Making Sense of the Dollars and Cents: The Case for Early Evaluation of Damages In Patent Litigation

By: Karen D. McDaniel
Altera Law Group

Said Alice to the Cat: *"Would you tell me, please, which way I ought to go to from here?"*

"That depends a good deal on where you want to get to," said the Cat.

"I don't much care where -----" said Alice.

"Then it doesn't matter which way you go," said the Cat.

"-----so long as I get somewhere*,"* Alice added as an explanation.

"Oh, you're sure to do that," said the Cat, "*if only you walk long enough."*

This paper seeks to make the case that an early evaluation of damages in patent infringement actions will assist in planning overall case strategy, obtaining useful discovery, preparing a strong damage analysis and establishing an appropriate case budget. Early evaluation of damages will help to ensure that you arrive not just *somewhere*, but to the optimal place that legal precedent and the facts of your case permit you to go.

Look at the Damages Picture Before you Leap

Your case will greatly benefit from an early evaluation of damages by people who are knowledgeable about how cases are presented and won at trial. Ideally, this early assessment of damages precedes even the filing of the lawsuit.

Early evaluation of damages is not a costly effort, particularly in light of the

money you are about to spend in litigation. It may take a week or two and about $20,000. But once you're in trial, you'll spend that much money on *one discovery motion*. Query which is the more critical endeavor here. Why *wouldn't* you choose to allocate the price of one discovery motion up front to figure out what your case is worth?

Here is what an experienced team can do for you:

- Establish a range of likely damages in the case
- Pinpoint which are the most critical facts that affect the damages analysis
- Focus on key areas of concern for discovery
- Begin to develop preliminary working theories of the case

This early analysis can also help streamline your discovery. By pinpointing the critical issues, you can focus your discovery efforts where they will have the most impact and avoid wasting time and energies on less important topics.

You may want to choose for this task people who will not be your litigation attorneys or testifying experts at trial. This enhances the chance that the work product will be non-discoverable. It also eliminates any necessity to decide on your trial team (or whether you'll have a trial team) at this early stage.

Liability and Damages: Which is the Cart and Which is the Horse?

Patent infringement cases are highly technical. Just ask any juror who's had the charter of sitting through one. Because these cases are so technical, the tendency of many legal teams is to focus on the technical issues first, rather than the monetary issues. An often-recited theme is, "If we don't win on liability, we never get to damages." This is a true statement, but a misleading one.

In the end analysis, patent litigation, like other business decisions, boils down to simple economics. Even lawsuits that are commenced with a primary purpose other than the recovery of damages, such as the goal of sending a message to the marketplace, are still about money. The whole purpose of intellectual property is to create and enforce a market space in which a given company can operate. The more exclusivity a company has in a market, the bigger advantage it has relative to other competitors in that market. Of course it's about money, and we all know that.

Commonly, however, the money side of the case, i.e., calculation of damages attributable to the infringement, takes second fiddle to the technical issues, or liability side of the case.

One could engage in spirited debate about which is the cart and which is the horse in a patent infringement case. For myself, I am unwilling to buy into the notion that the liability side is the horse that leads and damages are the cart that gets dragged along behind. Rather, at a minimum, the two are opposite sides of the same coin, integrally joined parts that cannot, and should not, be separated. Unfortunately, often in practice, liability and damages are addressed as separate issues, sometimes even by separate teams.

But look at how interrelated liability and damages issues really are. For example, a critical preliminary step in calculating damages is an evaluation of the market where the relevant product is marketed and sold. Important questions are ones such as the following:

What is the patented item? Is it a product, a feature or a process? If it's a product or feature, is it sold as a separate product, or is it merely a component of something larger that is sold? How does it function? What are the advantages of the patented technology?

What are the currently available or technically attainable alternative substitutes to the patented device?

If the damages team does not have access to the answers to the above questions that the liability team should be asking, it is simply shooting in the dark. Your damages expert may be seriously hobbled without early and easy access to the people in the business who can answer those questions. Damages and liability issues are not two segregable parts. Rather, they are an integrated whole, two sides of the same coin, and must be developed in tandem.

Plan Discovery with a Plan in Mind

You only get one chance at discovery, and these days that is truer than ever. Commonly today, courts are limiting depositions to seven hours of testimony. Fed. R. Civ. P. 30(d)(2). A deposition of someone who has already been deposed may only be taken by leave of court. Fed. R. Civ. P. 30(a)(2)(B). In addition, courts are increasingly enforcing deadlines and limiting experts' testimony to the four corners of their report. The unprepared are likely to be significantly more harmed today than ever by lack of preparedness. You just don't get two bites at the apple anymore, so best be prepared to take your biggest and best bite right away.

