on a host of contract, employment, and competitive marketing decisions lest he improperly or indirectly reveal [the producing party’s] trade secrets.” *Id.* at 1471.

tend that such orders are appropriate even where the receiving party is not a direct competitor, because confidential information produced by one accused infringer may be discoverable by another accused infringer that *is* a competitor, or may put the producing party at an unfair disadvantage in future settlement or licensing discussions. In addition, there is a risk that a party that is not a direct competitor at the time of the disclosure may become a direct competitor in the future. Those favoring a two-tier approach point out that any asserted need for in-house counsel to have access to highly confidential information to advise their client properly “can be addressed in a more specific context when a party seeks permission to share particular information that had been designated attorneys-only.”<sup>51</sup>

In cases where the parties cannot agree on the appropriate levels of protection, the court should consider such factors as the nature of documents to be produced and the possibility for competitive or other harm; the extent of involvement by in-house counsel for the receiving party in competitive decision making, on the one hand, versus involvement in litigation and settlement activities, on the other hand; the likelihood of over-designation at the higher level of protection; and the possibility of avoiding or mitigating over-designation. Examples of such mitigation include specifically identifying the types of documents entitled to the higher level of protection and providing a procedure for the court to rule on contested designations. When the dispute focuses on whether, or to what extent, in-house counsel should have access to discovery materials, courts look beyond an attorney’s status as in-house counsel to evaluate the facts concerning the in-house counsel’s role and the risks of improper use or disclosure of confidential information.<sup>52</sup> In addressing protective order disputes,

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51. Patent Management Guide, *supra* note 2, § 4.2.5 at 4-6. See *Brown Bag Software*, 960 F.2d at 1470–72 (affirming protective order that required receiving party to retain an independent consultant to view producing party’s trade secrets, rather than providing confidential information to receiving party’s in-house counsel).

52. See *U.S. Steel Corp. v. United States*, 730 F.2d 1465, 1469 (Fed. Cir. 1984) (“Status as in-house counsel cannot alone create the probability of a serious risk to confidentiality and cannot therefore serve as the sole basis for denial of access.”); *Matsushita Elec. Indus. Co. v. United States*, 929 F.2d 1577, 1579–80 (Fed. Cir. 1991) (attorney access to confidential information denied because movant’s competitive position would be compromised by unacceptable risk of inadvertent use or disclosure of confidential information due to attorney’s involvement in “routine ‘advice

the court also should consider whether any of the information is subject to other non-disclosure obligations, such as an agreement with a third-party or government export control laws.

Some courts that have adopted a standard protective order for patent cases provide for only a single level of “confidential” protection, while others have adopted a standard protective order featuring two-tier protection.<sup>53</sup> Still others provide only a single level of “highly confidential” protection.<sup>54</sup> Yet another approach is to adopt patent local rules that provide interim protection for all confidential information by confining disclosure, absent further court order, to outside counsel.<sup>55</sup> Another variation is for the court to impose its form protective order only if the parties are not able to reach agreement on the terms of a protective order by a specified deadline.<sup>56</sup>

In all events, protective orders should provide that all “confidential” or “highly confidential” information may be used only for purposes of the instant litigation.

### **C. Limits on Depositions**

Rule 30(a)(2) currently limits each party to a total of ten depositions, but parties in patent cases often seek leave to exceed that number or to eliminate the restriction altogether.<sup>57</sup> There undoubtedly are instances where a larger number of depositions le-

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and participation’ in ‘competitive decision making’); *Brown Bag Software*, 960 F.2d at 1470 (court ruling on protective order dispute must “examine factually all the risks and safeguards surrounding inadvertent disclosure by any counsel, whether in-house or retained”).

53. See United States District Court for the Western District of Pennsylvania, Local Rules of Court, <http://www.pawd.uscourts.gov/Documents/Forms/lrmanual.pdf>, at 92 (2008); United States District Court for the Southern District of California, Local Rules, <http://www.casd.uscourts.gov/uploads/Rules/Local%20Rules/LocalRules.pdf>, at Appendix A (2009).

54. See Patent Management Guide, *supra* note 2, at Appendix 2.3 (E.D. Tex. Protective Order).

55. See United States District Court for the Northern District of Georgia, Patent Local Rules, <http://www.gand.uscourts.gov/pdf/NDGARulesPatent.pdf>, at PR-4 (2006); United States District Court for the District of Minnesota, Local Rules, [http://www.mnd.uscourts.gov/local\\_rules/pdfdoc/local\\_rules.pdf](http://www.mnd.uscourts.gov/local_rules/pdfdoc/local_rules.pdf), at Form 5 (2008).

56. Anatomy of a Patent Case, *supra* note 50, at 61.

57. See Patent Management Guide, *supra* note 2, § 4.2.1 at 4-2 (“it is the unusual patent case that results in fewer than ten depositions”).

gitimately is needed, and the parties often can agree on a number greater than ten. But absent agreement by the parties, courts should permit deviations from the ten-deposition limit only with a cogent and particularized explanation of what specific additional depositions are necessary—and why—and a showing that the additional depositions genuinely are necessary and will not be redundant. Vague references to the complexity of the case or to large amounts at stake should not be sufficient. Even where the court is persuaded that the ten-deposition limit is too restrictive, the court should set a specific new limitation on the number of depositions permitted. Blanket orders granting a two-fold or three-fold increase in the number of permitted depositions are not adequately tailored to the needs of the specific case and are antithetical to the just, speedy, and inexpensive determination of the dispute.

One approach that is gaining favor is that of limiting the number of deposition hours to be allowed to each party. This may be the preferred approach in highly complex cases, as many different witnesses may need to be deposed. Limiting the number of deposition hours forces counsel to plan carefully for each deposition and to use their time wisely. The result is often more efficient discovery than would be achieved by simply limiting the number of deponents.

Rule 30(b)(6) depositions of corporate representatives often are useful in patent infringement cases, particularly in the financial arena involved in infringement damages. Courts should guard against “runaway 30(b)(6) depositions,” however, and ensure that they are not used to evade the limits on the number of depositions.<sup>58</sup> One effective approach is for the initial scheduling order to provide that “each day of [Rule] 30(b)(6) deposition counts as a separate deposition for purposes of the per-side deposition limit.”<sup>59</sup>

The scope of topics for 30(b)(6) depositions is a frequent source of dispute between parties. Rule 30(b)(6) only permits discovery of “information known or reasonably available to the organization.” Particularly with respect to patent damages, however, litigants not infrequently frame topics that are more appropriately

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58. *See id.* § 4.2.4 at 4-5.

59. *Id.*

addressed by a retained expert than by a corporate representative. In addition, litigants often frame topics in an overly broad manner, which often provokes disputes regarding whether the witness was sufficiently knowledgeable or prepared. Courts should enforce the requirement under Rule 30(b)(6) that the matters for examination be described with “reasonable particularity.”

Whatever limitation the court imposes (or the parties agree upon), it should apply only to percipient witnesses, non-retained experts (such as employees that a party intends to use as an expert in addition to a percipient witness), and Rule 30(b)(6) witnesses. The depositions of retained experts should not be subject to the limitation; the number of expert depositions is necessarily defined by the number of experts on which a party relies and effectively is self-limiting.

