

Early Focus On Damages Can Streamline Patent Litigation

By **Robert Kornweiss, Anne Li and James Stronski** (May 17, 2021, 4:30 PM EDT)

In March, a jury in the U.S. District Court for the Western District of Texas hit Intel Corp. with one of the biggest patent damages awards in history: \$2.1 billion for infringing two computer chip patents. This is a stark reminder of the staggering amounts patents can command in the courtroom. Yet, too often, damages are overlooked until expert reports come due.

Both sides need to focus on damages from the outset. Damages inform the plaintiff's decisions on whether, when and whom to sue and the defendant's decisions on how to respond to the suit. Damages can also guide both sides' approaches to the pretrial phases of the case, including fact discovery, claim construction, experts and summary judgment.

The guidance below explains how and why to focus on damages in the early phases of a case to reveal what the case is worth, identify early settlement opportunities, and conform litigation strategy to the law.

Phase 1 — Estimate damages at the beginning of the case.

Patent owners should get an early, realistic estimate of damages to decide whether, when and whom to sue as well as what relief to seek.

After being sued, a defendant should estimate damages to decide whether to answer, move to dismiss, assert counterclaims, and/or initiate post-grant proceedings.

Both sides' early decisions have big monetary impacts and should align with the amount of recovery in play.

The familiar drivers of patent damages are royalties and lost profits, which are often determined through application of the factors derived from the 1970 U.S. District for the Southern District of New York *Georgia-Pacific Corp. v. U.S. Plywood Corp.* and the 1979 U.S. Court of Appeals for the Sixth Circuit *Panduit Corp. v. Stahlin Brothers Fibre Works Inc.* cases, respectively.

But other damages principles — particularly those listed below — can be critical.



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- A patent owner can recover for direct infringement and indirect infringement, i.e., induced or contributory infringement.
- Though an infringing act must occur in the U.S., a patent owner may be able to recover lost profits for sales it would have made abroad but for the infringement.
- Under the entire market value rule, a patent owner may be able to recover lost profits for an entire product — not just the patented component — if the patented component drives demand.
- A patent owner may be able to recover lost profits for unpatented products that are sold for use with a patented product, i.e., convoyed or derivative sales.
- A patent owner may be able to recover treble damages for willful infringement.
- The prevailing party patent owner or accused infringer may recover its attorney fees in exceptional cases.

The potential recovery or exposure in a patent case can therefore balloon in a variety of ways.

The principles limiting patent damages are equally important. They include:

- The flip side of each damages category above — a patent owner that fails to prove the requirements for those damages cannot recover them. Assessing weaknesses in these claims can help to partition damages quickly so that different categories of risk can be assigned to each.
- Patent owners cannot recover more than what is adequate to compensate them for the infringement. Patent infringement defendants likely have a good understanding of the industry and what the prevailing rates are, which should assist in the damages calculation.
- Patent owners cannot recover for infringement occurring more than six years prior to the filing of the claim.
- If the patented product was not properly marked, the patent owner cannot recover damages for the time period before the accused infringer was given actual notice of its infringement.

Considering the principles above at the start of a case may reveal a chance for early resolution, which would helpfully avoid litigation costs. Parties should discuss the possibility internally and with trial counsel.

The parties can also use a mediator or neutral third-party expert to provide an unbiased view of potential damages and assist with dispute resolution. While discussing settlement, the parties can avoid litigation expenses by agreeing to stay the case. If no settlement is reached, the discussions may still illuminate the key points of disagreement and inform expectations and strategies for the rest of the case.

Phase 2 — Reveal damages issues through early fact discovery.

Damages should be a focal point of early fact discovery. The first step is often to agree on a protective order, which encourages the free and early exchange of confidential business information relevant to damages, at least between the parties' outside counsel and their experts.

Both parties should pay attention to and use Federal Rule of Civil Procedure 26(a)(1)(A)(iii), which requires the parties to include computations of their claimed damages in their initial disclosures and produce nonprivileged documents underlying those computations. Defendants in particular should hold plaintiffs to task for this information by aggressively pursuing robust disclosure early on.