All too often, on the eve of close of discovery, counsel get serious about damages. They often have completed depositions of technical experts on both

sides of the case. Now they are getting around to the damages side of the case, and figure they will just offer up the company CFO and depose the other side's CFO, and maybe someone who knows something about the manufacturing plant and be done with it, right? Wrong.

If one takes the above approach, the following people who are likely to have critical information for your case have already been deposed. Here is a brief example of lost opportunity for examination relating to the issue of acceptable, non-infringing substitutes for the patented product.

> To the technical person: If you hadn't had X available to you as a technology, what would you have done? How difficult would that have been? What are all the reasons you could or might not have accomplished that? What are the technical barriers you believe you would have encountered in pursuing X? Why?
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> To the marketing person: How are products marketed and sold in this marketplace? If X hadn't been available, what would the market have done? What marketplace advantages or disadvantages would relate to having or not having X? What direction would you have been pushing for the company to take if X had not been available?

And the above issue only relates to one example – that of finding an acceptable non-infringing substitute! Countless examples of interconnectedness of liability and damages issues could be posited.

In addition, oftentimes it is true that a good source of information is an unsuspecting witness. You might be surprised how much a technical witness thinks he or she knows about the marketplace, and is willing to offer, even if proximity to the marketplace is somewhat out of his or her bailiwick. You may find that you get much more interesting answers on some key damages issues

when you ask a witness who may not have spent days preparing with counsel to give testimony of this type.

Don't let Daubert be Your Downfall

Not only are courts increasingly tough on counsel about deadlines, they are also less willing to tolerate expert testimony if it cannot clearly be demonstrated as helpful to the case. Heightened scrutiny is being applied across the country on matters of expert testimony.

Under federal law, the admissibility of expert testimony is judged on the basis of the Daubert and Kumho Tire standard. In 1993, the Supreme Court in Daubert concluded that a district court must make "a preliminary assessment of whether the reasoning or methodology underlying the testimony is scientifically valid and of whether that reasoning or methodology properly can be applied to the facts in issue." Daubert v. Merrell Dow Pharmaceuticals, Inc., 509 U.S. 579, 592, 113 S. Ct. 2786, 125 L. Ed. 469 (1993).

Six years later, the Supreme Court decided Kumho Tire Company, Ltd. v. Carmichael, 526 U.S. 137, 119 S. Ct. 1167, 143 L.Ed.2d 238 (1999). In Kumho Tire, the Court expressly expanded the ruling of Daubert to also encompass "technical" and "other specialized" knowledge – essentially making the standard apply to **all forms of expert testimony**. The Court indicated that the lower courts are required to ensure the reliability and relevancy of expert testimony. They are to "make certain that an expert, whether basing testimony upon professional studies or personal experience, employs in the courtroom the same

level of intellectual rigor that characterizes the practice of an expert in the relevant field." Id. At 152.

The Eighth Circuit follows the directives of Daubert and Kumho Tire. See, e.g., J.B. Hunt Transport, inc. v. General Motors Corp., 243 F. 3d 441 (8th Cir. 2001); Lauzon v; Senco Products, Inc., 270 F.3d 681 (8th Cir. 2001). And if you don't think that courts in this jurisdiction will throw out what they view as faulty damages analyses, just check out the sobering opinion in Children's Broadcasting Corp. v. Walt Disney Co., 245 F.3d 1008 (8th Cir. 2001), on remand, 2002 WL 1858759 (D. Minn. 2002)(new trial ordered in trade secret action on the issue of damages because the lower court found, and the Eighth Circuit agreed, that the plaintiff's damages expert who claimed $170 million in damages had so tainted the jury that a new trial must be held).

Early evaluation of damages and related focused discovery can help provide a well-reasoned damage analysis based on adequate information and analysis to address Daubert challenges.

Budget with Recovery in Mind

Believe it or not, it is possible to stay on budget in litigation. Knowing in advance what the likely recovery value of the case is will help to set the tone of discovery throughout. Perhaps this is a case with huge damages or market impact in which you want counsel to overturn every stone. Alternatively, perhaps it is a marginal economic proposition but you want to send a message to competitors, without spending an arm and a leg to do it.

Knowing in advance what the objectives and likely financial outcome is will better help you to plan your case throughout. Without detailed planning, you are sure to get *somewhere*, but query whether you'll end up in the place you wanted to go – that is, with a plausible damages scenario that is accepted as credible by the trier of fact.