

Proportionality Compels Early Disclosure of Patent Damages

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The recent amendments to the Federal Rules of Civil Procedure elevate the time-worn proportionality standard to an express limitation on the scope of discovery. The practical consequence of this change is that the party bringing a patent infringement lawsuit can no longer avoid providing damage computations as part of its initial Rule 26(a) disclosures. A damage disclosure requirement that previously, in patent cases, has been honored as much in the breach is now much more likely to be enforced.

1. Amendments added proportionality to scope of discovery under Rule 26(b)(1).

The Federal Rules of Civil Procedure were amended effective December 1, 2015.¹ Among the significant changes is amending Rule 26(b)(1) to expressly impose on the parties and the court the collective responsibility of tailoring their discovery requests to account for the significance of the information requested and the cost of gathering responsive information. In the words of Justice Roberts, “Rule 26(b)(1) crystalizes the concept of reasonable limits on discovery through increased reliance on the common-sense concept of *proportionality*.”² The specific reference to proportionality is reflected in the following track changes:

Rule 26. Duty to Disclose; General Provisions Governing Discovery

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(b) Discovery Scope and Limits.

- (1) ***Scope in General.*** Unless otherwise limited by court order, the scope of discovery is as follows: Parties may obtain discovery regarding any nonprivileged matter that is relevant to any party’s claim or defense and proportional to the needs of the case, considering the importance of the issues at stake in the action, the amount in controversy, the parties’ relative access to relevant information, the parties’ resources, the importance of the discovery in resolving the issues, and whether the burden or expense of the proposed discovery outweighs its likely benefit. Information within this scope of discovery need not be admissible in evidence to be discoverable. ~~— including the existence, description, nature, custody, condition, and location of any documents or other tangible things and the identity and location of persons who know of any discoverable matter. For good cause, the court may order discovery of any matter relevant to the subject matter involved in~~

¹ Supreme Court of the United States, Amendments to the Federal Rules of Civil Procedure, *available at* [http://www.supremecourt.gov/orders/courtorders/frcv15 \(update\) _1823.pdf](http://www.supremecourt.gov/orders/courtorders/frcv15%20(update)_1823.pdf).

² Supreme Court, Chief Justice’s 2015 Year-End Report on Federal Judiciary, at 6, *available at* <http://www.supremecourt.gov/publicinfo/year-end/2015year-endreport.pdf> (emphasis added).

~~the action. Relevant information need not be admissible at the trial if the discovery appears reasonably calculated to lead to the discovery of admissible evidence. All discovery is subject to the limitations imposed by Rule 26(b)(2)(C).~~³

2. *But proportionality has been around for a long time*

Proportionality in discovery under the Federal Rules of Civil Procedure is nothing new. Old Rule 26(b)(2)(C)(iii) was clear that a court could limit discovery when burden outweighed benefit, and old Rule 26(g)(1)(B)(iii) was clear that a lawyer was obligated to certify that discovery served was not unduly burdensome.⁴ Pre-amendment decisions have long recognized a “rule of proportionality.”⁵

The proportionality language in the old rules dates back over 30 years to Federal Rule of Civil Procedure amendments adopted in 1983. Even then, the Committee observed that “[t]he information explosion of recent decades has greatly increased both the potential cost of wide-ranging discovery and the potential for discovery to be used as an instrument for delay and oppression.” Similarly, the 1983 Committee Note stated that the new provisions were added “to guard against redundant or disproportionate discovery” and “to encourage judges to be more aggressive in identifying and discouraging discovery overuse.”

3. *Status quo as of the amendments has been that proportionality standard not being applied in patent cases.*

Patent cases are particularly susceptible to disproportionately high costs relative to the stakes. The higher costs reflect the often complex technologies at issues which in turn increases

³ United States Courts, Redline of Civil Procedure Rules Text and Committee Notes, *available at* <http://www.uscourts.gov/rules-policies/current-rules-practice-procedure/federal-rules-civil-procedure>.

⁴ *Gilead Sciences, Inc. v. Merck & Co, Inc.*, 2016 WL 146574, at *1 (N.D. Cal. Jan. 13, 2016).