#### **D. Document Retention and Production**

“Document production can be extremely painful and costly for patent litigants.”<sup>60</sup> And unfortunately, especially given the broad sweep of electronic document production and retention, it can be used as a weapon in patent infringement litigation. Perhaps apart from source code production, there is no area more subject to this kind of abuse than patent damages documents.

Document production can be particularly painful and costly where, as a practical matter, there is a large disparity in the quantity of documents in the possession of the parties—e.g., where one of the litigants is a non-practicing entity or a corporate shell patent owner that has little in the way of documents to be produced. In such cases, courts should be particularly mindful of whether a collateral objective of the requesting party is to increase the burden and expense of the lawsuit to thereby force settlement, rather than to discover information truly needed to determine damages. Accordingly, courts should be particularly cautious about granting requests for production of “all documents” relating to a particular issue (such as sales, revenues, or profits), especially when dealing with electronically stored information, unless it is clear that such production is reasonably calculated to lead to the discovery of better or more probative evidence on that issue, and is not pro-

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60. *Id.* § 4.2.2 at 4-4.

pounded for the purpose of increasing cost, disrupting the litigation, or otherwise harassing the party from whom discovery is sought.

Courts also should ensure that Rule 34 requests for production are not abused and should take steps to facilitate effective, cost-efficient document production. The need for judicial control and oversight is particularly acute when addressing requests directed to electronically stored information.<sup>61</sup> For example, at the outset of the case, courts should encourage cooperation in the discovery process, review carefully the parties' discovery plan (including electronic discovery), and consider whether limiting the number of document requests permitted per side would yield more focused discovery<sup>62</sup> or, alternatively, might result in fewer, but broader, requests that would in turn lead to unnecessary discovery and disputes. Given the initial disclosure requirements and local rules in many districts already requiring parties to produce what is relevant, the better approach may be to allow as many targeted requests as may reasonably be necessary. In any event, careful assessment by the parties of damages issues (in which the relevant information often may be provided in spreadsheet form) as part of the early disclosure process can be very helpful in facilitating the court's ability to evaluate the reasonableness and proportionality of the parties' document requests, particularly those calling for extensive production of electronically stored information.

The parties' discovery plan also should address the format for document production, particularly as it relates to electronically stored documents. Courts should consider the potential cost and time savings that may result by allowing (or requiring) production of financial or other damages-related data in a format that permits ready manipulation for purposes of damages analyses.

In any event, courts should consider carefully the relative discovery costs and burdens in weighing patent damages discovery disputes and shift costs where appropriate. Shifting the cost of discovery to the requester is particularly appropriate where there is a sharp disparity in the volumes of documents sought by the

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61. See generally Seventh Circuit Electronic Discovery Committee, Seventh Circuit Electronic Discovery Pilot Program, <http://www.ilcd.uscourts.gov/Statement%20-%20Phase%20One.pdf> (Oct. 1, 2009).

62. See Patent Management Guide, *supra* note 2, § 4.2.2 at 4-4.

parties, as there often is when the plaintiff is a non-practicing entity or corporate shell patent owner.

### **E. Mandatory Final Disclosures and Supplementation**

Courts should require final damages disclosures after the parties have had the opportunity to complete damages discovery. These disclosures serve a purpose different than the individual expert reports required by Rule 26(a)(2)(B), which identify the damages experts' theories and evidence and constrain their testimony. These disclosures may provide a further basis for the parties' summary judgment or in limine motions. Accordingly, courts should not allow the parties to amend final damages disclosures freely, but rather should require a particularized showing of good cause for belated amendment. The parties should be required, however, to supplement those disclosures according to the same standard as Fed. R. Civ. P. 26(e): "if the party learns that in some material respect the disclosure or response is incomplete or incorrect, and if the additional or corrective information has not otherwise been made known to the other parties during the discovery process or in writing."

## IV. Summary Judgment Motions

“Summary judgment is as appropriate in a patent case as it is in any other case.”<sup>63</sup> Indeed, given the complexity of most patent infringement actions and the enormous judicial resources they often consume, narrowing a patent case through proper summary adjudication can be particularly important. In addition to issues related to infringement and invalidity, there are a number of damages issues that may be amenable to summary judgment.

### A. Timing of Summary Judgment on Damages

Effective management—and narrowing—of a case through dispositive motions depends in part on the timing of such motions and the rulings on them. In many cases, important evidence relating to damages will come in the form of expert testimony. For that reason, it is often appropriate for the court to consider summary judgment motions relating to damages at the same time as—but separate from—*Daubert* challenges to the experts’ opinions.

Delaying resolution of summary judgment motions until the eve of trial is inefficient for both the parties and the court. It is best to resolve summary judgment motions well in advance of the final pretrial conference (indeed, well in advance of the meetings of counsel that typically precede the final pretrial conference), so that the court and the parties can prepare their pretrial submissions and prepare for trial knowing precisely what issues must be tried.

### B. Potential Damages Issues Amenable to Summary Disposition

There are damages-related issues that may not depend on expert testimony, and it is often best to resolve such issues as early as possible since they, too, can affect a damages expert’s analysis. Where it is possible to do so, addressing such issues before the

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63. *Desper Prods., Inc. v. QSound Labs, Inc.*, 157 F.3d 1325, 1332 (Fed. Cir. 1998) (quoting *C.R. Bard, Inc. v. Advanced Cardiovascular, Inc.*, 911 F.2d 670, 672 (Fed. Cir. 1990)).



exchange of expert reports can yield significant efficiencies and cost savings.

One issue that sometimes is amenable to an early summary judgment ruling is when the infringement damages began to accrue. Provisional damages may begin to accrue as early as the publication date of the patent application, even though the patent may issue years later.<sup>64</sup> Conventional patent damages begin to accrue at 12:01 a.m. on the date the patent issues and stop accruing no later than midnight on the day the patent expires. When only method claims are asserted, or when no product embodying the patent claims has been commercialized, damages may accrue from the beginning of infringement or the issuance of the patent, whichever is later.<sup>65</sup> Under § 287, recoverable damages for patented articles may be limited in the event the patentee or its licensee has not given either actual notice of the patent or constructive notice of the patent through the marking of products made, imported, offered for sale, or sold under the asserted patent. Constructive notice requires the patentee or its licensees to mark their own products embodying the patented technology with the patent number, and the burden of establishing notice rests with the patentee.

It is not unusual for disputes to arise relating to notice. Such issues can be narrow legal issues amenable to resolution on summary judgment. For example, the parties may dispute whether marking was required at all, given the nature of the asserted and non-asserted claims in the patent in suit. Disputes also may arise concerning the date on which notice was given. Where the infringement is ongoing, notice always will have been given no later than upon the filing of the action. Similarly, because the marking requirement is not absolute, disputes often arise concerning the nature and extent of the marking used, and whether such marking has been “substantially consistent and continuous.” This is particularly so where the patent has been licensed and the required marking was performed by others acting under the patentee’s authority.

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64. 35 U.S.C. § 154(d).