Once a protective order is entered and initial disclosures are made, the parties should use discovery — document requests, interrogatories, requests for admission and depositions — to bring the damages picture into early focus.[1] Key information to produce and/or request includes:

- Documentation of the patent owner's product marking and/or notice to the accused infringer to establish the relevant damages time period;
- The scope of products for which the patent owner seeks damages;
- The existence of noninfringing alternatives that the accused infringer contends limit the amount of damages available; and
- The parties' existing manufacturing, marketing, sales and financial data.[2]

Much or all of this information is usually available at the start of a case. In addition to serving written requests, parties should consider also an early deposition of a damages witness, like a sales or marketing employee. The parties may even agree to each allow a deposition early in fact discovery as to damages issues only. Early requests, productions and depositions often reveal critical damages issues before much litigation expense is incurred.

Parties often do not want to make robust discovery efforts early in a case because they prefer to delay those costs, but this ignores the upside of proactive damages discovery. Pushing damages issues early on, e.g., through requests, productions and motions to compel, may more effectively facilitate settlement talks than disagreements over invalidity or infringement.

If the case is viewed as being about a range of dollar amounts, then a resolution may be had by meeting somewhere in the middle. But, if it is viewed as a complex web of validity and infringement battles, such an early resolution may seem impossible. If nothing else, focusing on damages early in discovery helps the patent owner avoid waiving damages theories or having new damages theories rejected late in the case[3] and helps the accused infringer plan its defenses.

Phase 3 — Capitalize on the impact of claim construction.

Of course, whether any damages are recoverable at all depends on the patent being valid and infringed. The likelihood of validity and infringement becomes clearer through claim construction. Claim construction may also dictate the scope of products subject to lost profits recovery, the amount of a reasonable royalty, and even whether infringement was willful.

Parties should be aware of the impacts of claim construction on damages. They should capitalize on the clarity brought by claim construction by revisiting the terms for a potential settlement offer, before the

case moves into expensive expert discovery, summary judgment and trial.

Phase 4 — Be proactive with damages experts.

Parties often wait until after fact discovery and claim construction before consulting a damages expert. This might keep costs down early in the case, but proactive work with a damages expert may often save costs. The expert's early work can be limited to a high-level assessment, and he or she can provide important perspective outside the team of litigators.

Proactive expert work will also smooth the development of an expert report when the time comes and make the expert stronger in a deposition. All of this allows the party to make strong damages contentions early on and demonstrate the ability to convey them clearly to a jury.

Phase 5 — Simplify damages on summary judgment.

The availability of certain types of damages often is a candidate for summary judgment. Particularly good summary judgment damages motions may include: (1) the time frame of available damages; and (2) the scope of products or components, if any, for which the patent owner is entitled to lost profits, which is a question of law.

The time frame of available damages is particularly conducive to an early summary judgment motion because the evidence of marking and notice is often available from the start of the case. Resolving damages issues through an early summary judgment motion can streamline discovery, facilitate settlement, and/or simplify the issues to be tried. Such simplification may also eliminate the need for a bifurcated trial, which can save much time and expense.

In light of the complexity and potential magnitude of patent damages, they should be a focal point from the start of — and throughout — a case. Through the above multiphased framework, damages analysis can helpfully guide litigation strategy, limit expense and avoid unpleasant surprises at trial.

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[1] Helpfully, some courts' local rules require the production of damages evidence relatively early in the case. See, for example, the Patent Scheduling Order of Judge Noreika of the District of Delaware (requiring early disclosure of the patent owner's "damages model" and the defendant's "sales figures for the accused product(s)") and N.D. Cal. Patent Local Rule 3-8 (requiring identification of key damages evidence within 50 days after service of invalidity contentions).

[2] This includes evidence of the parties' pricing (including price lists; actual vs. transaction prices; discounting practices; rebates), quantities sold, revenues, costs (including cost of goods sold; standard costs; manufacturing cost variances; sales, general, and administrative costs; royalties owed), profits, market share, licensing (e.g. comparable licenses and royalty rates); business plans or business cases (including competitive and market analyses and market research reports).

[3] See, e.g., *Netfuel, Inc. v. Cisco Systems Inc.*, No. 5:18-cv-02352-EJD, 2020 WL 4381768, at *4 (July 31, 2020) ("[T]he fact that Plaintiff identified their theories of damages—a reasonable royalty based on comparable technology and a reasonable royalty based on Defendant's profits apportioned to the contribution of the patented inventions—does not give Plaintiff carte blanche authority to add copious new facts and discrete theories months after fact discovery closed.").