⁵ *See, e.g., Polyone Corp. v. Lu*, 2015 WL 9489915, at *5 (N.D. Ill. Dec. 30, 2015) (Old Rule 26(b)(2)(C) provides that court may limit discovery where the burden outweighs its benefit); *Vesta Corp. v. Amdocs Mgmt. Ltd.*, 2015 WL 7720497, at *2 (D. Or. Nov. 30, 2015) (“Rule of proportionality” directs that the court must limit the extent of discovery if it determines that “the burden or expense of the proposed discovery outweighs its likely benefit, considering the needs of the case, the amount in controversy, the parties’ resources, the importance of the issues at stake in the action, and the importance of the discovery in resolving the issues.”); *Witt v. GC Servs. Ltd. P’ship*, 307 F.R.D. 554, 569 (D. Colo. 2014) (“To the extent that Rule 26(g) incorporates proportionality factors and imposes a mandate on counsel to ‘stop and think,’ counsel (and ultimately the court) first must consider whether the desired information is relevant to the claims and defenses in the action, and then ask whether the proposed discovery is proportional to the needs of the case or unduly burdensome or expensive based upon an assessment of various factors.”); *Maxtena, Inc. v. Marks*, 289 F.R.D. 427, 434 (D. Md. 2012) (“[A]ll permissible discovery must be measured against the yardstick of proportionality.” (citation omitted)); *Inventio AG v. ThyssenKrupp Elevator Americas Corp.*, 662 F. Supp. 2d 375, 380-81 (D. Del. 2009), *citing Emerson Elec. Co. v. Le Carbone Lorraine, S.A.*, 2009 WL 435191, *1 (D.N.J. Feb. 18, 2009) (noting that Rule 26(b)(2)(C) imposes a “rule of proportionality”).

the time and energy incurred to develop effective litigation strategies as well as the presentation of these strategies. Moreover, the underlying evidence is often spread across numerous disparate and voluminous databases, document files, custodians and information networks. The cost of collecting, processing, and reviewing electronically stored information (ESI) is therefore higher relative to other types of litigation, and higher still in view of how much of the data is deemed highly sensitive and proprietary business secrets.

Nonetheless, the proportionality standard typically has not been applied in patent cases. Judge Grewal, in *Corning Optical Communications Wireless Ltd. v. Solid, Inc.*,⁶ bemoans what he views as the usual failure to make sure patent litigation costs are proportional to potential benefits:

Just a few months from trial, and a few weeks from the close of fact discovery, the parties in this patent case are working hard. They have exchanged reams of data. They have scheduled certain fact depositions and scheduled many more. They have retained multiple experts who are furiously scribing reports with scores of exhibits and schedules. All of this, undoubtedly, is costing a small fortune.

And yet, remarkably, neither side has any firm sense of whether this is a \$1 case or a case worth billions. Even more remarkable, the parties here are not unusual. ***For years it has been the norm in patent cases to bludgeon first and value second.***⁷

4. *Initial disclosures require early disclosure of damages calculations and documents, but this rule is honored in the breach.*

The initial disclosures required by the Federal Rules of Civil Procedure offer potential relief. In particular, Rule 26(a)(1)(A)(iii) requires initial disclosure of “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.”⁸ Obtaining these initial damage disclosures is necessary to achieve proportionality. As the court stated in *Oracle USA, Inc. v. SAP AG*,⁹ “proportionality has required that both parties focus on the amount of damages at issue from the outset of the case.”¹⁰ “The importance of early damages disclosure is reflected in the requirement that initial disclosures at the outset of the case include ‘a computation of each category of damages claims,’ and the underlying documents ‘bearing on the nature and extent of

⁶ 306 F.R.D. 276, 277 (N.D. Cal. 2015).

⁷ *Id.* (emphasis added).

⁸ Fed. R. Civ. P. 26(a)(1)(A)(iii).

⁹ 264 F.R.D. 541, 543 (N.D. Cal. 2009).

¹⁰ *Id.* (entered sanctions excluding lost profits damages outside the scope of what was identified in initial disclosures and discovery responses).

the injuries suffered.”¹¹ “[T]o avoid expensive discovery on a meritless case, the damages aspect of complex litigation also requires careful attention early in the case.”¹²

Theoretically then, the parties and the court should know whether “this is a \$1 case or a case worth billions” before the parties and court embark upon a pre-trial schedule of any particular size and scope. The problem is that the Rule 26(a) requirement of initial disclosure of damage-related information is not being enforced.¹³ Judge Grewal in *Corning*:

But in patent cases, that rule is honored as much in the breach. In fact, the Advisory Committee Notes [to the 1993 Amendments] all but authorize this breach in stating that “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.”¹⁴

5. *So what has changed? [Change is coming].*

So there is a rule requiring early disclosure of damage computations that has been on the books for a long time and compliance with this rule has for an equally long period of time been deemed necessary to achieve proportionality. Yet use of this early disclosure rule has been “honored as much in the breach.” Is the recent “elevation” or “crystallization” of proportionality in Rule 26 expected to change anything?

The answer is that while there do not appear to be any decisions issued within the first 90 days or so of the amendments that expressly find that the amendments require greater enforcement of the initial disclosure of damages rule, this is going to happen. Here’s why:

a. *The early returns: decisions handed down shortly after the amendments manifest real change, tighter control of discovery.*

Courts have interpreted the amendments as fomenting real change and based thereon expressly refused discovery that might have passed muster under an earlier regime. In *Gilead Sciences, Inc. v. Merck & Co., Inc.*,¹⁵ the court denied a motion to compel discovery designed to test the accuracy of evidence introduced by the accused infringer to show that it was the first to conceive and reduce to practice the compound at issue. In reaching this decision, the court found significant support in the December 2015 amendments to the Federal Rules of Civil Procedure, which it described as “elevating proportionality in defining the scope of permissible

¹¹ *Id.* at 544, citing Fed. R. Civ. P. 26(a)(1)(A)(iii).