65. See, e.g., *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1082–83 (Fed. Cir. 1983).

Disputes regarding the existence of actual or constructive notice may be particularly susceptible to resolution by summary judgment because there typically is little or no need for the patentee to obtain discovery from the accused infringer on the issue because “[t]he correct approach to determining notice under section 287 must focus on the action of the patentee, not the knowledge or understanding of the infringer.”<sup>66</sup> Because the patentee bears the burden of showing either compliance with the marking statute or actual notice, and it has at its disposal the information regarding its own actions, the issue may be ripe for decision at an early stage, unless there is a genuine issue of material fact regarding the patentee’s marking practices or the infringer’s receipt of actual notice. For example, if the patentee is unable to marshal evidence showing that its marking, and the marking by its licensees, has been “substantially consistent and continuous,”<sup>67</sup> summary judgment can appropriately limit the damages period.<sup>68</sup> An early decision defining the damages period allows the parties’ experts to properly focus their opinions and also can streamline discovery, e.g., by limiting discovery of product sales to only the relevant time period.<sup>69</sup>

Summary judgment also may be appropriate to eliminate a theory for calculating damages that is unsupported by the evidence. For example, the availability of lost profits is a question of law.<sup>70</sup> Under the generally accepted test for lost profits, a patentee must show (1) demand for the patented product, (2) absence of acceptable non-infringing alternatives, (3) manufacturing and marketing capability to exploit the demand, and (4) the amount of

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66. *Amsted Indus. Inc. v. Buckeye Steel Castings Co.*, 24 F.3d 178, 187 (Fed. Cir. 1994).

67. *Id.*

68. *See, e.g., Extreme Networks, Inc. v. Enterasys Networks, Inc.*, 558 F. Supp. 2d 909, 918 (W.D. Wis. 2008).

69. Information that precedes the date that damages start may be relevant. For instance, the hypothetical negotiation may precede the date of actual or constructive notice. Access to “pre-infringement” revenue and profit data can improve the quality of the damages analysis by providing a perspective on the “pre-infringement” world.

70. *Poly-America, L.P. v. GSE Lining Tech., Inc.*, 383 F.3d 1303, 1311 (Fed. Cir. 2004). The underlying economic analysis is, however, often disputed.

profit it would have made.<sup>71</sup> The evidence may establish unambiguously the existence of non-infringing alternatives or the inability of the patentee to manufacture beyond a certain capacity. In such cases, summary judgment may be used to limit or eliminate the availability of lost profits as a damages theory.<sup>72</sup> Similarly, where lost sales would have been made by the patentee's corporate affiliate, the patentee may be unable to establish that the affiliate's profits in turn would have become the patentee's profits. In such cases, summary judgment could remove the lost profits theory from the case.<sup>73</sup>

Summary judgment may be used to address other damages theories. As explained in the previous section, a patentee seeking to recover damages under the entire market value rule must show that the patented technology serves as the basis for customer demand. Without a sufficient evidentiary nexus between the patented technology and customer demand, summary judgment can remove the entire market value theory from the case.<sup>74</sup>

Where damages are calculated as a reasonable royalty, the parties often disagree over the proper royalty base. Such a dispute often takes one of two forms: (1) the patentee makes an accusation of infringement against a component of, or an improvement to, a larger infringing system but seeks a royalty base that includes the entire system; or (2) the patentee seeks to include products sold in connection with the infringing product (allegedly collateral sales) in the royalty base.<sup>75</sup> Some parties attempt to address this

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71. *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1156 (6th Cir. 1978). The Federal Circuit has endorsed this test as one way (but not the exclusive way) of showing lost profits damages. *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1548 (Fed. Cir. 1995) (en banc).

72. This presumes that the patent owner has not employed an alternative methodology to address such factors, such as a market share analysis to overcome the presence of non-infringing alternatives, *see State Indus., Inc. v. Mor-Flo Indus., Inc.*, 883 F.2d 1573, 1577 (Fed. Cir. 1989), or consideration of the investment required to expand manufacturing capability to address capacity constraint.

73. *See Mars v. Coin Acceptors*, 527 F.3d 1359, 1367 (Fed. Cir. 2008).

74. *Cf. Lucent Techs. Inc. v. Gateway, Inc.*, 509 F. Supp. 2d 912, 935 (S.D. Cal. 2007) (granting new trial on damages where the evidence failed "to establish that the patented features themselves produced any customer demand or value of the product"). In *Cornell Univ. v. Hewlett-Packard Co.*, No. 01-CV-1974, 2008 U.S. Dist. LEXIS 41848 (N.D.N.Y. May 27, 2008), the court addressed this issue on a *Daubert*-type challenge during trial.

75. Patent Management Guide, *supra* note 2, § 7.4.3.3.2.2 at 7-28.

dispute through a motion in limine (to preclude the patentee from presenting evidence concerning damages based on the entire system or upon collateral sales), others through a *Daubert* challenge (to exclude the expert through whom the theory will be presented).<sup>76</sup> It may be more appropriate to posit the issue as whether the patentee has a legal basis for seeking damages that extend beyond the infringing component, product, or method. Where the facts have been developed through discovery, it may be possible to address this issue on summary judgment.<sup>77</sup> Because the royalty base is a key input to an expert's damages calculation, the issue should be addressed sufficiently ahead of trial so that, if necessary, the experts can conform their opinions to the summary judgment ruling.

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<sup>76.</sup> *Id.*

<sup>77.</sup> *See id.*

## V. Pretrial Case Management

### A. Pretrial Conference and Order

The complexity of patent cases underscores the importance of careful pretrial preparation by both the parties and the court. One of the keys to a well-prepared trial is a comprehensive final pretrial conference and order. “The pretrial conference represents the final opportunity to anticipate and resolve problems that would otherwise interrupt and delay trial proceedings.”<sup>78</sup> In patent cases, the pretrial conference offers courts a valuable opportunity to resolve disputes about how damages issues will be presented to the jury and to ensure a more effective presentation of the evidence. In cases in which damages issues are complex, it may even make sense to convene a separate, “preliminary” pretrial conference focused solely on damages. The agenda for such a conference might include which measures of damages may be argued to the jury or which *Georgia-Pacific* factors will be included in the jury instructions.

The pretrial conference (or conferences) should be held after dispositive motions have been ruled upon, so the court and the parties know the contours of the issues that are to be tried. The goal of the pretrial conference process is a comprehensive final pretrial order that “will govern the issues for trial and establish the ground rules for the conduct of the trial.”<sup>79</sup> A conference should be preceded by compulsory meetings between the parties on a host of topics typically defined by the court in its local rules or standing order. The “meet and confer” process allows the parties to identify areas of agreement that can be incorporated into a joint proposed pretrial order and to identify areas of dispute, which then can be briefed to the court.

Among the most common subjects for the pretrial meet and confer and submissions are witness lists, exhibit lists, and jury instructions. Standard jury instructions on damages are often fairly barebones,<sup>80</sup> and it is not uncommon for one or both of the parties to seek to modify or expand upon them. To the extent ei-

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78. *Id.* § 7.1 at 7-2.

79. *Id.* § 7.1.3 at 7-3.

