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Patent Damages: Key Litigation and Expert Considerations

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Presenters

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- Trial lawyer with focus on patents



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- Damages expert witness with focus on intellectual property



The views expressed herein are those of the presenters only and should not be attributed to their firms or their clients.

Agenda

I. Case Assessment & Discovery

- Case evaluation and settlement discussions
- Written discovery and depositions of opposing witnesses
- Expert reports and recent rulings
- Mock trial

II. Trial Preparation

- Pre-trial motions
- Identification of the important issues and factual predicates
- Preparing your trial testimony and demonstrative exhibits

III. Trial

- Attending trial
- Being flexible
- Alternative scenarios
- Testifying tips
- Post-trial motions

Overview of 2012 Patent Matter

- Patent holding company sued a large software development company for patent infringement
- Quinn Emanuel represented software development company
- Quinn Emanuel engaged Echelon Analytics
 - Offer damages opinion
 - Rebut opposing damages expert
- Case went to trial

I. Early Case Assessment and Discovery Phase

Pre-Trial: Damages Should Not Take Back Seat

- Common tendencies
 - Assume damages are not complicated
 - Limited communications between damages and liability attorneys
- Pitfalls of delayed focus on damages
 - Unrealistic client views on potential damages or exposure
 - Ineffective discovery
 - Ineffective support
 - Avoidable exposure on damages

Pre-Trial: Case Assessment and Settlement

- Identify client's potential financial gain (plaintiff) or financial exposure (defendant)
 - Helps client decide whether or not to settle
- Evaluate different damages scenarios
 - Various liability and damages assumptions
 - May have incomplete information if discovery is on-going
- Ask your opponent to support their settlement demand
 - Does my opponent have a viable damages theory?
 - Or are they seeking a nuisance settlement based on the cost of litigation?

Pre-Trial: Evaluating Potential Remedies

- Past damages
 - Actual damages/lost profits
 - Reasonable royalty
- Prospective relief
 - Ongoing royalty
 - Injunction

Pre-Trial: Developing Damages Models

- Technical issues
 - Identify incremental benefit of patented technology versus next best alternative
 - Explore non-infringing alternatives and their costs
 - Identify non-infringing components in the accused product
- Economic issues
 - Collect data on all parties' actual revenues, costs, profits
 - Analyze the patent's effects on consumer demand
 - Identify “comparable” license agreements

Pre-Trial: Early Discovery Involvement

- Early involvement allows for more effective discovery
 - Document production
 - Interrogatories
- Discussions with client personnel
- Analysis for damages assessment
 - Evaluation of *Georgia-Pacific* factors, e.g., licenses and negotiations, financial information, marketing information, non-infringing alternatives
 - Allow time for follow-up if documents are incomplete or ambiguous

Pre-Trial: Written Discovery

- Mandatory disclosures
 - Rule 26 (including early damages disclosures)
 - Local rules
- Document requests
 - Attempts to monetize or commercialize patents
 - Licensing behavior, including litigation-driven licensing
 - Financial records
 - Marketing documents
- Interrogatories
 - Summary reports
 - Damages-related contentions

Pre-Trial: Depositions

- Prepare questions for depositions of opposing party's witnesses
 - Fact witness (e.g., financial, marketing, manufacturing)
 - Expert witnesses (damages and technical experts)
 - Establish admissibility of key evidence
- Attend deposition of opposing damages expert
 - Take advantage of your expert's familiarity with the opposing expert's report
 - Feed questions live to the examining attorney
 - Can discuss issues with counsel at breaks

Pre-Trial: Expert Reports

- Early preparation is essential
 - Coordination with technical experts
 - Conversations with key client personnel
 - Advance drafting of rebuttal report background
- FRCP 26(a)(2)(B): required contents of expert report
 - All opinions and the support for each opinion
 - Facts and data considered in forming the opinions
- FRCP 37(c): failure to disclose required information precludes its use at trial

Pre-Trial: Expert Reports

- Err on the side of inclusion
 - If don't say it in report, likely cannot say it at trial
- Key information to include (both sides)
 - Alternative damages scenarios to preserve presentation at trial
 - Alternative damages calculations to reflect different liability scenarios
 - Analysis of each *Georgia-Pacific* factor
 - Graphics for trial, including summaries and data compilations

Pre-Trial: Strategic Considerations in Reports

- Patent owners
 - Surveys to support consumer demand theories
 - Responding to alleged non-infringing alternatives
 - Ensure thematic consistency with technical experts
- Accused infringers
 - Rebuttal surveys or measures of consumer demand
 - Identify comparable client licenses, respond to plaintiff licenses
 - Prepare as much as possible in advance
 - Development costs and feasibility of non-infringing alternatives