¹² *Id.* at 549.

¹³ As discussed in part 5.d., below, there are pre-amendment decisions that support fulsome production of damages-related evidence in the patent plaintiff’s initial disclosures, but they are decidedly the exception to the typical pre-amendment practice of relaxed enforcement of the early disclosure rule.

¹⁴ *Corning*, 306 F.R.D at 278 (emphasis added).

¹⁵ 2016 WL 146574, at *2 (N.D. Cal. Jan. 13, 2016).

discovery.”¹⁶ The court said that the point of the amendments is to change a “mindset” that “it is good enough to hope that the information sought might lead to the discovery of admissible evidence Instead, a party seeking discovery of relevant, non-privileged information must show, before anything else that the discovery sought is proportional to the needs of the case.”¹⁷ Since the discovery at issue essentially refused to take the opponent’s word without any information triggering reason for doubt, it was therefore “exactly the type of disproportionate demands that Rule 26(b)(1) proscribes.”¹⁸

Likewise, in *ChriMar Sys. Inc. v. Cisco Sys. Inc.*,¹⁹ the court denied a motion to compel Cisco to reproduce its corporate representative for a second deposition on topic allegedly not addressed at the first deposition. The court’s rationale was that Cisco’s argument that the discovery was unduly burdensome was well-taken “in light of the recently revised Federal Rule of Civil Procedure 26(b)(1), which balances the proportional needs of the case, ‘considering the importance of the issues at stake in the action...the importance of the discovery in resolving the issues, and why the burden or the expense of the proposed discovery outweighs its likely benefit.’”²⁰ The propounding party failed to satisfy its burden under the amended rules of demonstrating the discovery complied with the proportionality standard.²¹

Gilead and *ChriMar* are of course not exhaustive of the cases that have begun to apply the new amendments. They nonetheless suggest the “mindset” of the courts favors stricter enforcement of the rule requiring early disclosure of damages. They each interpret the amendments as compelling them to limit the cost of a case to what it is in fact worth and based thereon they each imposed more aggressive limitations on discovery than what might have occurred before. The upshot of this development is that courts are even more highly incited to enforce the initial damage disclosure rule and its long recognized nexus to proportionality.

b. Amendments to Rule 1.

The December 2015 amendment of Rule 1 also compels early enforcement of damages. The specific amendment is shown in the following track changes:

Rule 1. Scope and Purpose

These rules govern the procedure in all civil actions and proceedings in the United States district courts, except as stated in Rule 81. They should be construed, and administered,

¹⁶ *Id.* at *1.

¹⁷ *Id.*

¹⁸ *Id.* at *2.

¹⁹ 2016 WL 126556, at *3 (N.D. Cal. Jan. 12, 2016).

²⁰ *Id.* at *3, *citing* Fed. R. Civ. P. 26(b)(1).

²¹ *Id.*

and employed by the court and the parties to secure the just, speedy, and inexpensive determination of every action and proceeding.²²

The change emphasizes the obligation of the parties to implement the proportionality standard. “Rule 1 is amended to emphasize that . . . the parties share the responsibility to employ the rules” to “secure the just, speedy, and inexpensive determination of every action,” according to the accompanying Committee Note.²³ Similarly, Justice Roberts, in his 2015 year-end report on the federal judiciary, stated “The underscored words make express the obligation of judges and lawyers to work cooperatively in controlling the expense and time demands of litigation”²⁴

There is a long-standing recognition that early damages disclosures is crucial to securing the Rule 1 mandate of a just, speedy and inexpensive resolution of a case. In *Oracle USA, Inc.*, the court acknowledged this connection in the course of refusing to allow the patent plaintiff to supplement initial damage disclosures:

To allow the belated disclosure of the new [damage] theories to trigger large new waves of expensive discovery and expert analysis at this late date based on vague allegations that Plaintiffs previously refused to elaborate on despite their ability to do so, would be simultaneously unfair to Defendants, very expensive and hugely time consuming, slowing down what is already very lengthy litigation. Such a result would run directly contrary to the mandate of Rule 1, achieving ***a dubious trifecta of unfair, glacially slow and exorbitantly expensive litigation.***²⁵

In short, the Rule 1 amendments are intended to place greater pressure on parties to contribute to just, speedy and inexpensive resolutions. These amendments build on the well-settled principle that early damages disclosure is essential to achieving the Rule 1 mandate. What follows from these circumstances is that the parties are going to come under greater pressure to provide fulsome early damage disclosures.

c. Core principles behind the amendments.