80. *See, e.g.*, Model Patent Instructions, *supra* note 3, 6.1–6.6.

ther party believes special jury instructions are required on damages issues, they ideally are addressed within the procedure and timetable set by the court for exchange of proposed jury instructions and submission of disputed proposed instructions to the court. Sometimes, the need for special or modified jury instructions will become clearer as the evidence comes in. In that event, parties may request further modifications to the jury instruction as trial progresses, and the court should entertain such requests as appropriate. For example, one damages instruction issue that often arises is whether to instruct the jury on all fifteen *Georgia-Pacific* factors, where the evidence at trial does not relate to or support all of the factors. To avoid jury confusion, courts should limit jury instructions to those *Georgia-Pacific* factors that are supported by sufficient record evidence. In accordance with Rule 51, the basis for any objections, and for the court's rulings thereon, should be preserved on the record for later reference by the court or on appeal.

As explained below, in limine motions—including motions addressed to damages issues—should be heard no later than the final pretrial conference, and it is preferable for *Daubert* challenges to be determined even earlier. To the extent that other damages issues are likely to arise at trial, such issues at least should be identified—and, ideally, briefed and determined—at the final pretrial conference.

## **B. *Daubert* Motions**

“Critical to managing a patent trial is the court’s ability to control expert testimony.”<sup>81</sup> No issue in a patent trial cries out for strict application of the gatekeeping tools of Fed. R. Evid. 702 and the Supreme Court’s *Daubert* decision<sup>82</sup> more than damages. Courts and parties are readily familiar with the requirement that a patent damages expert analysis (like any other expert opinion) must be

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81. Patent Management Guide, *supra* note 2, at 7-17.

82. *Daubert v. Merrell Dow Pharms., Inc.*, 509 U.S. 579, 597 (1993) (“[T]he Federal Rules of Evidence . . . —especially Rule 702—do assign to the trial judge the task of ensuring that an expert’s testimony both rests on a reliable foundation and is relevant to the task at hand.”).

relevant and “requires sound economic and factual predicates.”<sup>83</sup> But patent damages experts necessarily are applying scientific, technical, or specialized knowledge to evaluate a hypothetical legal construct, such as the royalty rate the patentee and the infringer would have agreed upon had they participated in a negotiation at the time before the first infringement knowing that the patent was valid and infringed.<sup>84</sup> And that analysis is not likely to take the form of an accepted scientific methodology applied outside the litigation context or be presented in the form of a generally accepted methodology supported by peer-reviewed publications. Application of the *Daubert* analysis to this kind of expert testimony may prove challenging, but is nonetheless critical.<sup>85</sup>

Challenges to expert testimony on patent damages usually focus on the qualifications of the expert to opine on the issues and the reliability of the expert’s analysis of those issues. The qualifications analysis focuses on the education, training, and experience of the expert as it relates to the subject matter of the proposed testimony. That a witness is an accountant or an economist does not necessarily qualify her to testify on patent infringement damages in general or on damages generally in a particular patent infringement case.<sup>86</sup> The inquiry is by definition case-specific, and “the court will need to resolve this issue on a case-by-case basis, above all applying its common sense to determine whether the expert has sufficient foundation to offer the

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83. *Integra Lifesciences I, Ltd. v. Merck KGaA*, 331 F.3d 860, 870 (Fed. Cir. 2003), *rev’d on other grounds*, 545 U.S. 193 (2005); *Riles v. Shell Exploration & Prod. Co.*, 298 F.3d 1302, 1311 (Fed. Cir. 2002).

84. Patent Management Guide, *supra* note 2, at 7-17 to 7-18.

85. *See Riles*, 298 F.3d at 1311; *Shockley v. Arcan, Inc.*, 248 F.3d 1349, 1363 (Fed. Cir. 2001) (rejecting as “without any basis in economic reality” expert testimony based on the number of sales patentee told him to assume); *Utah Med. Prods., Inc. v. Graphic Controls Corp.*, 350 F.3d 1376, 1385 (Fed. Cir. 2003) (affirming *Daubert* ruling excluding, as irrelevant, “expert testimony and evidence of license agreements . . . asserted to support a reasonable royalty model of damages”).

86. *Cf. Monsanto Co. v. McFarling*, 488 F.3d 973, 981 (Fed. Cir. 2007) (no abuse of discretion in failing to exclude testimony of damages expert who, although neither a farmer nor an agronomist, was a certified valuation analyst, because his qualifications “go to whether the jury should believe the witness or credit his testimony, instead of whether the opinions have a reasonable basis or meet the *Daubert* requirements”).

opinions in question.”<sup>87</sup> Courts should exclude damages testimony that is “conjectural or speculative.”<sup>88</sup>

The reliability analysis focuses on the expert’s analysis itself, that is, whether the analysis is conclusory or misapplies an accepted methodology. This issue arises most often in connection with the determination of a reasonable royalty, which is usually based on a multi-factored framework for identifying the royalty to which the parties would have agreed had they conducted a negotiation when the infringement first began, knowing that the patent was valid and infringed, and willing to enter into a license agreement. This framework, based on the fifteen *Georgia-Pacific* factors,<sup>89</sup> is both wide-ranging and non-exclusive, and is thus subject to widely differing interpretation and, sometimes, misuse or abuse by parties and their experts. Common mistakes include mischaracterization of the *Georgia-Pacific* factors, use of an incorrect (or unarticulated) hypothetical negotiation date, and inappropriate use of facts that post-date the hypothetical negotiation.<sup>90</sup> Lack of reliability has been used to exclude expert testimony in the lost profits context as well.<sup>91</sup>

Courts should perform their gatekeeping role under Fed. R. Evid. 702 and *Daubert* to ensure that the legal standards are properly applied and improper damages testimony does not infect the trial.<sup>92</sup> The Federal Circuit has made clear, however, that this gatekeeping function does not amount to an “independent mandate” to exclude evidence where the parties have asserted no objection, and that “[t]he responsibility for objecting to evidence . . . remains firmly with the parties.”<sup>93</sup> Nor does the court’s gatekeeping func-

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87. Patent Management Guide, *supra* note 2, at 7-22.

88. *Westinghouse Elec. & Mfg. Co. v. Wagner Elec. & Mfg. Co.*, 225 U.S. 604, 615 (1912).

89. *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120–21 (S.D.N.Y. 1970).

90. Patent Management Guide, *supra* note 2, at 7-24 to 7-28.

91. *See DSU Med. Corp. v. JMS Co.*, 471 F.3d 1293, 1309 (Fed. Cir. 2006) (“While damage analysis invariably invokes hypothetical reconstruction of a ‘but for’ marketplace, that reconstruction must include some footing in economic principle.”).

92. *See, e.g., Integra Lifesciences*, 331 F.3d at 871–72 (reversing denial of JMOL on reasonable royalty where record was not clear on date of first infringement).