Pre-Trial: Expert Reports on Royalty Damages

- Reasonable royalty basics
 - Royalty Damages = Royalty Rate x Royalty Base
 - Royalty base should include, as closely as possible, only patented technology
 - “Smallest Salable Patent-Practicing Unit”
 - Apportionment
- *Georgia-Pacific* factors (non-exclusive)
 - Goal is to recreate hypothetical negotiation between willing licensor (patentee) and willing licensee (defendant) at the time of first infringement
 - 15 factors that influence hypothetical negotiation

Pre-Trial: Expert Reports and Recent Ruling

- *Recent Ruling*: Must apportion royalty base, even if use “smallest salable unit”¹
- Background
 - VirnetX is a software development and licensing enterprise
 - In 2010, VirnetX sued Cisco and Apple alleging infringement of 4 patents relating to:
 - Apple’s FaceTime feature
 - Apple’s virtual private network (VPN) On Demand feature
 - Nash Bargaining Solution – problematic
 - In 2012, jury awarded VirnetX \$368 million in reasonable royalty damages

¹ *VirnetX, Inc. v. Cisco Sys., Inc.*, No. 2013-1489, 2014 WL 4548722 (Fed. Cir. Sept. 16, 2014).

Pre-Trial: Expert Reports and Recent Ruling

- Discussion of relevant Federal Circuit damages opinions by the *VirnetX* court:
 - *LaserDynamics* (2012):
 - If a patent covers a feature of a multi-component product, it is the exception, not the rule, that damages can be based on the entire value of the multi-component product
 - Only where patented feature creates consumer demand for the accused product can the entire revenues be used for damages
 - It is not enough to show that patented feature is important, valuable or essential to the accused product
 - *ResQNet.com* (2010):
 - Reasonable royalty damages must be carefully tied to the invention's footprint in the marketplace

Pre-Trial: Expert Reports and Recent Rulings

- Apple's appeal to US CAFC: Inappropriate jury instructions

Apple argues that the district court misstated this law on the entire market value rule in its jury instruction. The district court instructed the jury as follows:

In determining a royalty base, you should not use the value of the entire apparatus or product unless either: (1) the patented feature creates the basis for the customers' demand for the product, or the patented feature substantially creates the value of the other component parts of the product; or (2) the product in question constitutes the smallest saleable unit containing the patented feature.

Pre-Trial: Expert Reports and Recent Rulings

- Held jury instruction regarding second exception was legal error

added). In other words, the requirement that a patentee identify damages associated with the smallest salable patent-practicing unit is simply a step toward meeting the requirement of apportionment. **Where the smallest salable unit is, in fact, a multi-component product containing several non-infringing features with no relation to the patented feature (as VirnetX claims it was here), the patentee must do more to estimate what portion of the value of that product is attributable to the patented technology.** To hold otherwise would permit the entire market value exception to swallow the rule of apportionment.²

- Damages award vacated because VirnetX's damages expert "relied on the entire value of the accused iOS devices as the 'smallest salable units' without attempting to apportion the value attributable to the VPN On Demand and FaceTime features."
- Effect on plaintiffs' claimed damages numbers?

Pre-Trial: Mock Trial

- Value of mock trials
 - Assess mock jury receptiveness to liability and damages positions
 - Hone trial positions
 - Inform settlement



- Damages expert can:
 - Prepare Q&A for direct and cross of “self”
 - Prepare Q&A for direct and cross of opposing expert
 - Prepare trial demonstratives
 - Potentially testify in mock trial

II. Trial Preparation Phase

Trial Preparation: *Daubert* and FRE 702

- Challenges to expert admissibility
 - *Daubert* motion schedule
 - Ensure experts are involved in the process
- Motion practice is important whether win or lose
 - Excluding an opposing party's expert opinion may be dispositive, if no opportunity to cure
 - Filing a *Daubert* motion necessary to preserve issue for appeal
 - See *Versata Software, Inc. v. SAP America, Inc.*, 717 F.3d 1255, 1264 (Fed. Cir. 2013) (failure to file a *Daubert* motion challenging the admissibility and reliability of expert damages testimony precludes appellate review).