Justice Roberts’ discussion of the core principles behind the amendments also portends stricter enforcement of the initial damages disclosure rule. He states in his 2015 year-end address:

[T]he pretrial process must provide parties with efficient access to what is needed to prove a claim or defense, but eliminate unnecessary or wasteful discovery. ***The key here is careful and realistic assessment of actual need.*** That assessment may, as a practical

²² See Redline of Civil Procedure Rules Text and Committee Notes, *supra* note 3.

²³ *Id.*

²⁴ See Chief Justice’s 2015 Year-End Report on Federal Judiciary, *supra* note 2, at 5-6.

²⁵ *Id.* at 549 (emphasis added).

matter, require the active involvement of a neutral arbiter—the federal judge—to guide decisions respecting the scope of discovery.²⁶

Thus, under the new regime, courts are urged to base their discovery rulings on the “*assessment of actual need*.” The likely response of the courts will be to dust off and demand stricter compliance with the rule requiring initial disclosure of damage-related information. There is no better way to timely “assess[] actual need.”

d. Specific examples of damage-related information that could and should be provided in initial disclosures.

A limited number of decisions predating the amendments have required patent plaintiffs to provide in their Rule 26(a) initial disclosures a computation of damages that is as complete as possible. Assuming greater enforcement of damage-related initial disclosures going forward, these pre-amendment decisions are instructive as to the type of damage-related information that courts in future cases will find is both available and should be disclosed at the outset of a patent case.

In *Brandywine Communications Technologies, LLC v. Cisco Systems, Inc.*,²⁷ the court interpreted Rule 26(a) to require a patent plaintiff to disclose and specify damages at the outset of the litigation in its initial disclosures even though some of the necessary information was in the hands of the accused infringer. In reaching this decision, the court said that the patent plaintiff must “do the best it can on pain of preclusion, subject to supplementation as more information becomes available.”²⁸ Specifically, the court ordered the patent plaintiff to provide the following damage-related information in its initial disclosures:²⁹

- State the extent of loss of its own sales of its own products in an approximate dollar amount and state how that amount was calculated.
- Identify each of its own products that compete (or have competed) with the accused products and explain how sales of its own specified products have been affected by the alleged infringement.
- Make available for inspection and copying the unprivileged documents and other evidentiary materials on which it will rely for damages, save and except for those not yet known.
- State the claimed royalty rate and state the claimed royalty base, and then multiply the two for a total, specifying the information by year.

²⁶ See Chief Justice’s 2015 Year-End Report on Federal Judiciary, *supra* note 2, at 7 (emphasis added).

²⁷ 2012 WL 5504036, at *1-2 (N.D. Cal. Nov. 13, 2012).

²⁸ *Id.* at *1.

²⁹ *Id.* at *2-3.

- Make available for inspection and copying all unprivileged documents and other evidentiary material on which the reasonable royalty computation is based, providing a log for those withheld on claim of privilege.
- List each asserted *Georgia Pacific* factor and identify all evidence it relied on for that factor.
- Identify any particular license agreement it may rely on it as a comparable for reasonable royalty purposes.

In *Brandywine*, the court also ordered the accused infringer to produce in its initial disclosures any license agreement known by it (such as, for example, any license agreement in its own portfolio) that it may use to support its own view of a reasonable royalty.³⁰ The court acknowledged that the patent plaintiff did not need to disclose “evidence [] it could not be reasonably expected to possess (and does not possess) at the outset of the litigation,” but also cautioned against an unduly broad application of this exception, as follows:

Only to the extent that, and only for so long as, the patent plaintiff is unable, despite its Rule 11 obligations, to fully satisfy the Rule 26(a) disclosure requirement, a patent plaintiff is temporarily excused from disclosing a shortfall in information (but it must disclose the rest at the outset). The burden is on the patent plaintiff to explain in its Rule 26 initial disclosures the extent of any such disability and the reason therefor. This must be specific—such as, by way of hypothetical example, “despite a diligent pre-suit investigation plaintiff has been unable to learn even an approximation of the extent of sales of the accused product and will seek this data in discovery.”³¹

In *Oracle USA, Inc. v. SAP AG*, the court granted a motion exclude the copyright infringement plaintiff from introducing evidence at trial of lost profits damages that were not disclosed in the plaintiff’s Rule 26(a) initial disclosures.³² The court specifically limited the evidence that plaintiff could introduce at trial to prove damages to what plaintiff disclosed at the outset of the case, namely, lost customer service revenue due to customers that switched to a specific infringing vendor, TomorrowNow. The court’s review and ultimate rejection of the additional damages sought by plaintiff is instructive as to the type of damage-related information that the court believed should have been provided in the plaintiff’s initial disclosures, as follows:³³

- Lost profits due to diverted sales.
- Lost profits due to price erosion (plaintiff alleged that they had to abandon their regular practice of step-up contract pricing).
- Lost profits due to lost cross-sell opportunities.