93. *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1325 (Fed. Cir. 2009) (rejecting argument that court had “abdicated” gatekeeping role by not excluding



tion extend beyond the expert's reasoning and methodology to the data used or the weight of the evidence.<sup>94</sup> In other words, the focus of the court's inquiry into the relevance and reliability of the expert's testimony "must be solely on principles and methodology, not on the conclusions they generate."<sup>95</sup>

The effectiveness of the court's performance of its gatekeeping role depends in large part on when and how it performs that role. *Daubert* challenges frequently are raised as part of a summary judgment motion or in the form of an in limine motion. But collapsing the *Daubert* analysis into the court's consideration of dispositive motions or in limine motions (which often are decided shortly before trial) may not allow the care and attention warranted. The best practice is to conduct the *Daubert* briefing and hearings separate from, but at the same time as, the briefing and hearing on summary judgment, or perhaps at a "preliminary" pretrial conference devoted exclusively to damages issues, as suggested above.<sup>96</sup>

### C. In Limine Motions

In limine motions are an important tool in effective trial management, providing the court "an opportunity to establish procedures and substantive limitations that will streamline the evidence, shorten the trial, and reduce jury confusion."<sup>97</sup> The key to effective

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damages evidence to which no objection was made at trial; "Any implicit objection on appeal is deemed waived by failing to object at trial.").

94. See, e.g., *i4i Ltd. P'ship v. Microsoft Corp.*, 589 F.3d 1246, 1271 (Fed. Cir. 2009) ("Under Rule 702, the question is whether the expert relied on facts sufficiently related to the disputed issue," and "it is not the district court's role under *Daubert* to evaluate the correctness of facts underlying an expert's testimony"); *Liquid Dynamics Corp. v. Vaughan Co.*, 449 F.3d 1209, 1221 (Fed. Cir. 2006) ("challenge [to inaccurate data] goes to the weight of the evidence rather than the admissibility"). On the other hand, "conclusions and methodology are not entirely distinct from one another." *Gen. Elec. Co. v. Joiner*, 522 U.S. 136, 146 (1997). Fed. R. Evid. 702 "specifically provides that the trial court must scrutinize not only the principles and methods used by the expert, but also whether those principles and methods have been properly applied to the facts of the case. Fed. R. Evid. 702, comment to 2000 Amendments. In some cases, trial courts may conclude that there is simply too great an analytical gap between the data and opinion proffered." *Joiner*, 522 U.S. at 146.

95. *Daubert*, 509 U.S. at 595.

96. Patent Management Guide, *supra* note 2, at 7-18 to 7-19.

97. *Id.* at 7-29.

use of in limine rulings is to issue them early, ideally not later than the final pretrial conference. Early determinations of these motions give the parties time to adjust their trial presentations to reflect the court's rulings and, depending on the importance of the testimony, may provide further impetus toward settlement. Some in limine motions need more context and information to permit a reasoned determination, and where that is the case, the court should not hesitate to conditionally grant them—or hold them in abeyance—until the necessary context can be developed at trial.

Some of the most common in limine motions related to patent damages are directed to testimony and argument concerning the accused infringer's net worth, total revenue, or revenues from the sales of anything but the actual royalty base. Such information is normally inadmissible as unfairly prejudicial and should not be presented to the jury, whether in voir dire, opening statement, witness testimony, or closing argument.<sup>98</sup> Of course, in limine mo-

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98. In *Lucent Technologies, Inc. v. Gateway, Inc.*, even though overturning the jury verdict for lack of substantial evidence that the patented invention was the basis for consumer demand, the court stated that “the base used in a running royalty calculation can always be the value of the entire commercial embodiment, as long as the magnitude of the rate is within an acceptable range (as determined by the evidence).” *Lucent*, 580 F.3d at 1338–39. This statement reflects the licensing convention under which royalties are calculated as a rate applied to the revenue from sales of the licensed product to third parties. The court's reference to the rate being “within an acceptable range (as determined by the evidence)” acknowledges that the result of such an approach must produce a damages award that is proportionate to the economic value (and damage to the patentee caused thereby), that is, one that is economically justified. As the *Lucent* court explained, “even when the patented invention is a small component of a much larger commercial product, awarding a reasonable royalty based on either sale price or number of units sold can be economically justified.” *Id.* Thus, that “sale price” or “number of units sold” may be justified does not establish that *total* revenue is relevant, which underscores the need for evidence showing that such an approach is, in fact, “economically justified.” *Id.* See *Uniloc USA, Inc. v. Microsoft Corp.*, No. 03-440 S, 2009 U.S. Dist. LEXIS 89813, at \*\*81–82 (D.R.I. Sept. 29, 2009) (testimony by damages expert comparing \$564 million royalty calculated on per-unit basis against \$19 billion total dollar volume of sales of accused products in guise of a “reasonableness check” or “gut-check” “runs afoul of the entire market value rule”). Courts should be cautious about admitting testimony or allowing argument directed to total revenue, particularly total revenues unrelated to the infringement, because of the risk that the probative nature of that testimony or argument may be outweighed by its prejudicial nature. In this regard, courts should be vigilant in guarding against “the danger of unfair prejudice, confusion of the issues, or misleading the jury.” Fed. R. Evid. 403.

tions present other issues that commonly arise in the patent damages context, such as untimely disclosures, untimely expert opinions, opinions not disclosed in reports, affirmative opinions disclosed in rebuttal reports, certain settlement agreements offered as evidence of comparable licenses, and other information that is more prejudicial than probative.<sup>99</sup>

The court should make clear well in advance of the filing deadline for in limine motions—ideally, in an order—that the parties should not bring in limine motions that are, in effect, disguised motions for summary judgment. In limine motions are a vehicle to make important evidentiary rulings prior to trial, not to achieve summary disposition.

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99. Patent Management Guide, *supra* note 2, at 7-29 to 7-44.

## VI. Trial

### A. Separate Trials

Rule 42 gives courts wide discretion to separate issues or claims at trial “[f]or convenience, to avoid prejudice, or to expedite and economize . . . .”<sup>100</sup>

In deciding whether one trial or separate trials will best serve the convenience of the parties and the court, avoid prejudice, and minimize expense and delay, the major consideration is what approach will result in a just, speedy, and final disposition of the litigation. In many instances, the conventional approach of allowing discovery on liability and damages to proceed concurrently will be the most efficient and expeditious. In others, a phased or bifurcated approach may be preferable. Relevant considerations include the prospect of avoiding the burden and expense of full damages discovery (and, perhaps, avoiding the need to try damages at all), the extent to which damages issues differ from the primary liability issues, and whether a single trial would create the potential for jury bias or other prejudice.<sup>101</sup> The court also should evaluate the potential for jury confusion. Some of these factors will loom larger in complex cases involving multiple patents and many accused products.<sup>102</sup>

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100. Fed. R. Civ. P. 42(b). See *Gardco Mfg., Inc. v. Herst Lighting Co.*, 820 F.2d 1209, 1212 (Fed. Cir. 1987) (“Under Rule 42(b), a district court has broad discretion in separating issues and claims for trial as part of its wide discretion in trial management.”).

101. For example, in *A.L. Hansen Mfg. Co. v. Bauer Prods., Inc.*, No. 03C3642, 2004 U.S. Dist. LEXIS 8935 (N.D. Ill. May 17, 2004), the court explained the Rule 42(b) inquiry under Seventh Circuit law:

First, the trial court must determine whether bifurcation would either promote judicial economy or avoid prejudice to the parties. Next, if one or both of these interests are implicated, the trial court must balance these interests against any countervailing prejudice to the non-moving party. Third, when the trial court is satisfied that this balance favors bifurcation, the court may order separate proceedings, but only if doing so would not violate the Seventh Amendment.

*Id.* at \*\*4–5 (citations omitted).