Trial Preparation: Motions *in Limine*

- Motions to exclude non-comparable license agreements
 - Different technical scope
 - Different economic factors in play
 - Different license structure
- Motion to exclude inflammatory economic data
 - Party size and overall revenue
 - Violations of entire market value rule
 - Beware “reasonableness checks”

Trial Preparation: Identify Most Important Issues

- Jurors may be overwhelmed from liability arguments
- Focus on most important damages issues
 - Strongest arguments
 - Arguments jurors can understand
 - Arguments that will resonate with jurors
 - Arguments that are most impactful to damages opinion
- Counsel's time allotted by the Court may be constrained
 - Consider using summaries under FRE 1006

Trial Preparation: Identify Predicates

- Identify information damages expert will rely on
 - Fact witnesses
 - Other expert witnesses
 - Depositions
 - Documents
- Examples
 - Non-infringing alternatives
 - Explanation of client data
 - Patented and non-patented features
 - Survey information
 - Licensing practices and licensing negotiations

Trial Preparation: Ensure Admissibility of Predicates

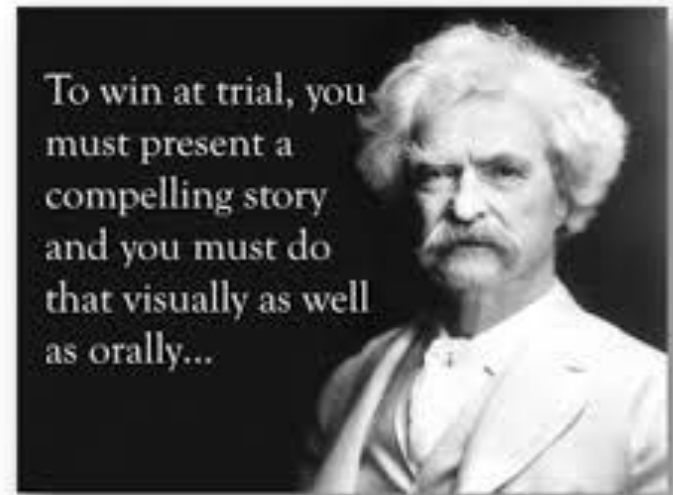
- Consider evidentiary requirements
 - Authentic
 - Hearsay
 - Foundation
 - Disclosed during discovery (very important for design around options and alternative technologies)
- Evaluate logistical and prudential issues
 - Time constraints at trial
 - Exposing fact witnesses to unnecessary cross examination on unfamiliar issues
 - Explore potential stipulations with your opponent (both experts often use the same information)

Trial Preparation: Direct Testimony

- Review Q&A and demonstrative exhibits together, before day of testimony
- Counsel needs to know damages case
 - Nuances make a difference
 - Avoid questions where witness doesn't know answer or doesn't make sense
- Explain complicated technical issues (if needed)
- Conversational and engaging with jury
- Target direct to be about 1 hour or less

Trial Preparation: Trial Demonstratives

- Start early
 - Consult with counsel
 - Trial graphics editing
- Limit the number of slides
- Limit words & bullets on slides
- Don't read slides
- Let graphs, charts and pictures help tell the story



Trial Preparation: Cross Examination

- Counsel aware of likely areas of attack
 - Discussions with opposing counsel
 - Challenges through briefing
 - Depositions
 - Issues from earlier in the trial
 - Use of unreliable information from others
- Case themes that expert should “promote”
- Maintain temperament in cross as in direct

III. Trial Phase

Trial: Expert Attending Trial

- Observe latitude of judge
- Jury knows you heard all information
- Listen to evidence on which expert's testimony relies
- Available to prepare / strategize with counsel
- Help prepare cross of opposing expert

Trial: Be Flexible

- May need to shorten direct
 - Jury's lack of attentiveness
 - Court imposed time constraint
- May need to lengthen direct
 - Explain technical issue in layman's terms
 - Include alternative damages scenarios
- Unforeseen circumstances limit preparation time
- Last minute changes to trial demonstratives
- Court rulings during trial



Trial: Alternative Damages Scenarios

- In case jury does not adopt expert's primary damages opinion
 - Gives jury options other than opposing expert's opinion
 - But, can lead to "split the baby"
- Example:
 - Primary opinion – one-time, lump-sum royalty
 - Alternative 1 – opposing expert's royalty base, adjusted for apportionment
 - Alternative 2 – cost to design-around



Trial: Testifying Tips

- Be conversational
- Be yourself
- Simplify
- Don't be argumentative
 - Acknowledge some points
 - Keep even temperament

**Building
Credibility**



Trial: Post-Trial Motions

- Patentee
 - Renewed motion for judgment as a matter of law
 - Post-trial accounting
 - Enhanced damages and/or attorney fees
 - Injunctive relief
- Accused infringer
 - Renewed motion for judgment as a matter of law
 - Motion for a new trial and/or remittur
 - Attorney fees

Practical Law Related Resources

- Practice Note, Patent Litigation: Litigating Against a Non-practicing Entity
- Standard Document, Patent Litigation: Response to Patent Notice Letter
- Practice Note, Patent Litigation: Pretrial Considerations
- Practice Note, Patent Litigation: Expert Considerations

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Questions

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