³⁰ *Id.* at *3.

³¹ *Id.*

³² 264 F.R.D. at 549.

³³ *Id.* at 542-544, 553-555.

- Lost profits relating to licensing revenue.
- Lost profits relating to products supported by vendors other than TomorrowNow.
- The revenues, costs and profit margins for all products or services relevant to the lost profits claims.

The court's view in *Oracle USA, Inc.* was that this information could have and should have been produced as part of the plaintiff's initial disclosures:

[T]his is not a situation where Plaintiffs were unable to develop their full damages theories until later in the case after they received discovery from Defendants or third parties. To the contrary, the record here shows that Plaintiffs, and not Defendants, possessed the necessary information even before filing the complaint, and well before they served their initial disclosures and first responses to discovery requests.³⁴

In *Corning Optical Communications Wireless Ltd. v. Solid, Inc.*,³⁵ the court entered an order compelling damage-related disclosures required by 26(a)(1)(A)(iii) and defendant's damage interrogatory. Although the posture of the case was that it was close to trial at the time the court compelled this discovery, the court's analysis supports disclosure of what it described as "at least modest disclosures" at the outset of a case of the following information:³⁶

- The amount of damages plaintiff seeks under each of its asserted damages theories (including lost profits, reasonable royalty, interest and any other asserted theory).
- Plaintiff's apportionment of damages between defendants and each asserted patent.
- For each asserted patent, the time period of which plaintiff seeks damages as a result of the alleged infringement.
- To the extent plaintiff seeks to recover both lost profits and a reasonable royalty, the theory under which it claims such recovery is appropriate.
- The witnesses on which plaintiff intends to rely to support its damages claim.
- The documents on which plaintiff intends to rely to support its damages claim.
- To the extent plaintiff claims that it lost profits as a result of the alleged infringement, the facts on which plaintiff bases its claim, including the identity and amount of plaintiff's products on which plaintiff claims to have lost profits.
- To the extent plaintiff seeks to recover a reasonable royalty, the facts on which plaintiff bases its claim, including the date of the hypothetical negotiation, any allegedly comparable licenses, the term of the reasonable royalty sought and any other *Georgia-Pacific* factors on which plaintiff intends to rely.

³⁴ *Id.* at 548.

³⁵ 306 F.R.D. at 279.

³⁶ *Id.*

e. Addressing the elephant in the room – patent damages are often uncertain pending discovery

The countervailing viewpoint to strict (or at least *stricter*) enforcement of the damage-related initial disclosures is that calculation of damages is difficult if not impossible and therefore should be excused because the patent plaintiff requires discovery in the possession of someone else before they can calculate damages. As discussed above, the Committee Notes to the 1993 Amendments to the Federal Rules of Civil Procedure “all but authorize th[e] breach [of Rule 26(a)(1)(A)(iii)]” in stating that “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.”³⁷ Similarly, The Sedona Conference’s Working Group 9 on Patent Damages and Remedies, states in its commentary that “[b]ecause of the complex nature of patent litigation, parties typically require a fair amount of fact discovery before they understand the other’s information sufficiently to formulate even ‘ball park’ damages contentions.”³⁸

i). Solution - Supplement under Rule 26(e)

Nonetheless, as discussed above, the fact is that some if not lots of damages-related information is available to a patent plaintiff at the outset of the case. And, even assuming new information comes to light as the case proceeds that alters the damages claimed by the patent plaintiff, the solution is supplementing the disclosure under Rule 26(e).³⁹ Initial disclosures of damage-related information are not directed to calculating actual liability or actual costs, but instead are intended to provide a reasonable forecast of estimated damages so that the opposing party may prepare for trial and make an informed decision about settlement.⁴⁰ Because the initial disclosure is an estimation, “it is necessarily uncertain and may be corrected.”⁴¹

So the countervailing viewpoint – that initial disclosure of damages is difficult and therefore excused – is not a compelling argument? Maybe not. As discussed in the next section, altering an early substantive disclosure of damages under Rule 26(e) has its own risks.

ii). Rule 26(e) Supplementation May Prejudice Patent Plaintiff

Notwithstanding the ability to correct and supplement early damage disclosures under Rule 26(e), there is something of a “damned if you do” prejudice that may arise where the patent

³⁷ See *Corning*, 306 F.R.D at 278.

³⁸ The Sedona Conference, *Commentary on Patent Damages and Remedies*, 15 Sedona Conf. 53, 100 (Fall 2014) available at <https://thesedonaconference.org/publication/The%20Sedona%20Conference%20Commentary%20on%20Patent%20Damages%20and%20Remedies> [hereinafter, *Sedona WG9 Patent Damages* or *WG9*].