102. In *Laitram*, which involved five asserted patents and, apparently, multiple accused products, the court in part explained its decision to grant separate liability and damages phases by noting that “[r]ather than having to present all the evi-

In jury trials, there are three general approaches to handling patent damages issues:

- (1) Unitary trial: Damages issues are tried together with liability, so that the jury decides both liability and damages at the same time;
- (2) Phased trial: Liability issues are tried to verdict and then, if liability is found, the same jury hears evidence on, and determines the amount of, damages to be awarded; and
- (3) Bifurcated trial: All issues *except* damages are tried to verdict first, leading to the entry of a final judgment that may be appealed as a matter of right. Damages are then tried only if needed, after appeal, to a different jury on remand.

Each of these three approaches has its advocates and, based upon the nature of the issues to be tried, certain advantages and disadvantages.

Unitary trials may be expeditious, but they require counsel to make strategic decisions about the amount of time to spend on damages, especially when liability is strongly contested. And if the jury concludes there is no liability, the time and effort devoted to the damages presentation will have been unnecessary. Moreover, a single, un-phased trial of all issues may pose “the danger (especially perilous in complicated trials with many separate and distinct issues) that the jury will consider evidence that may be admissible on only one issue to the moving party’s prejudice on other issues.”<sup>103</sup> Some counsel favor unitary trials on the basis that a jury that has doubt about, but nonetheless finds, liability may be more restrained in the amount of damages it ultimately awards. Moreover, at the discretion of the court, the jury in a unitary trial may be asked to render a damages verdict regardless of its decision on liability, thereby providing a dollar figure that may be reinstated as the result of a successful JMOL on liability or in the event of reversal on appeal.

Proponents of phased trials cite efficiency, as a trial addressing only liability is likely to be simpler and shorter, and the second, damages phase of trial, may prove unnecessary if liability is

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dence concerning plaintiff’s alleged damages at once, the parties can wait to see precisely which inventions and HP calculators are involved, and limit their damages proof to them.” *Laitram Corp. v. Hewlett-Packard Co.*, 791 F. Supp. 113, 116 (E.D. La. 1992).

103. *Id.*

not found. Because the jury is not usually told at the outset that it will need to sit for a second phase of the trial only if it finds liability (for fear that it will skew the liability result), some counsel are concerned that a phased jury may not be in a good frame of mind upon learning they need to hear more evidence and render a second verdict.

Proponents of bifurcated trials also cite efficiency, while touting the ability to take an interim appeal to the Federal Circuit. If the appeal of the liability determination results in a conclusion of no liability—or if the case is settled pending (or as a result of) the appeal—damages will never need to be tried, resulting in time and cost savings. As one court explained:

In the normal case separate trials of issues is seldom required, but in a patent infringement suit considerations exist which suggest that efficient judicial administration would be served by separate trials on the issues of liability and damages. The trial of the damages question in such a suit is often difficult and expensive, while being easily severed from the trial of the questions of validity and infringement of the patent. A preliminary finding on the question of liability may well make unnecessary the damages inquiry, and thus result in substantial saving of time of the Court and counsel and reduction of expenses to the parties. Moreover, separate trial of the issue of liability may present counsel the opportunity to obtain final settlement of that issue or appeal without having reached the often time-consuming and difficult damages question.<sup>104</sup>

Particularly in complex cases, some courts favor bifurcation, reasoning that “[i]t will be difficult enough to educate the jury about the various concepts involved in the validity, enforceability and infringement issues that influence liability. To include at the same time proof of the damages issues could risk needless juror confu-

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104. *Swofford v. B&W, Inc.*, 34 F.R.D. 15, 19–20 (S.D. Tex. 1963). On appeal, the Fifth Circuit noted that “[t]he state of the record on this interlocutory appeal makes a decision on separability take on facets of a decision based on hypothetical facts; we cannot tell from the record whether the action pending below involves issues of fact common to liability and damages so as to preclude a separate trial.” *Swofford v. B&W, Inc.*, 336 F.2d 406, 415 (5th Cir. 1964). The court nevertheless affirmed, noting “[W]e approve of the district judge’s order on the basis that we cannot think of an instance in a patent action where the damage issue is so interwoven with the other issues that it cannot be submitted to the jury independently of the others without confusion and uncertainty.” *Id.*

sion.”<sup>105</sup> Of course, the court must ensure that any order bifurcating trial preserves all federal rights to jury trial. Fed. R. Civ. P. 42(b).<sup>106</sup>

Critics of bifurcated trials contend that they lead to years of additional litigation and appeals, to the detriment of patentees with meritorious claims. Adjudged infringers may disfavor a bifurcated damages trial for fear that jurors addressing only damages may take a less moderate approach to the damages determination, since they undertake their damages deliberations knowing the defendant to be an infringer and without the benefit of any mitigating evidence that may have been presented during the liability trial. Moreover, where liability is found, bifurcation inevitably results in some duplication, as a second jury must be educated about the basics of the technology and market, at least to the point where it can understand such issues as, for example, the nature and impact of any non-infringing substitutes.

A court that is inclined to phase or bifurcate a patent trial will need to determine whether to treat willfulness as part of the liability or damages portion of trial. Courts differ in how they address this question. Some of the evidence relating to willfulness, such as that relating to the development of the infringing product, normally will be presented during the liability trial for other purposes and would have to be presented again if willfulness is tried to a second jury. Other willfulness evidence, such as the existence of or reliance on the opinions of counsel, is normally relevant only to the willfulness issue. Ultimately, whether it is most efficient and fair to address willfulness at the same time as the liability or the damages issues is a matter left to the court’s discretion, based on

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105. *Laitram Corp.*, 791 F. Supp. at 116 (citations and footnote omitted).

106. The Seventh Amendment may be implicated where liability and damages are to be tried by different juries, as the Constitution requires that “a given issue may not be tried by different successive juries.” *Blyden v. Mancusi*, 186 F.3d 252 (2d Cir. 1999); *see also* *United Air Lines, Inc. v. Wiener*, 286 F.2d 302, 306 (9th Cir. 1961) (on facts presented, “the issues of liability and damages, exemplary or normal, are not so distinct and separable that a separate trial of the damage issues may be had without injustice”). In *In re Innotron Diagnostics*, 800 F.2d 1077, 1084 (Fed. Cir. 1986), the Federal Circuit denied a petition for writ of mandamus challenging, on Seventh Amendment grounds, the trial court’s order directing separate trials of the plaintiff’s patent infringement action and defendant’s antitrust counterclaims. It explained: “the prohibition is not against having two juries review the same *evidence*, but rather against having two juries *decide* the same *essential issues*.”

the facts of the specific case and the nature of the evidence that will be presented on the point. Although most cases go to the Federal Circuit with both liability and damages determined, the court historically has been willing to hear appeals where only willfulness and damages remain to be determined.<sup>107</sup> However, the Federal Circuit has declined to hear an appeal where injunction issues remain outstanding.<sup>108</sup>

Multidefendant cases can present particular trial challenges for resolving damages issues in a way that is fair to all parties. Even if certain liability-related issues are common to all the defendants, damages or related issues like willfulness may not be. For example, a different hypothetical negotiation date may apply to each defendant. The defendants may have different design alternatives available to them, or may use the patented invention in different ways. Accordingly, each defendant may have good justification for presenting its own damages case. Under such circumstances, the court should consider severing defendants for purposes of trial, both as a matter of efficiency and to avoid the possibility of unfair prejudice.

## **B. Voir Dire**

No special procedures normally are required for voir dire in patent cases. Courts should ensure, however, that voir dire is not used as a vehicle to put improper or unduly prejudicial information before the potential jurors. For example, counsel sometimes seek to include voir dire questions that reveal or relate to the size of the accused infringer, its revenues, profits, or market capitalization, or revenues on the accused products as a way of influencing the jury's thinking on damages. Much of this type of information is properly the subject of in limine motions and is inadmissible in evidence, much less in voir dire. Attempts to put such information

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107. *See, e.g., SRI Int'l, Inc. v. Advanced Tech. Labs., Inc.*, 93-1074, 1994 U.S. App. LEXIS 36220, at \*\*5-6 (Fed. Cir. Dec. 21, 1994) (non-precedential) (a district court opting to defer its determination of willfulness to the damages phase does not preclude the appeal of an otherwise final decision).

108. *See Advanced Cardiovascular Sys. Inc. v. Medtronic Vascular, Inc.*, 231 Fed. Appx. 962, at \*963 (Fed. Cir. 2007) (non-precedential) (dismissing appeal as premature where request for permanent injunction remained pending before the district court); *see also Schwarz Pharma, Inc. v. Teva Pharms. USA, Inc.*, 132 Fed. Appx. 369, at \*370 (Fed. Cir. 2005) (non-precedential) (same).



before a jury panel through “hypothetical questions” are just as prejudicial as introducing it into evidence and should not be permitted.

### **C. Procedures to Aid the Jury’s Understanding**

In jury trials, providing preliminary substantive instructions on the applicable law before opening statements by counsel, allowing counsel to make interim statements during the evidentiary phase of lengthy trials, and allowing jurors to submit written questions for witnesses to answer are all procedures that have been used to aid the jury in understanding the case.<sup>109</sup> Reasonable royalty damages present particularly complex issues that may warrant application of some or all of these techniques. After evaluating the complexity and length of any given trial, courts should consider whether such procedures would be helpful to the jury.

### **D. Objections**

As with all cases tried to a jury, there is a danger in patent jury trials that “speaking objections,” the presentation of prejudicial evidence, or the inappropriate arguments of counsel may be highly prejudicial to the outcome of the case. Judges should be mindful of this risk and should entertain pretrial motions and establish procedures that will prevent the jury from hearing information that may be more prejudicial than probative on the issue of patent damages. Special care should be taken to address how prior rulings, including the court’s prior *Markman* rulings, are to be addressed with the jury, as well as any other issues that might interfere with the determination of the patent damages on properly introduced evidence. Examples of evidence that should be excluded include references to general industry royalty rates, or to amounts paid by third parties on account of patents not in suit, unless a suitable foundation is laid establishing the applicability and comparability of those rates or payments to the patents or products at issue.

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109. See Seventh Circuit American Jury Project Final Report (Sept. 2008), <http://www.7thcircuitbar.org/associations/1507/files/7th%20Circuit%20American%20Jury%20Project%20Final%20Report.pdf>.

## **E. JMOL at the Close of Evidence**

Pursuant to Rule 50, once a party has been fully heard on a damages issue during a jury trial, the court may grant a motion to resolve the issue against that party if a reasonable jury would not have a legally sufficient evidentiary basis to find for the party on that issue. Such a motion may be made at any time before the case is submitted to the jury. Such motions often are addressed to damages issues, including, e.g., issues related to apportionment or the entire market value rule, or to the availability of a particular category of damages.

## **F. Verdict Forms**

Although the law does not require a trial court to use a special verdict in patent cases,<sup>110</sup> it is advisable for the court to do so.<sup>111</sup> The Supreme Court has noted, “in cases that reach the jury, a special verdict and/or interrogatories on each claim element could be very useful in facilitating review, uniformity, and possibly post-verdict judgments as a matter of law.”<sup>112</sup> The Federal Circuit also has encouraged special verdicts, particularly in complex cases.<sup>113</sup>

Special verdicts serve important purposes, both at trial and on appeal. Special verdicts focus the jurors’ attention on each of the multiple issues they are asked to determine and give the jury an orderly way of approaching their deliberations and verdict. They also facilitate appellate review and may help avoid remand and retrial, or at least narrow their scope. As one court explained:

The special verdict compels detailed consideration. But above all it enables the public, the parties and the court to see what the jury really has done. The general verdict is either all wrong or all right, because it is inseparable and inscrutable. A single error

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110. *McGinley v. Franklin Sports, Inc.*, 262 F.3d 1339, 1356 (Fed. Cir. 2001).

111. *See* Fed. R. Civ. P. 49. The Model Patent Instructions contain model verdict forms that can be useful starting points.

112. *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 39 (1997).

113. *Union Oil Co. v. Atlantic Richfield Co.*, 208 F.3d 989, 997 (Fed. Cir. 2000) (“In the course of the lengthy jury trial the district court heeded this court’s counsel to use special verdicts in complex cases.”); *Comark Commc’ns, Inc. v. Harris Corp.*, 156 F.3d 1182, 1189 (Fed. Cir. 1998) (“We note that the use of special verdict interrogatories drawn to each claim element has been endorsed and indeed encouraged by the Supreme Court”).

completely destroys it. But the special verdict enables errors to be localized so that the sound portions of the verdict may be saved and only the unsound portions are subject to redeterminations through a new trial.<sup>114</sup>

Damages, of course, are an important part of the special verdict form. At the very least, the verdict form should ask the jury to enter separately amounts for each category of damages sought (e.g., lost profits, reasonable royalty, price erosion damages). Where reasonable royalties are sought, it is advisable for the special verdict form to ask the jury to state the royalty rate, the royalty base, and the amount of reasonable royalties awarded. Where damages are sought under the entire market value rule, the court should consider any request to ask the jury whether the accused feature is the basis for customer demand. Requiring the jury to provide separate answers to these questions will increase the likelihood that, even if the entire verdict is not upheld on appeal, the Federal Circuit will be able to resolve the case without having to remand it to the district court for further proceedings. The parties should be required to submit a proposed verdict form—ideally, one on which they agree. Absent agreement, each side should submit its proposed form to the court.

Special verdict forms for damages can be particularly useful when more than one patent is at issue. Depending on the circumstances, including whether the patents are related and whether the same products are accused of infringing each of the patents, it may be appropriate to use a verdict form that seeks separate damages for each patent. If more than a single damages amount is to be entered, however, care should be taken to ensure the jury understands which of the amounts needs to be entered depending upon their conclusions on the issues. For example, if separate questions are presented relating to the amounts of reasonable royalties and lost profits, the form of verdict should make clear

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114. *Richardson-Vicks, Inc. v. Upjohn Co.*, 122 F.3d 1476, 1484–85 (Fed. Cir. 1997). The court affirmed the trial court’s order overturning the jury verdict and granting JMOL of invalidity, noting, “Sorting through the record in a case such as this when the issue is the correctness of a jury verdict is made considerably more difficult by the absence of specific findings by the jury. The effort by the successful plaintiff to support the jury verdict in its favor is also made more difficult. The preferred route would have been to submit the underlying factual issues to the jury in the form of a special verdict under rule 49(a).” *Id.*

that answers to both questions are required. Similarly, if amounts of damages are to be entered even if a negative verdict is returned on the issue of liability, the form of verdict should so clearly state.