³⁹ See *Corning*, 306 F.R.D. at 279, citing Fed. R. Civ. P. 26(e) (requires timely supplementation of an initial disclosure that is determined to be “incomplete or incorrect . . . in some material respect”).

⁴⁰ *Winfield v. Wal-Mart Stores, Inc.*, 2016 WL 259690, at *2 (D. Nevada Jan. 20, 2016) (citations omitted).

⁴¹ *Id.* at *4.

plaintiff attempts to make as full a disclosure as possible of their damages at the outset of the case. The greater the amount of damage-related information provided in the initial disclosure, the harder it may be to supplement the disclosure later on under Rule 26(e). The reason for this is that courts have interpreted Rule 26(a) as requiring a party to produce all information that was reasonably available to the party as of the time of the initial disclosures:

The rule does not require a full exposition of the type required at trial or in an expert report but it does expressly require an initial computation and disclosure of the evidence that will be relied on *to the full extent the patent plaintiff could or should know of it* in the exercise of the type of pre-suit diligence required by Rule 11.⁴²

The scope of the Rule 26(a) reporting obligation is also described as follows:

The rule further requires that a party must make its initial disclosures based on the information *then reasonably available* to it, and that *a party is not excused from making its disclosure because it has not fully investigated the case*.⁴³

Furthermore, the range of permissible supplementation under Rule 26(e) has been narrowly construed. *“Only to the extent that, and only for so long as, the patent plaintiff is unable, despite its Rule 11 obligations, to fully satisfy the Rule 26(a) disclosure requirement, a patent plaintiff is temporarily excused from disclosing a shortfall in information (but it must disclose the rest at the outset).”*⁴⁴ *“Rule 26(e) does not create a ‘loophole’ for a party who wishes to revise its initial disclosures to its advantage after the deadline has passed. Supplementation means ‘correcting inaccuracies ... based on information that was not available at the time of the initial disclosure.’”*⁴⁵

A well-meaning patent plaintiff who strives to provide as much information as it can about its damages claims in its initial disclosures demonstrates through such a fulsome disclosure that large amounts of information were “reasonably available” at the outset of the case, thereby reducing the nature and scope of new or different damages claims and computations that may be allowed under Rule 26(e). Worse, should a court determine that the proposed supplementation was reasonably available at the outset of the case, this effectively confirms a failure to comply with Rule 26(a) initial disclosure obligations and triggers mandatory preclusion sanctions under Rule 37(c)(1).⁴⁶

Yet another adverse consequence is that the supplemental information might be used at hearing or introduced at trial to contradict or impeach the patent plaintiff’s damages presentation.

⁴² *Brandywine*, 2012 WL 5504036, at *2 (emphasis added).

⁴³ *Winfield*, 2016 WL 259690, at *2 (emphasis added).

⁴⁴ *Brandywine*, at *3 (emphasis added).

⁴⁵ *Winfield*, 2016 WL 259690, at *3 (emphasis added) (citations omitted).

⁴⁶ See Fed. R. Civ. P. 37(c)(1); *Oracle USA, Inc.*, 264 F.R.D. at 544 (the court imposed preclusion sanctions under Rule 37, excluding lost profits damages that it determined should have been disclosed at the outset of the case).

The reality is that after the parties make their infringement and invalidity disclosures, after they argue and receive claim construction rulings, and after significant fact discovery, the patent plaintiff may need not just to alter its initial disclosure of damages, but dramatically so.⁴⁷ Whether these anticipated alterations are favorable or not, their consideration by the court or the jury is detrimental to the patent plaintiff. If they lower the claimed damages, the patent plaintiff is portrayed as greedy and not credible in its assertions. If they increase the claimed damages, the patent plaintiff is portrayed as having embraced a lower, contradictory claim that becomes an alternate potential award. *Brandywine* provides a specific example of the prejudice. In *Brandywine*, the court acknowledged the possibility that the patent plaintiff, in its initial disclosures, would identify license agreements that it contends are comparable for purposes of setting a royalty rate, only to discover as the case proceeded that there are other, more favorable comparable licenses supporting a higher royalty rate. The court ominously held open the possibility that “the jury will be told of the original comparables even while the patent plaintiff may be permitted to argue for the more lucrative comparable.”⁴⁸

iii). Sedona Conference Proposes Non-binding Initial Damage Disclosures

A possible solution to the conflict between requiring early damages disclosures on the one hand and likely, potentially prejudicial, alterations in these projections on the other is suggested in recent commentaries by The Sedona Conference’s Working Group 10 (“WG10”)⁴⁹ on Patent Litigation Best Practices and Working Group 9 (“WG9”)⁵⁰ Patent Damages and Remedies.