Once the verdict is returned, counsel for the parties should be given sufficient time to review the verdict to ensure there are no inconsistencies. In the event of any inconsistency, the court should confer with the parties concerning how best to address the inconsistency prior to dismissing the jury.

## VII. Post-Trial

### A. Renewed JMOL Motions, Motions for New Trial & Remittitur

Following the return of the verdict, the court should hear and decide any renewed motions for judgment as a matter of law, pursuant to Rule 50. The court should set a briefing schedule that allows ample time to fully and fairly brief the issues.

The function of a renewed JMOL motion is not to allow the court to substitute its own judgment for that of the jury, but rather to allow the court to reconsider the legal issues raised earlier and assess whether the jury had a legally sufficient evidentiary basis to find as it did. Movants therefore should not reargue the evidence that could have justified a different result, but rather focus on whether the evidence was sufficient to support the verdict. In patent cases, such motions often address issues of lost profits, established royalty, and collateral sales.

A motion for new trial often is filed with the post-trial JMOL motion. Rule 59 authorizes a district court, on timely motion, to grant a new trial “for any reason for which a new trial has heretofore been granted in an action at law in federal court.”<sup>115</sup> A court deciding a motion for new trial in a patent infringement case applies the law of the regional circuit, which often provides that the trial court may grant a new trial “where the verdict is against the clear weight of the evidence.”<sup>116</sup> The court’s authority also extends to “overturning verdicts for excessiveness and ordering a new trial without qualification, or conditioned on the verdict winner’s refusal to agree to a reduction (remittitur).”<sup>117</sup> Consistent with the parties’ Seventh Amendment right to jury trial, any discretionary offer by the court to reduce a verdict must be accompanied by an offer to grant a new trial.<sup>118</sup> The same is not true if the verdict, or a

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115. *Gasperini v. Center for Humanities, Inc.*, 518 U.S. 415, 433 (1996).

116. *Aero Prods. Int’l, Inc. v. Intex Recreation Corp.*, 466 F.3d 1000, 1016–17 (Fed. Cir. 2006) (citing Seventh Circuit law for “against the clear weight of the evidence” standard); *Shockley v. Arcan, Inc.*, 248 F.3d 1349, 1362 (Fed. Cir. 2001) (citing Fourth Circuit law for “against the clear or great weight of the evidence” standard) (internal quotation marks omitted).

117. *Minks v. Polaris*, 546 F.3d 1364, 1370 (Fed. Cir. 2008) (quoting *Gasperini*, 518 U.S. at 433).

118. *Minks*, 546 F.3d at 1370.

portion thereof, is based upon an erroneous ruling of law, and remittitur without the option of a new trial may be proper in that circumstance.<sup>119</sup>

## **B. Ongoing Royalties**

Under some circumstances, courts may award a royalty on post-verdict sales either where a permanent injunction has been stayed pending appeal or in lieu of a permanent injunction. “In most cases, where the district court determines that a permanent injunction is not warranted, the district court may wish to allow the parties to negotiate a license amongst themselves regarding future use of a patented invention before imposing an ongoing royalty. Should the parties fail to come to an agreement, the district court should step in to assess a reasonable royalty in light of the ongoing infringement.”<sup>120</sup> The Federal Circuit has indicated that the parties are not entitled to a jury trial on the issue of ongoing royalties,<sup>121</sup> but the trial court must provide a concise but clear explanation of its reasoning to support the ongoing royalty rate.<sup>122</sup>

The Federal Circuit has not yet described the analysis to be applied to the amount of ongoing royalties in lieu of a permanent injunction. In connection with a stay of injunction pending appeal, however, the Federal Circuit has explained:

When a district court concludes that an injunction is warranted, but is persuaded to stay the injunction pending an appeal, the assessment of damages for infringement taking place after the injunction should take into account the change in the parties’ bargaining positions, and the resulting change in economic circumstances, resulting from the determination of liability—for example, the infringer’s likelihood of success on appeal, the infringer’s ability to immediately comply with the injunction, the parties’ reasonable expectations if the stay was entered by consent or stipulation, etc.—as well as the evidence and arguments found material to the granting of the injunction and the stay.<sup>123</sup>

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119. *Id.* at 1371.

120. *Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293, 1315 (Fed. Cir. 2007).

121. *Id.* at 1315–16.

122. *Id.* at 1315.

123. *Amado v. Microsoft Corp.*, 517 F.3d 1353, 1362 (Fed. Cir. 2008).

In view of this relative paucity of guidance, courts should take evidence on the amount of royalty appropriate under the changed circumstances involved in post-verdict infringement. Some courts have given the jury the role of determining royalties for both past and future infringement. Whether the court takes evidence as part of the trial or after the verdict is a matter of discretion.

### **C. Findings of Fact and Conclusions of Law**

While Rule 52 identifies situations where findings of fact and conclusions of law are mandated, the court should take care in all cases tried to the bench to provide as complete a record as possible for review on appeal, so as to avoid remands resulting from the Federal Circuit's lack of sufficient basis for application of the standards of appellate review.<sup>124</sup> The Federal Circuit does not hesitate to remand damages judgments from bench trials for an explanation of the underlying evidence and reasoning.<sup>125</sup>

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124. *ACS Hosp. Sys., Inc. v. Montefiore Hosp.*, 732 F.2d 1572, 1578 (Fed. Cir. 1984); *see also* *Pullman-Standard v. Swint*, 456 U.S. 273, 291–92 (1982) (if trial court fails to make findings, judgment should be vacated and remanded).

125. *See, e.g.,* *Heeling Sports Ltd. v. US Furong Int'l Inc.*, No. 2008-1483, 2009 U.S. App. LEXIS 7182, at \*\*3–7 (Fed. Cir. 2009) (non-precedential) (vacating trial court's damages award and remanding for explanation); *Amado*, 517 F.3d at 1362 (vacating trial court's damages escrow award and remanding for reconsideration and explanation); *Paice*, 504 F.3d at 1315 (vacating, for lack of reasoning, trial court's award of ongoing royalty in lieu of injunction and remanding for reevaluation of royalty rate).

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The organization of the Center reflects its primary statutory mandates. The Education Division plans and produces education and training programs for judges and court staff, including satellite broadcasts, video programs, publications, curriculum packages for in-court training, and Web-based programs and resources. The Research Division examines and evaluates current and alternative federal court practices and policies. This research assists Judicial Conference committees, who request most Center research, in developing policy recommendations. The Center's research also contributes substantially to its educational programs. The two divisions work closely with two units of the Director's Office—the Systems Innovations & Development Office and Communications Policy & Design Office—in using print, broadcast, and online media to deliver education and training and to disseminate the results of Center research. The Federal Judicial History Office helps courts and others study and preserve federal judicial history. The International Judicial Relations Office provides information to judicial and legal officials from foreign countries and assesses how to inform federal judicial personnel of developments in international law and other court systems that may affect their work.