Each of the Working Groups deems early disclosure of damages crucial to achieving proportionality. At the same time, each of them acknowledges the practical reality that patent damages are complex and uncertain such that they cannot be calculated to any degree of accuracy and reliability pending significant discovery. As reflected in the following summaries of the Working Groups’ respective proposals, the trade-off for requiring early disclosure is to make the disclosures non-binding and subject to revision. The court and the parties better fulfil their responsibility of securing a just, speedy and inexpensive resolution of the patent litigation, but without penalizing the disclosing party (particularly the patent plaintiff) for providing the case value information necessary to achieve this result.

⁴⁷ See *Corning*, 306 F.R.D. at 279 (the court acknowledged that following initial damages disclosures “new information may come to light as the case proceeds that might drastically alter [patent plaintiff’s] positions”).

⁴⁸ *Brandywine*, 2012 WL 5504036, at *2.

⁴⁹ The Sedona Conference, *Commentary on Patent Litigation Best Practices: Case Management Issues from the Judicial Perspective Chapter*, (December 2015 ed.) available at <https://thesedonaconference.org/publication/The%20Sedona%20Conference%20Commentary%20on%20Patent%20Litigation%20Best%20Practices%3A%20Case%20Management%20Issues%20from%20the%20Judicial%20Perspective%20Chapter> [hereinafter, *Sedona WG10 Patent Litigation* or *WG10*].

⁵⁰ See *Sedona WG9 Patent Damages*, *supra* note 38.

Sedona WG10 Patent Litigation's commentary proposes that the parties should provide the court at the initial Rule 16 case management conference with estimates of the range of damages the case is likely to involve, along with high level explanations of their estimates. *WG10* describes the specific disclosures that it is looking for as follows:⁵¹

For instance, the court may want to understand at a high level whether the parties contend the patent infringement case is a \$1 million, \$10 million, \$50 million, or \$100 million+ dispute.

As part of this estimate, the parties should state whether they believe the case involves lost profits, reasonable royalties, or some combination of the two. Similarly, the parties should state whether they believe damages should be based on the entire market value of the accused product or an apportionment within the product (e.g., smallest saleable unit); the issue of the base on which to apply any royalty may be a major point of disagreement between the parties. The parties can include whether they believe damages should be subject to a “fair, reasonable and non-discriminatory” (FRAND) royalty rate commitment, or any other limitation, such as a license defense or a failure to mark pursuant to 35 U.S.C. § 287.

If the parties propose widely divergent estimates and maintain that there is no reasonable basis for the opposing estimate, then the court may inquire about the basis for each party’s estimate. In such cases, each party should be prepared to provide a general explanation for its estimates.

For instance, a patent holder may state that it intends to apportion the value of the patented invention within the accused product . . . Similarly, the parties could be expected to state whether the accused feature is believed to an important or inconsequential feature within the accused product, . . . The patent holder may also state it intends to pursue a reasonable royalty based on an entire market value rule theory,. . . Ultimately, the purpose of this explanation should focus on whether the respective parties’ views of accused sales differ by an order of magnitude rather than to examine an analysis of appropriate royalties.

WG10 states the purposes for obtaining these disclosures is to facilitate “proportionality determinations to resolve discovery disputes,” and “to balance case management with respect to other issues, such as limits on discovery, limits on claim terms and prior art references, and scheduling considerations involving Markman, dispositive motions, and trial.”⁵²

⁵¹ See *Sedona WG10 Patent Litigation*, *supra* note 49, at 13-15.

⁵² *Id.* at 13.

At the same time, *WG10* emphasizes that given the early timing of these disclosures, they necessarily are non-binding and subject to revisions.

The parties and the court must recognize that these informal estimates and high-level explanations, while required to be made in good faith, are subject to partial or complete revision depending on fact and expert discovery.⁵³

Similarly, *WG10* rejects the idea that alterations in the damages claim as the case proceeds may be introduced to the prejudice of the disclosing party:

In any event, as a result of the complexity and uncertainty surrounding patent damages, ***neither the court nor a party should be allowed to later use such informal estimate against an offering party***, except for the purposes of demonstrating that a calculation was made in bad faith to unreasonably complicate or limit the proceeding.⁵⁴

- *WG9*

Sedona WG9 Patent Damages' commentary similarly proposes early disclosure of damages but with some difference in the timing of these disclosures. *WG9* recommends early disclosure of what it calls Preliminary Compensatory Damages Contentions ("PCDCs").⁵⁵ Under this proposal, as part of the parties' Rule 26(f) conference, a schedule should be established for the exchange of PCDCs.⁵⁶ In jurisdictions that require infringement contentions, the recommended deadline for patentee's PCDCs is simultaneous with the infringement contentions, with the accused infringer expected to submit its PCDCs thirty days thereafter.⁵⁷ Alternatively, in jurisdictions that do not require infringement contentions, a similar schedule would be keyed to exchange of infringement information in the parties' interrogatories.⁵⁸

WG9 does not address the question expressly, but implicit in its recommendations is that the PCDC disclosures would substitute for Rule 26(a) damage-related initial disclosures. *WG9*'s suggested content of the PCDCs is they should identify the theory or combination of theories on which its PCDCs are based, plus a brief explanation of the factual bases that they reasonably know to support the stated theory or theories of recovery.⁵⁹

By way of example only, if a lost profits theory is being asserted, the party asserting patent infringement should explain the reasons and evidence reasonably supporting its contention that it would have made profits "but for" the infringement. One nonexclusive test for proving lost profits is set out in *Panduit Corp. v. Stahl Bros.* If the party

⁵³ *Id.* at 15.

⁵⁴ *Id.* at 14 (emphasis added).

⁵⁵ See *Sedona WG9 Patent Damages*, *supra* note 38, at 99.

⁵⁶ *Id.* at 100.

⁵⁷ *Id.*

⁵⁸ *Id.*

⁵⁹ *Id.* at 101-102 (citations omitted).

asserting infringement relies on the *Panduit* test, then it must provide an explanation of: (1) demand for the patented product during the relevant period; (2) the absence of acceptable non-infringing alternatives to the patented product; (3) manufacturing and marketing capacity to sell the products it claims it could have sold; and (4) if possible, a preliminary calculation of the incremental profit margin.

By way of further example, if a reasonable royalty theory of recovery is being asserted, the party asserting patent infringement should provide a preliminary explanation of the facts supporting its theory of recovery including an identification of the preliminary applicable royalty rate and base, if available, and a brief discussion of all other factors, including a discussion of any relevant *Georgia-Pacific* factors, that may bear on a calculation of a reasonable royalty.

[The disclosures] should include high-level documents in the party's possession concerning its sales and profitability, and those of the industry; market share; comparable license agreements and royalty rates related to the patent at issue; evidence of demand for the patented features; and basic marketing, pricing, manufacturing, and sales information relating to any products or processes that embody the patented invention, that are licensed under the patent, that compete with, or that are sold with or as a result of products or processes that embody the patented invention or are licensed under the patent.

WG9 also calls on the accused infringer to produce as part of its PCDCs a preliminary response to the patentee's PCDCs, as well as the following:⁶⁰

By way of example, if the PCDCs theory of recovery is lost profits and an accused infringer has evidence of acceptable non-infringing alternative designs, or design arounds, it should explain why lost profits are unavailable.

By way of further example, if the PCDCs theory of recovery is a reasonable royalty and the accused infringer disagrees with the royalty rate because royalty stacking principles apply given marketplace realities, it should discuss this fact in its response.

The strong policy favoring PCDCs is “[t]o allow the parties and the court to gain an early, initial understanding of the compensatory damages theories at issue, any preliminary supporting damages evidence, the potential settlement value of the case, and the scope of potential damages discovery, . . . early damages information may be important to ascertaining whether the scope and expense of discovery is warranted.”⁶¹

Here again, as did *WG10*, the making of these early disclosures should not prejudice the parties. As stated by *WG9*:

⁶⁰ *Id.* at 101-103.

⁶¹ *Id.* at 99.

The PCDCs disclosures are not intended to confine a party to the contentions it makes at the outset of the case. It is not unusual for a party in a patent case to learn of additional facts and potential theories of recovery as the case progresses.⁶²

Furthermore, as a patent case progresses, *WG9* recommends that the parties and the court set a deadline for what *WG9* refers to as “final damage contentions.” *WG9* anticipates these contentions would be exchanged before the inception of expert discovery but after fact discovery relating to damages discovery is sufficiently well-developed, and ordinarily after exchange of final infringement and invalidity contentions.⁶³ The timing of the exchange would allow the parties to obtain the factual development and expert technical and economic counseling necessary to prepare accurate and reliable damage claims and defenses, but still early enough in the process to focus and narrow the damage issues a reasonable time before trial. The parties thereafter could amend their damages positions, but would be required to show good cause (which previously was not a requirement).⁶⁴

6. Conclusion.

The December 2015 amendments to the Federal Rules of Civil Procedure call for greater effort on the part of the court and the parties to ensure that the time and expense invested in a case is proportional to value of the case. The typical practice in patent litigation of “bludgeoning first and valuing later” presents a particularly compelling focus for the application of the proportionality standard. Since there is a direct causal relationship between early disclosure of patent damages and achieving proportionality, the high likelihood is that in future cases the courts will strictly enforce Rule 26(a)(1)(A)(iii) initial disclosure requirements. There are ample examples in pre-amendment decisions of the type of damage-related information that the courts will find can and should be provided in patent plaintiff’s initial disclosures. To avoid prejudice to the disclosing party (particularly the patent plaintiff), however, the recommended practice is to make any such early disclosures non-binding and subject to revision as the case proceeds.

⁶² *Id.*

⁶³ *Id.* at 103.

⁶⁴ *Id.*